UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2018.

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1886144
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14 North Main Street, Souderton, Pennsylvania 18964
(Address of principal executive offices)(Zip Code)
Registrant's telephone number, including area code: (215) 721-2400
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $5 par value	29,314,818
(Title of Class)	(Number of shares outstanding at October 31, 2018)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	(UNAUDITED) At September 30, 2018	At December 31, 2017
ASSETS		
Cash and due from banks	$52,200	$46,721
Interest-earning deposits with other banks	31,910	28,688
Investment securities held-to-maturity (fair value $105,642 and $55,320 at September 30, 2018 and December 31, 2017, respectively)	108,142	55,564
Investment securities available-for-sale	336,933	391,457
Investments in equity securities	2,264	7,061
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	33,071	27,204
Loans held for sale	106	1,642
Loans and leases held for investment	3,866,169	3,620,067
Less: Reserve for loan and lease losses	(27,371)	(21,555)
Net loans and leases held for investment	3,838,798	3,598,512
Premises and equipment, net	60,393	61,797
Goodwill	172,559	172,559
Other intangibles, net of accumulated amortization and fair value adjustments of $24,423 and $21,825 at September 30, 2018 and December 31, 2017, respectively	12,405	13,909
Bank owned life insurance	110,392	108,246
Accrued interest receivable and other assets	42,825	41,502
Total assets	$4,801,998	$4,554,862
LIABILITIES		
Noninterest-bearing deposits	$1,047,081	$1,040,026
Interest-bearing deposits:		
Demand deposits	1,350,720	1,109,438
Savings deposits	750,764	830,706
Time deposits	671,483	574,749
Total deposits	3,820,048	3,554,919
Short-term borrowings	86,765	105,431
Long-term debt	145,430	155,828
Subordinated notes	94,514	94,331
Accrued interest payable and other liabilities	40,999	40,979
Total liabilities	4,187,756	3,951,488
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2018 and December 31, 2017; 31,556,799 shares issued at September 30, 2018 and December 31, 2017; 29,407,076 and 29,334,859 shares outstanding at September 30, 2018 and December 31, 2017, respectively	157,784	157,784
Additional paid-in capital	291,992	290,133
Retained earnings	235,658	216,761
Accumulated other comprehensive loss, net of tax benefit	(28,664)	(17,771)

Treasury stock, at cost; 2,149,723 and 2,221,940 shares at September 30, 2018 and December 31, 2017, respectively	(42,528)	(43,533)
Total shareholders’ equity	614,242	603,374
Total liabilities and shareholders’ equity	$4,801,998	$4,554,862

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Interest income				
Interest and fees on loans and leases:				
Taxable	$43,066	$37,153	$121,653	$105,955
Exempt from federal income taxes	2,501	2,106	7,269	6,225
Total interest and fees on loans and leases	45,567	39,259	128,922	112,180
Interest and dividends on investment securities:				
Taxable	2,348	1,855	6,805	5,376
Exempt from federal income taxes	459	550	1,404	1,725
Interest on deposits with other banks	397	133	621	188
Interest and dividends on other earning assets	484	375	1,497	1,129
Total interest income	49,255	42,172	139,249	120,598
Interest expense				
Interest on deposits	6,278	3,068	14,511	7,720
Interest on short-term borrowings	584	169	2,187	756
Interest on long-term debt and subordinated notes	1,970	2,048	5,866	5,652
Total interest expense	8,832	5,285	22,564	14,128
Net interest income	40,423	36,887	116,685	106,470
Provision for loan and lease losses	2,745	2,689	20,207	7,900
Net interest income after provision for loan and lease losses	37,678	34,198	96,478	98,570
Noninterest income				
Trust fee income	1,960	1,924	6,000	5,847
Service charges on deposit accounts	1,454	1,371	4,116	3,927
Investment advisory commission and fee income	3,785	3,455	11,246	9,969
Insurance commission and fee income	3,643	3,492	12,243	11,530
Other service fee income	2,284	2,123	6,884	6,355
Bank owned life insurance income	865	742	2,744	3,147
Net gain on sales of investment securities	—	7	10	43
Net gain on mortgage banking activities	754	908	2,412	3,558
Other income	116	87	102	712
Total noninterest income	14,861	14,109	45,757	45,088
Noninterest expense				
Salaries, benefits and commissions	20,321	19,185	61,033	56,652
Net occupancy	2,515	2,523	7,805	7,872
Equipment	1,042	1,019	3,132	3,043
Data processing	2,339	2,118	6,662	6,257
Professional fees	1,370	1,447	4,056	3,934
Marketing and advertising	461	271	1,368	1,125
Deposit insurance premiums	544	409	1,387	1,262
Intangible expenses	479	690	1,685	1,895
Restructuring charges	—	—	571	—
Other expense	5,300	5,033	16,144	15,233
Total noninterest expense	34,371	32,695	103,843	97,273

Income before income taxes	18,168	15,612	38,392	46,385
Income tax expense	3,204	4,416	6,221	12,555
Net income	$14,964	$11,196	$32,171	$33,830
Net income per share:				
Basic	$0.51	$0.42	$1.10	$1.27
Diluted	0.51	0.42	1.09	1.27
Dividends declared	0.20	0.20	0.60	0.60

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,					
	2018			2017		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	$18,168	$3,204	$14,964	$15,612	$4,416	$11,196
Other comprehensive (loss) income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(1,122)	(236)	(886)	1,030	362	668
Less: reclassification adjustment for net gains on sales realized in net income (1)	—	—	—	(7)	(2)	(5)
Total net unrealized (losses) gains on available-for-sale investment securities	(1,122)	(236)	(886)	1,023	360	663
Net unrealized gains (losses) on interest rate swaps used in cash flow hedges:						
Net unrealized holding gains (losses) arising during the period	79	17	62	(20)	(7)	(13)
Less: reclassification adjustment for net losses realized in net income (2)	1	—	1	41	14	27
Total net unrealized gains on interest rate swaps used in cash flow hedges	80	17	63	21	7	14
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	281	60	221	320	112	208
Accretion of prior service cost included in net periodic pension costs (3)	(70)	(15)	(55)	(71)	(25)	(46)
Total defined benefit pension plans	211	45	166	249	87	162
Other comprehensive (loss) income	(831)	(174)	(657)	1,293	454	839
Total comprehensive income	$17,337	$3,030	$14,307	$16,905	$4,870	$12,035

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).
(2) Included in interest expense on deposits on the consolidated statements of income (before tax amount).
(3) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 8, "Retirement Plans and Other Postretirement Benefits" for additional details.

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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(Dollars in thousands)	Nine Months Ended September 30, 2018 Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	2017 Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	$38,392	$6,221	$32,171	$46,385	$12,555	$33,830
Other comprehensive (loss) income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(9,371)	(1,968)	(7,403)	4,082	1,430	2,652
Less: reclassification adjustment for net gains on sales realized in net income (1)	(10)	(2)	(8)	(43)	(15)	(28)
Total net unrealized (losses) gains on available-for-sale investment securities	(9,381)	(1,970)	(7,411)	4,039	1,415	2,624
Net unrealized gains on interest rate swaps used in cash flow hedges:						
Net unrealized holding gains (losses) arising during the period	445	93	352	(105)	(37)	(68)
Less: reclassification adjustment for net losses realized in net income (2)	27	6	21	148	52	96
Total net unrealized gains on interest rate swaps used in cash flow hedges	472	99	373	43	15	28
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	844	177	667	918	321	597
Accretion of prior service cost included in net periodic pension costs (3)	(212)	(44)	(168)	(212)	(74)	(138)
Total defined benefit pension plans	632	133	499	706	247	459
Other comprehensive (loss) income	(8,277)	(1,738)	(6,539)	4,788	1,677	3,111
Total comprehensive income	$30,115	$4,483	$25,632	$51,173	$14,232	$36,941

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).
(2) Included in interest expense on deposits on the consolidated statements of income (before tax amount).
(3) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 8, "Retirement Plans and Other Postretirement Benefits" for additional details.

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Nine Months Ended September 30, 2018							
Balance at December 31, 2017	29,334,859	$157,784	$290,133	$216,761	$ (17,771)	$(43,533)	$603,374
Adjustment to initially apply ASU No. 2016-01 for equity securities measured at fair value (1)	—	—	—	433	(433)	—	—
Adjustment to initially apply ASU No. 2018-02 for reclassification of stranded net tax charges (1)	—	—	—	3,921	(3,921)	—	—
Net income	—	—	—	32,171	—	—	32,171
Other comprehensive loss, net of income tax benefit	—	—	—	—	(6,539)	—	(6,539)
Cash dividends declared ($0.60 per share)	—	—	—	(17,629)	—	—	(17,629)
Stock issued under dividend reinvestment and employee stock purchase plans	62,271	—	140	1	—	1,598	1,739
Exercise of stock options	59,750	—	(43)	—	—	1,174	1,131
Stock-based compensation	—	—	2,379	—	—	—	2,379
Purchases of treasury stock	(83,977)	—	—	—	—	(2,384)	(2,384)
Restricted stock awards granted, net of cancellations	34,173	—	(617)	—	—	617	—
Balance at September 30, 2018	29,407,076	$157,784	$291,992	$235,658	$ (28,664)	$(42,528)	$614,242

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Nine Months Ended September 30, 2017							
Balance at December 31, 2016	26,589,353	$144,559	$230,494	$194,516	$ (19,454)	$(44,906)	$505,209
Net income	—	—	—	33,830	—	—	33,830
Other comprehensive income, net of income tax	—	—	—	—	3,111	—	3,111
Cash dividends declared ($0.60 per share)	—	—	—	(15,983)	—	—	(15,983)
Stock issued under dividend reinvestment and employee stock purchase plans	63,683	—	130	—	—	1,709	1,839
Exercise of stock options	84,870	—	(121)	—	—	1,648	1,527
Stock-based compensation	—	—	2,550	—	—	—	2,550
Purchases of treasury stock	(112,393)	—	—	—	—	(3,285)	(3,285)
	45,823	—	(881)	—	—	881	—

Restricted stock awards granted, net of cancellations							
Balance at September 30, 2017	26,671,336	$144,559	$232,172	$212,363	$ (16,343)	$(43,953)	$528,798

(1) See Note 1, "Summary of Significant Accounting Policies - Accounting Pronouncements Adopted in 2018" for additional information.

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$32,171	$33,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	20,207	7,900
Depreciation of premises and equipment	4,180	4,151
Net amortization of investment securities premiums and discounts	1,193	1,416
Net gain on sales of investment securities	(10)	(43)
Net gain on mortgage banking activities	(2,412)	(3,558)
Bank owned life insurance income	(2,744)	(3,147)
Net accretion of acquisition accounting fair value adjustments	(838)	(2,572)
Stock-based compensation	2,379	2,550
Intangible expenses	1,685	1,895
Other adjustments to reconcile net income to cash provided by (used in) operating activities	117	(286)
Originations of loans held for sale	(95,665)	(105,557)
Proceeds from the sale of loans held for sale	99,842	112,602
Contributions to pension and other postretirement benefit plans	(3,199)	(2,206)
Decrease in accrued interest receivable and other assets	379	1,395
Increase (decrease) in accrued interest payable and other liabilities	4,021	(3,620)
Net cash provided by operating activities	61,306	44,750
Cash flows from investing activities:		
Net capital expenditures	(2,596)	(5,040)
Proceeds from maturities, calls and principal repayments of securities held-to-maturity	7,846	21,796
Proceeds from maturities, calls and principal repayments of securities available-for-sale	44,603	49,271
Proceeds from sales of securities available-for-sale	1,010	3,538
Purchases of investment securities held-to-maturity	(60,784)	(42,585)
Purchases of investment securities available-for-sale	(1,986)	(9,974)
Proceeds from sales of money market mutual funds	11,215	23,035
Purchases of money market mutual funds	(6,392)	(18,875)
Net increase in other investments	(5,867)	(2,375)
Net increase in loans and leases	(260,012)	(204,866)
Net increase in interest-earning deposits	(3,222)	(22,546)
Proceeds from sales of other real estate owned	362	3,996
Purchases of bank owned life insurance	(776)	—
Proceeds from bank owned life insurance	1,374	2,937
Net cash used in investing activities	(275,225)	(201,688)
Cash flows from financing activities:		
Net increase in deposits	265,260	261,402
Net decrease in short-term borrowings	(18,666)	(164,080)
Proceeds from issuance of long-term debt	—	95,000
Repayment of long-term debt	(10,000)	(15,000)
Payment of contingent consideration on acquisitions	(67)	(5,380)
Purchases of treasury stock	(2,384)	(3,285)

Stock issued under dividend reinvestment and employee stock purchase plans	1,739	1,839
Proceeds from exercise of stock options	1,131	1,527
Cash dividends paid	(17,615)	(15,966)
Net cash provided by financing activities	219,398	156,057
Net increase (decrease) in cash and due from banks	5,479	(881)
Cash and due from banks at beginning of year	46,721	48,757
Cash and due from banks at end of period	$52,200	$47,876
Supplemental disclosures of cash flow information:		
Cash paid for interest	$21,647	$15,458
Cash paid for income taxes, net of refunds	1,315	12,448
Non cash transactions:		
Transfer of loans to other real estate owned	$477	$649

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Condensed Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation or Univest) and its wholly owned subsidiaries. The Corporation’s direct subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018 or for any other period. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 1, 2018.

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale, reserve for loan and lease losses and purchase accounting.

Accounting Pronouncements Adopted in 2018

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU clarifies the accounting treatment of the reclassification of certain income tax effects within accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act. The Corporation elected to early adopt this guidance effective January 1, 2018 for all stranded tax effects resulting from tax reform and reclassified stranded tax effects, totaling $3.9 million, from accumulated other comprehensive income to retained earnings. The Corporation's policy for releasing income tax effects from accumulated other comprehensive income is to release such effects on an individual basis as each item is liquidated, sold or extinguished. See Note 10, "Accumulated Other Comprehensive (Loss) Income" for additional detail.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this ASU require that an employer that sponsors defined benefit pension plans and other postretirement plans present the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The Corporation adopted this guidance effective January 1, 2018 with retrospective application for prior period presentation. Effective January 1, 2018, components of net benefit income other than the service cost component are presented in the Corporation's statement of income in other noninterest expense rather than in salaries, benefits and commission expense. Prior period components of net benefit income other than the service cost component were reclassed to other noninterest expense in the Corporation's statement of income.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income. At December 31, 2017, the Corporation had financial services equity securities with a carrying value of $1.1 million which included an unrealized net gain of $666 thousand. At December 31, 2017, $433 thousand

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was recorded in accumulated other comprehensive income which represented the unrealized net gain, net of income taxes, based on the Corporation's statutory tax rate as of December 31, 2017. In addition, at December 31, 2017, the Corporation had money market mutual funds with a fair value and amortized cost of $6.0 million which were reclassified to equity securities under this guidance. The Corporation adopted this guidance effective January 1, 2018 with a cumulative-effect adjustment to the balance sheet as of January 1, 2018. The balance in accumulated other comprehensive income of $433 thousand was reclassified to retained earnings effective January 1, 2018. The carrying value of the equity securities, at January 1, 2018, did not change; however, any future increases or decreases in fair value is recorded as an increase or decrease to the carrying value and recognized in other noninterest income. During the nine months ended September 30, 2018, the Corporation recognized a $26 thousand net gain on equity securities in other noninterest income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequent related updates. The Corporation adopted the guidance effective January 1, 2018 using the modified retrospective method though no adjustments were made to retained earnings as a result of the adoption. The Corporation provided expanded disclosures related to recognition of revenue from contracts with customers. See Note 14, "Revenue from Contracts with Customers."

Recent Accounting Pronouncements Yet to Be Adopted

In August 2018, the FASB issued ASU No. 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." The amendments in this ASU modify the disclosure requirements for employers that sponsor defined benefit plans or other postretirement plans. Disclosures removed by this ASU include the following: 1) amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit costs over the next fiscal year; 2) amount and timing of plan assets expected to be returned to the employer; and 3) the effects of a one percentage point change in assumed health care cost trend rates on the net periodic benefit costs and the benefit obligation for postretirement health care benefits. Additional disclosures required by this ASU include: 1) the weighted-average interest crediting rates used in an entity's cash balance pension plans and other similar plans and 2) explanations for reasons for significant changes in the benefit obligation or plan assets. All amendments should be applied retrospectively. This ASU is effective for fiscal years ending after December 15, 2020 or December 31, 2020 for the Corporation. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statement disclosures but will result in revised disclosures for retirement plans and other postretirement benefits.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." This ASU applies to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. Disclosures removed by this ASU are the amount and reasons for transfers between Level 1 and Level 2, the policy for timing of transfers between levels and the valuation processes for Level 3 measurements. This ASU modifies disclosures relating to investments in certain entities that calculate net asset value. Additional disclosures required by this ASU include: 1) change in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and 2) range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The prospective method of transition is required for the new disclosure requirements. The other amendments should be applied retrospectively. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years or January 1, 2020 for the Corporation. Early adoption is permitted. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements but will result in revised disclosures for fair value.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this update expand and refine hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additional hedging strategies permitted for hedge accounting include: hedges of contractually-specified price components of commodity purchases or sales, hedges of the benchmark rate component of the contractual coupon cash flows of fixed-rate assets or liabilities, hedges of the portion of a closed portfolio of prepayable assets not expected to prepay, and partial-term hedges of fixed-rate assets or liabilities. The ASU amends the presentation and disclosure requirements and changes how entities assess effectiveness. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness and requires all items that affect earnings be presented in the same income statement line as the hedged items. After initial qualification, the new guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test, such as a regression analysis, if the entity can reasonably support an expectation of high effectiveness throughout the term of the hedge. An initial quantitative test to establish that the hedge relationship is highly effective is still required. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities, or January 1, 2019 for the Corporation. Early adoption is permitted, including an interim period. The amended presentation and disclosure guidance is required only prospectively. The Corporation will adopt this ASU on January 1, 2019 and does not expect the adoption will have a material impact on the Corporation's financial statements.

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In March 2017, the FASB issued ASU No. 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.” This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date rather than the maturity of the security. Securities within the scope of this guidance are those that have explicit, non-contingent call features that are callable at fixed prices and on preset dates. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, or January 1, 2019 for the Corporation. Early adoption is permitted, including an interim period. This ASU is to be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. At September 30, 2018, the Corporation had $11.3 million of callable debt securities. Upon implementation, using the modified retrospective basis effective January 1, 2019, the Corporation expects to record a cumulative-effect adjustment resulting in a reduction in the unamortized premium balance for certain callable debt securities of approximately $50 thousand and a reduction in retained earnings of approximately $40 thousand, net of tax, for the incremental amortization. This estimate could change due to changes in the Corporation's investments in callable securities prior to the adoption date. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This ASU eliminates Step 2 of the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or for the Corporation's goodwill impairment test in 2020. Early adoption is permitted for goodwill impairment tests with measurement dates after January 1, 2017. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in this ASU replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. An entity should apply the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). Acquired credit impaired loans for which the guidance in Accounting Standards Codification (ASC) Topic 310-30 has been previously applied should prospectively apply the guidance in this ASU. A prospective transition approach is required for debt securities for which an other-than-temporary impairment has been recognized before the effective date. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities that are SEC filers, or January 1, 2020 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated that the reserve for loan and lease losses will increase upon adoption of CECL and that the increased reserve level will decrease shareholders' equity and regulatory capital and ratios.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" and subsequent related updates to revise the accounting for leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases based on the present value of future lease payments. Lessor accounting activities are largely unchanged from existing lease accounting. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Early adoption is permitted. This new guidance is effective for the first interim period within annual periods beginning after December 15, 2018, or January 1, 2019 for the Corporation.

The Corporation expects to adopt this new guidance effective January 1, 2019, retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings at January 1, 2019. The Corporation expects to elect the package of practical expedients permitted under the transition guidance which among other things, allows carry forward of the

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historical lease classification. All leases in which the Corporation is the lessee are classified as operating leases and will continue to be classified as such. The Corporation expects to continue to separately account for lease and non-lease components as historically reported and expects to elect the hindsight practical expedient to determine the lease term for existing leases. The Corporation is currently implementing a third party lease accounting system to assist with the measurement of lease liabilities and related right-of-use assets, the post-implementation administration aspect of lease accounting, and the applicable disclosures related to the new guidance. The Corporation has completed the initial scoping phase of the project, including the identification and review of lease contracts applicable to the new guidance, and is in the process of determining the estimated financial statement impact of the new guidance at the transition date. While the Corporation is continuing to assess the impact of this new guidance on the balance sheet and income statement, the Corporation expects to record between $30.0 million to $40.0 million of operating lease liabilities and related right-of-use assets at January 1, 2019, with any difference between these amounts, net of the deferred tax impact, recorded as an adjustment to opening retained earnings. These estimates, based on our active lease portfolio, may change as the Corporation continues through the implementation process, or due to changes in the lease portfolio, which could include new leases, changes in lease commencement dates, and changes to renewal options and lease termination expectations. The initial and continued impact of the recording of operating lease assets will have a negative impact on all Corporation and Bank capital ratios under current regulatory guidance and possibly equity ratios.

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Note 2. Earnings per Share

The Corporation uses the two-class method to calculate earnings per share as the unvested restricted stock issued under the Corporation's equity incentive plans are participating shares with nonforfeitable rights to dividends. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the number of weighted average shares outstanding during the period. The table also notes anti-dilutive options which are those options with weighted average exercise prices in excess of the weighted average market value for the periods presented.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands, except per share data)	2018	2017	2018	2017
Numerator:				
Net income	$14,964	$11,196	$32,171	$33,830
Net income allocated to unvested restricted stock	(86)	(96)	(225)	(330)
Net income allocated to common shares	$14,878	$11,100	$31,946	$33,500
Denominator:				
Weighted average shares outstanding	29,402	26,666	29,387	26,653
Average unvested restricted stock	(170)	(229)	(204)	(265)
Denominator for basic earnings per share—weighted-average shares outstanding	29,232	26,437	29,183	26,388
Effect of dilutive securities—employee stock options	86	105	92	102
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	29,318	26,542	29,275	26,490
Basic earnings per share	$0.51	$0.42	$1.10	$1.27
Diluted earnings per share	$0.51	$0.42	$1.09	$1.27
Average anti-dilutive options excluded from computation of diluted earnings per share	359	185	315	166

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Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at September 30, 2018 and December 31, 2017, by contractual maturity within each type:

(Dollars in thousands)	At September 30, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
U.S. government corporations and agencies:								
After 1 year to 5 years	$6,996	$ —	$(214)	$6,782	$6,995	$ —	$(77)	$6,918
	6,996	—	(214)	6,782	6,995	—	(77)	6,918
Residential mortgage-backed securities:								
After 5 years to 10 years	12,190	—	(279)	11,911	8,944	—	(51)	8,893
Over 10 years	88,956	—	(2,007)	86,949	39,625	44	(160)	39,509
	101,146	—	(2,286)	98,860	48,569	44	(211)	48,402
Total	$108,142	$ —	$(2,500)	$105,642	$55,564	$ 44	$(288)	$55,320
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	$15,153	$ —	$(131)	$15,022	$1,499	$ —	$(3)	$1,496
After 1 year to 5 years	303	—	(9)	294	15,590	—	(125)	15,465
	15,456	—	(140)	15,316	17,089	—	(128)	16,961
State and political subdivisions:								
Within 1 year	5,943	—	(11)	5,932	2,721	1	(6)	2,716
After 1 year to 5 years	12,569	15	(97)	12,487	16,787	33	(44)	16,776
After 5 years to 10 years	46,803	303	(631)	46,475	54,846	897	(73)	55,670
Over 10 years	3,120	—	(122)	2,998	3,120	15	—	3,135
	68,435	318	(861)	67,892	77,474	946	(123)	78,297
Residential mortgage-backed securities:								
After 1 year to 5 years	4,887	—	(102)	4,785	3,913	12	(26)	3,899
After 5 years to 10 years	53,041	6	(2,231)	50,816	51,428	5	(852)	50,581
Over 10 years	105,808	22	(5,017)	100,813	133,237	87	(2,383)	130,941
	163,736	28	(7,350)	156,414	188,578	104	(3,261)	185,421
Collateralized mortgage obligations:								
After 5 years to 10 years	1,772	—	(108)	1,664	2,103	—	(82)	2,021
Over 10 years	1,347	—	(30)	1,317	1,567	14	—	1,581
	3,119	—	(138)	2,981	3,670	14	(82)	3,602
Corporate bonds:								
Within 1 year	2,506	—	(10)	2,496	10,006	—	(5)	10,001
After 1 year to 5 years	23,824	21	(442)	23,403	24,885	20	(147)	24,758
After 5 years to 10 years	16,152	2	(537)	15,617	16,669	71	(296)	16,444
Over 10 years	60,000	—	(7,186)	52,814	60,000	—	(4,027)	55,973
	102,482	23	(8,175)	94,330	111,560	91	(4,475)	107,176
Equity securities:*								
No stated maturity	N/A	N/A	N/A	N/A	6,395	667	(1)	7,061

	N/A	N/A	N/A	N/A	6,395	667	(1)	7,061
Total	$353,228	$ 369	$(16,664)	$336,933	$404,766	$ 1,822	$(8,070)	$398,518

* Equity securities at December 31, 2017 include $6.0 million of money market mutual funds and $1.1 million of financial services equity securities. In accordance with ASU 2016-01, beginning January 1, 2018, such amounts were reclassified from investment securities available-for-sale to investments in equity securities on the Corporation's Condensed Consolidated Balance Sheets.

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties and mortgage-backed securities typically prepay at a rate faster than contractually due.

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Securities with a carrying value of $362.0 million and $345.1 million at September 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits and other contractual obligations. In addition, securities of $295 thousand and $1.8 million were pledged to secure credit derivatives and interest rate swaps at September 30, 2018 and December 31, 2017, respectively. See Note 11, "Derivative Instruments and Hedging Activities" for additional information.

The following table presents information related to sales of securities available-for-sale during the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017
Securities available-for-sale:		
Proceeds from sales	$1,010	$3,538
Gross realized gains on sales	10	43
Tax expense related to net realized gains on sales	2	15

At September 30, 2018 and December 31, 2017, there were no investments in any single non-federal issuer representing more than 10% of shareholders’ equity.

The following table shows the fair value of securities that were in an unrealized loss position at September 30, 2018 and December 31, 2017 by the length of time those securities were in a continuous loss position. For the investment securities in an unrealized loss position, the Corporation has concluded, based on its analysis, that the unrealized losses are primarily caused by the movement of interest rates and current market conditions. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. It is more likely than not that the Corporation will not be required to sell the investments before a recovery of carrying value.

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At September 30, 2018						
Securities Held-to-Maturity						
U.S. government corporations and agencies	$—	$—	$6,782	$(214)	$6,782	$(214)
Residential mortgage-backed securities	89,833	(1,963)	9,027	(323)	98,860	(2,286)
Total	$89,833	$(1,963)	$15,809	$(537)	$105,642	$(2,500)
Securities Available-for-Sale						
U.S. government corporations and agencies	$—	$—	$15,316	$(140)	$15,316	$(140)
State and political subdivisions	33,509	(777)	7,476	(84)	40,985	(861)
Residential mortgage-backed securities	27,331	(972)	127,441	(6,378)	154,772	(7,350)
Collateralized mortgage obligations	1,317	(30)	1,664	(108)	2,981	(138)
Corporate bonds	21,162	(467)	69,644	(7,708)	90,806	(8,175)
Total	$83,319	$(2,246)	$221,541	$(14,418)	$304,860	$(16,664)
At December 31, 2017						
Securities Held-to-Maturity						
U.S. government corporations and agencies	$6,919	$(77)	$—	$—	$6,919	$(77)
Residential mortgage-backed securities	40,881	(211)	—	—	40,881	(211)
Total	$47,800	$(288)	$—	$—	$47,800	$(288)
Securities Available-for-Sale						
U.S. government corporations and agencies	$5,213	$(38)	$11,749	$(90)	$16,962	$(128)
State and political subdivisions	18,457	(91)	6,332	(32)	24,789	(123)

Residential mortgage-backed securities	32,217	(210)	141,371	(3,051)	173,588	(3,261)
Collateralized mortgage obligations	—	—	2,021	(82)	2,021	(82)
Corporate bonds	18,464	(1,016)	71,957	(3,459)	90,421	(4,475)
Equity securities	—	(1)	4	—	4	(1)
Total	$74,351	$(1,356)	$233,434	$(6,714)	$307,785	$(8,070)

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At September 30, 2018, gross unrealized losses for securities available-for-sale in an unrealized loss position for twelve months or longer, totaled $14.4 million. Four federal agency bonds, sixteen investment grade corporate bonds, 114 federal agency residential mortgage securities, nine investment grade municipal bonds and one collateralized mortgage obligation bond had respective unrealized loss positions of $140 thousand, $7.7 million, $6.4 million, $84 thousand and $108 thousand, respectively. The fair value of these 114 securities fluctuate with changes in market conditions which for these underlying securities is primarily due to changes in the interest rate environment. The Corporation does not intend to sell the securities in an unrealized loss position and is unlikely to be required to sell these securities before a recovery of fair value, which may be maturity. Upon review of the attributes of the individual securities, the Corporation concluded these securities were not other-than-temporarily impaired. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2018 and 2017.

In conjunction with the adoption of ASU 2016-01, the Corporation recognized a $26 thousand net gain on equity securities during the nine months ended September 30, 2018 in other noninterest income and the net unrealized gain on equity securities held at September 30, 2018 was $26 thousand. See Note 1, "Summary of Significant Accounting Policies - Accounting Pronouncements Adopted in 2018" for additional information.

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

	At September 30, 2018		
(Dollars in thousands)	Originated	Acquired	Total
Commercial, financial and agricultural	$867,636	$26,686	$894,322
Real estate-commercial	1,442,681	254,462	1,697,143
Real estate-construction	188,895	3,742	192,637
Real estate-residential secured for business purpose	279,800	66,531	346,331
Real estate-residential secured for personal purpose	327,833	52,676	380,509
Real estate-home equity secured for personal purpose	177,632	9,349	186,981
Loans to individuals	32,096	142	32,238
Lease financings	136,008	—	136,008
Total loans and leases held for investment, net of deferred income	$3,452,581	$413,588	$3,866,169
Unearned lease income, included in the above table	$(15,079)	$—	$(15,079)
Net deferred costs, included in the above table	4,064	—	4,064
Overdraft deposits included in the above table	156	—	156

	At December 31, 2017		
(Dollars in thousands)	Originated	Acquired	Total
Commercial, financial and agricultural	$833,100	$63,111	$896,211
Real estate-commercial	1,235,681	306,460	1,542,141
Real estate-construction	171,244	4,592	175,836
Real estate-residential secured for business purpose	250,800	91,167	341,967
Real estate-residential secured for personal purpose	260,654	60,920	321,574
Real estate-home equity secured for personal purpose	171,884	12,386	184,270
Loans to individuals	28,156	144	28,300
Lease financings	129,768	—	129,768
Total loans and leases held for investment, net of deferred income	$3,081,287	$538,780	$3,620,067
Unearned lease income, included in the above table	$(14,243)	$—	$(14,243)
Net deferred costs, included in the above table	4,669	—	4,669
Overdraft deposits included in the above table	222	—	222

Overdraft deposits are re-classified as loans and are included in the total loans and leases on the balance sheet.

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The carrying amount of acquired loans at September 30, 2018 totaled $413.6 million, including $339.3 million of loans from the Fox Chase acquisition and $74.3 million from the Valley Green Bank acquisition. At September 30, 2018, loans acquired with deteriorated credit quality, or acquired credit impaired loans, totaled $900 thousand representing $246 thousand from the Fox Chase acquisition and $654 thousand from the Valley Green Bank acquisition. Acquired credit impaired loans are accounted for in accordance with Accounting Standards Codification (ASC) Topic 310-30.

The outstanding principal balance and carrying amount for acquired credit impaired loans at September 30, 2018 and December 31, 2017 were as follows:

(Dollars in thousands)	At September 30, 2018	At December 31, 2017
Outstanding principal balance	$ 1,218	$ 2,325
Carrying amount	900	1,583
Allowance for loan losses	—	—

The following table presents the changes in accretable yield on acquired credit impaired loans:

	Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017
Beginning of period	$ 11	$ 50
Reclassification from nonaccretable discount	453	823
Accretable discount amortized to interest income	(464)	(850)
Disposals	—	(4)
End of period	$ —	$ 19

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Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases 90 days or more past due which are accruing interest at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current	Acquired Credit Impaired	Total Loans and Leases Held for Investment	Recorded Investment 90 Days or more Past Due and Accruing Interest
At September 30, 2018								
Commercial, financial and agricultural	$661	$9,151	$1,003	$10,815	$883,325	$182	$894,322	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	1,168	373	1,313	2,854	1,694,083	206	1,697,143	83
Construction	—	—	—	—	192,637	—	192,637	—
Real estate—residential and home equity:								
Residential secured for business purpose	2,221	47	1,265	3,533	342,350	448	346,331	—
Residential secured for personal purpose	2,403	981	1,419	4,803	375,642	64	380,509	—
Home equity secured for personal purpose	406	189	1,329	1,924	185,057	—	186,981	128
Loans to individuals	101	32	165	298	31,940	—	32,238	165
Lease financings	897	1,639	2,390	4,926	131,082	—	136,008	848
Total	$7,857	$12,412	$8,884	$29,153	$3,836,116	$900	$3,866,169	$ 1,224
At December 31, 2017								
Commercial, financial and agricultural	$2,182	$1,440	$1,509	$5,131	$890,658	$422	$896,211	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	733	548	1,410	2,691	1,539,094	356	1,542,141	—
Construction	1,970	—	365	2,335	173,501	—	175,836	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,651	315	1,355	3,321	338,061	585	341,967	162
Residential secured for personal purpose	4,368	1,118	23	5,509	315,845	220	321,574	—
Home equity secured for personal purpose	1,414	333	464	2,211	182,059	—	184,270	148
Loans to individuals	221	139	195	555	27,745	—	28,300	195
Lease financings	1,143	392	1,855	3,390	126,378	—	129,768	256
Total	$13,682	$4,285	$7,176	$25,143	$3,593,341	$1,583	$3,620,067	$ 761

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Nonperforming Loans and Leases

The following presents, by class of loans and leases, nonperforming loans and leases at September 30, 2018 and December 31, 2017. Nonperforming loans exclude acquired credit impaired loans from Fox Chase and Valley Green.

(Dollars in thousands)	At September 30, 2018				At December 31, 2017			
	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Nonperforming Loans and Leases	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Nonperforming Loans and Leases
Commercial, financial and agricultural	$2,795	$ 595	$ —	$ 3,390	$4,448	$ 921	$ —	$ 5,369
Real estate—commercial real estate and construction:								
Commercial real estate	18,425	—	83	18,508	4,285	10,266	—	14,551
Construction	106	—	—	106	365	—	—	365
Real estate—residential and home equity:								
Residential secured for business purpose	1,416	171	—	1,587	2,843	206	162	3,211
Residential secured for personal purpose	1,815	—	—	1,815	466	42	—	508
Home equity secured for personal purpose	1,460	—	128	1,588	511	—	148	659
Loans to individuals	—	—	165	165	—	—	195	195
Lease financings	1,542	—	848	2,390	1,599	—	256	1,855
Total	$27,559	$ 766	$ 1,224	$ 29,549	$14,517	$ 11,435	$ 761	$ 26,713

* Includes nonaccrual troubled debt restructured loans and lease modifications of $1.3 million and $2.5 million at September 30, 2018 and December 31, 2017, respectively.

Accruing troubled debt restructuring loans of $11.4 million at December 31, 2017 includes balances of $10.3 million related to one borrower which were classified as troubled debt restructurings as the related loans were granted amortization period extensions. These troubled debt restructured loans were returned to performing status during the first quarter of 2018 as the borrower was in compliance with the modified terms of the restructurings for the required time period. At September 30, 2018, commercial real estate nonaccrual loans and leases includes an $11.8 million loan that was placed on nonaccrual status during the first quarter of 2018. A specific reserve of $645 thousand was recorded for this loan as of September 30, 2018.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at September 30, 2018 and December 31, 2017.

The Corporation employs a ten (10) grade risk rating system related to the credit quality of commercial loans and residential real estate loans secured for a business purpose of which the first six categories are pass categories (credits not adversely rated). The following is a description of the internal risk ratings and the likelihood of loss related to each risk rating. Loans with a relationship balance of less than $1 million are reviewed on a performance basis, with the primary monitored metrics being delinquency (60 days or more past due) and revolving stagnancy. Loans with relationships greater than $1 million are reviewed at least annually. Loan relationships exceeding $15 million or classified as special mention or substandard are reviewed at least quarterly, or more frequently based on management's discretion.

1. Cash Secured—No credit risk
2. Fully Secured—Negligible credit risk
3. Strong—Minimal credit risk
4. Satisfactory—Nominal credit risk
5. Acceptable—Moderate credit risk
6. Pre-Watch—Marginal, but stable credit risk
7. Special Mention—Potential weakness
8. Substandard—Well-defined weakness
9. Doubtful—Collection in-full improbable
10. Loss—Considered uncollectible

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades
The following table presents classifications for originated loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At September 30, 2018					
Grade:					
1. Cash secured/ 2. Fully secured	$ 2,789	$—	$ 23,290	$ —	$26,079
3. Strong	14,369	699	—	—	15,068
4. Satisfactory	18,511	24,325	—	265	43,101
5. Acceptable	575,671	1,072,909	77,773	236,261	1,962,614
6. Pre-watch	222,325	287,933	86,326	38,090	634,674
7. Special Mention	26,323	35,402	1,400	2,203	65,328
8. Substandard	7,648	21,413	106	2,981	32,148
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 867,636	$1,442,681	$ 188,895	$ 279,800	$2,779,012
At December 31, 2017					
Grade:					
1. Cash secured/ 2. Fully secured	$ 2,521	$—	$ 20,420	$ —	$22,941
3. Strong	9,206	1,821	—	—	11,027
4. Satisfactory	30,283	26,950	—	274	57,507
5. Acceptable	593,205	960,258	76,899	215,750	1,846,112
6. Pre-watch	179,990	209,844	72,168	29,738	491,740
7. Special Mention	4,027	12,974	1,392	296	18,689
8. Substandard	13,868	23,834	365	4,742	42,809
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 833,100	$1,235,681	$ 171,244	$ 250,800	$2,490,825

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The following table presents classifications for acquired loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At September 30, 2018					
Grade:					
1. Cash secured/ 2. Fully secured	$ —	$ —	$ —	$ —	$—
3. Strong	—	—	—	—	—
4. Satisfactory	—	—	—	—	—
5. Acceptable	23,085	155,221	—	56,107	234,413
6. Pre-watch	2,475	81,048	3,742	9,115	96,380
7. Special Mention	838	4,421	—	—	5,259
8. Substandard	288	13,772	—	1,309	15,369
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 26,686	$ 254,462	$ 3,742	$ 66,531	$351,421
December 31, 2017					
Grade:					
1. Cash secured/ 2. Fully secured	$ 1,120	$ —	$ —	$ —	$1,120
3. Strong	—	—	—	—	—
4. Satisfactory	125	482	—	—	607
5. Acceptable	49,949	183,490	—	73,402	306,841
6. Pre-watch	6,183	98,977	4,592	15,861	125,613
7. Special Mention	1,007	17,028	—	—	18,035
8. Substandard	4,727	6,483	—	1,904	13,114
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 63,111	$ 306,460	$ 4,592	$ 91,167	$465,330

Credit Exposure—Real Estate—Residential Secured for Personal Purpose, Real Estate—Home Equity Secured for Personal Purpose, Loans to individuals, Lease Financing Credit Risk Profile by Payment Activity

The Corporation monitors the credit risk profile by payment activity for the following classifications of loans and leases: residential real estate loans secured for a personal purpose, home equity loans secured for a personal purpose, loans to individuals and lease financings. Nonperforming loans and leases are loans and leases past due 90 days or more, loans and leases on nonaccrual of interest and troubled debt restructured loans and lease modifications. Performing loans and leases are reviewed only if the loan becomes 60 days or more past due. Nonperforming loans and leases are reviewed monthly. Performing loans and leases have a nominal to moderate risk of loss.

The following table presents classifications for originated loans:

(Dollars in thousands)	Real Estate—Residential Secured for Personal Purpose	Real Estate—Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Total
At September 30, 2018					
Performing	$ 327,138	$ 177,115	$ 31,931	$ 133,618	$669,802
Nonperforming	695	517	165	2,390	3,767
Total	$ 327,833	$ 177,632	$ 32,096	$ 136,008	$673,569
At December 31, 2017					
Performing	$ 260,589	$ 171,527	$ 27,961	$ 127,913	$587,990
Nonperforming	65	357	195	1,855	2,472
Total	$ 260,654	$ 171,884	$ 28,156	$ 129,768	$590,462

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The following table presents classifications for acquired loans:

(Dollars in thousands)	Real Estate—Residential Secured for Personal Purpose	Real Estate—Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Total
At September 30, 2018					
Performing	$ 51,556	$ 8,278	$ 142	$ —	$ 59,976
Nonperforming	1,120	1,071	—	—	2,191
Total	$ 52,676	$ 9,349	$ 142	$ —	$ 62,167
At December 31, 2017					
Performing	$ 60,477	$ 12,084	$ 144	$ —	$ 72,705
Nonperforming	443	302	—	—	745
Total	$ 60,920	$ 12,386	$ 144	$ —	$ 73,450

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Reserve for Loan and Lease Losses and Recorded Investment in Loans and Leases

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses for the three and nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial and Construction	Real Estate—Residential Secured for Business Purpose	Real Estate—Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
Three Months Ended September 30, 2018								
Reserve for loan and lease losses:								
Beginning balance	$ 7,258	$ 12,327	$ 2,004	$ 2,494	$ 447	$ 1,071	$ 51	$ 25,652
Charge-offs	(904)	—	(30)	—	(82)	(123)	N/A	(1,139)
Recoveries	22	1	8	6	25	51	N/A	113
Provision	813	906	72	527	82	138	206	2,744
Provision for acquired credit impaired loans	—	—	—	1	—	—	—	1
Ending balance	$ 7,189	$ 13,234	$ 2,054	$ 3,028	$ 472	$ 1,137	$ 257	$ 27,371
Three Months Ended September 30, 2017								
Reserve for loan and lease losses:								
Beginning balance	$ 8,313	$ 8,468	$ 1,129	$ 974	$ 329	$ 1,660	$ 37	$ 20,910
Charge-offs	(290)	—	(56)	(83)	(61)	(3,097)	N/A	(3,587)
Recoveries	325	1	29	68	35	73	N/A	531
(Recovery of provision) provision	(1,732)	787	204	756	51	2,654	(30)	2,690
Recovery of provision for acquired credit impaired loans	—	—	(1)	—	—	—	—	(1)
Ending balance	$ 6,616	$ 9,256	$ 1,305	$ 1,715	$ 354	$ 1,290	$ 7	$ 20,543
Nine Months Ended September 30, 2018								
Reserve for loan and lease losses:								
Beginning balance	$ 6,742	$ 9,839	$ 1,661	$ 1,754	$ 373	$ 1,132	$ 54	$ 21,555
Charge-offs	(14,553)	(40)	(30)	—	(253)	(428)	N/A	(15,304)
Recoveries	271	74	266	71	71	160	N/A	913
Provision	14,729	3,361	157	1,201	281	273	203	20,205
Provision for acquired credit impaired loans	—	—	—	2	—	—	—	2
Ending balance	$ 7,189	$ 13,234	$ 2,054	$ 3,028	$ 472	$ 1,137	$ 257	$ 27,371
Nine Months Ended September 30, 2017								
Reserve for loan and lease losses:								
Beginning balance	$ 7,037	$ 7,505	$ 774	$ 993	$ 364	$ 788	$ 38	$ 17,499

Charge-offs	(576)	(30)	(1,237)	(177)	(301)	(3,681)	N/A	(6,002)
Recoveries	722	4	47	89	116	168	N/A	1,146
(Recovery of provision) provision	(567)	1,777	1,722	808	175	4,015	(31)	7,899
(Recovery of provision) provision for acquired credit impaired loans	—	—	(1)	2	—	—	—	1
Ending balance	$ 6,616	$ 9,256	$ 1,305	$ 1,715	$ 354	$ 1,290	$ 7	$ 20,543

N/A – Not applicable

Charge-offs for the nine months ended September 30, 2018 include a charge-off of $12.7 million during the second quarter of 2018 for a commercial loan relationship related to alleged fraudulent activities perpetrated by one or more employees of the

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borrower. The Bank owned a participating interest which originally totaled $13.0 million in an approximately $80.0 million commercial lending facility. The charge-off represents the entire principal amount owed to the Bank.
The following presents, by portfolio segment, a summary of the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method at September 30, 2018 and 2017:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial and Construction	Real Estate—Residential Secured for Business Purpose	Real Estate—Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At September 30, 2018								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 211	$ 645	$ —	$ 192	$ —	$ —	N/A	$ 1,048
Ending balance: collectively evaluated for impairment	6,978	12,504	2,014	2,836	472	1,137	257	26,198
Ending balance: acquired credit impaired loans evaluated for impairment	—	85	40	—	—	—	—	125
Total ending balance	$ 7,189	$ 13,234	$ 2,054	$ 3,028	$ 472	$ 1,137	$ 257	$ 27,371
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 4,889	$ 18,970	$ 1,588	$ 3,275	$ —	$ 1,250		$ 29,972
Ending balance: collectively evaluated for impairment	862,747	1,610,805	278,212	502,190	32,096	134,758		3,420,808
Loans measured at fair value	—	1,801	—	—	—	—		1,801
Acquired non-credit impaired loans	26,504	257,998	66,083	61,961	142	—		412,688
Acquired credit impaired loans	182	206	448	64	—	—		900
Total ending balance	$ 894,322	$ 1,889,780	$ 346,331	$ 567,490	$ 32,238	$ 136,008		$ 3,866,169
At September 30, 2017								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 15	$ 40	$ 33	$ —	$ —	$ —	N/A	$ 88
Ending balance: collectively evaluated for impairment	6,601	9,216	1,272	1,715	354	1,290	7	20,455

Total ending balance	$ 6,616	$ 9,256	$ 1,305	$ 1,715	$ 354	$ 1,290	$ 7	$ 20,543
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 7,883	$ 17,274	$ 4,471	$ 932	$ —	$ 1,250		$ 31,810
Ending balance: collectively evaluated for impairment	774,886	1,307,585	209,340	415,161	27,297	122,888		2,857,157
Loans measured at fair value	—	2,014	—	—	—	—		2,014
Acquired non-credit impaired loans	75,983	344,818	95,625	77,991	144	—		594,561
Acquired credit impaired loans	465	356	584	217	—	—		1,622
Total ending balance	$ 859,217	$ 1,672,047	$ 310,020	$ 494,301	$ 27,441	$ 124,138		$ 3,487,164

N/A – Not applicable

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The Corporation records a provision for loan loss for the acquired non-impaired loans only when additional deterioration of the portfolio is identified over the projections utilized in the initial fair value analysis. After the acquisition measurement period, the present value of any decreases in expected cash flows of acquired credit impaired loans will generally result in an impairment charge recorded as a provision for loan loss, resulting in an increase to the allowance.

Impaired Loans (excludes Lease Financings)

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not a reserve for credit losses and the amounts for which there is a reserve for credit losses at September 30, 2018 and December 31, 2017. The impaired loans exclude acquired credit impaired loans.

	At September 30, 2018			At December 31, 2017		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Reserve	Recorded Investment	Unpaid Principal Balance	Related Reserve
Impaired loans with no related reserve recorded:						
Commercial, financial and agricultural	$3,958	$4,535		$7,019	$8,301	
Real estate—commercial real estate	7,110	7,976		15,621	16,507	
Real estate—construction	106	111		365	365	
Real estate—residential secured for business purpose	1,588	1,776		3,430	4,620	
Real estate—residential secured for personal purpose	1,091	1,142		508	566	
Real estate—home equity secured for personal purpose	1,460	1,488		511	523	
Total impaired loans with no related reserve recorded	$15,313	$17,028		$27,454	$30,882	
Impaired loans with a reserve recorded:						
Commercial, financial and agricultural	$931	$984	$211	$60	$60	$ 31
Real estate—commercial real estate	11,754	12,138	645	933	933	99
Real estate—residential secured for business purpose	—	—	—	35	37	1
Real estate—residential secured for personal purpose	724	724	192	—	—	—
Total impaired loans with a reserve recorded	$13,409	$13,846	$1,048	$1,028	$1,030	$ 131
Total impaired loans:						
Commercial, financial and agricultural	$4,889	$5,519	$211	$7,079	$8,361	$31
Real estate—commercial real estate	18,864	20,114	645	16,554	17,440	99
Real estate—construction	106	111	—	365	365	—
Real estate—residential secured for business purpose	1,588	1,776	—	3,465	4,657	1
Real estate—residential secured for personal purpose	1,815	1,866	192	508	566	—
Real estate—home equity secured for personal purpose	1,460	1,488	—	511	523	—
Total impaired loans	$28,722	$30,874	$1,048	$28,482	$31,912	$131

Impaired loans include nonaccrual loans, accruing troubled debt restructured loans and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the original contractual terms. These loans are individually measured to determine the amount of potential impairment. The loans are reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans' initial effective interest rates. Impaired loans include other accruing impaired loans of $1.9 million and $4.1 million at September 30, 2018 and December 31, 2017, respectively. Specific reserves on other accruing impaired loans were $0 thousand and $99 thousand at September 30, 2018 and December 31, 2017, respectively.

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The following presents by class of loans, the average recorded investment in impaired loans and an analysis of interest on impaired loans. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Therefore, interest income on accruing impaired loans is recognized using the accrual method.

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	$5,671	$ 31	$ 58	$10,211	$ 52	$ 92
Real estate—commercial real estate	19,878	22	261	18,583	201	69
Real estate—construction	108	—	2	365	—	5
Real estate—residential secured for business purpose	1,844	4	32	3,579	16	34
Real estate—residential secured for personal purpose	1,850	—	26	635	1	8
Real estate—home equity secured for personal purpose	1,507	—	21	288	—	5
Total	$30,858	$ 57	$ 400	$33,661	$ 270	$ 213

* Includes interest income recognized on a cash basis for nonaccrual loans of $5 thousand and $0 thousand for the three months ended September 30, 2018 and 2017, respectively, and interest income recognized on the accrual method for accruing impaired loans of $52 thousand and $270 thousand for the three months ended September 30, 2018 and 2017, respectively.

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	$6,589	$ 103	$ 269	$11,030	$ 162	$ 263
Real estate—commercial real estate	19,935	212	813	21,120	618	223
Real estate—construction	128	—	7	219	—	15
Real estate—residential secured for business purpose	2,018	14	79	4,053	53	139
Real estate—residential secured for personal purpose	1,064	3	70	629	2	31
Real estate—home equity secured for personal purpose	1,026	—	60	391	—	15
Total	$30,760	$ 332	$ 1,298	$37,442	$ 835	$ 686

* Includes interest income recognized on a cash basis for nonaccrual loans of $13 thousand and $4 thousand for the nine months ended September 30, 2018 and 2017, respectively, and interest income recognized on the accrual

method for accruing impaired loans of $319 thousand and $831 thousand for the nine months ended September 30, 2018 and 2017, respectively.

Impaired Leases

The Corporation had impaired leases of $1.3 million at September 30, 2018 and December 31, 2017 with no related reserves. See discussion in Reserve for Loan and Lease Losses and Recorded Investment in Loans and Leases.

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Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and nonaccrual loans that were restructured:

(Dollars in thousands)	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017			
	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Reserve	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Reserve
Accruing Troubled Debt Restructured Loans:								
Total	—	$ —	$ —	$ —	—	$ —	$ —	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Total	—	$ —	$ —	$ —	—	$ —	$ —	$ —

(Dollars in thousands)	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017			
	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								
Real estate—commercial real estate	—	$ —	$ —	$ —	3	$ 9,206	$ 9,206	$ —
Total	—	$ —	$ —	$ —	3	$ 9,206	$ 9,206	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Real estate—commercial real estate	—	$ —	$ —	$ —	1	$ 328	$ 328	$ —
Real estate—residential secured for personal purpose	1	66	66	—	—	—	—	—
Total	1	$ 66	$ 66	$ —	1	$ 328	$ 328	$ —

The Corporation grants concessions to existing borrowers primarily related to extensions of interest-only payment periods and an occasional payment modification. These modifications typically are for up to one year. The goal when restructuring a credit is to establish a reasonable period of time to provide cash flow relief to customers experiencing cash flow difficulties. Accruing troubled debt restructured loans are primarily comprised of loans on which interest is being accrued under the restructured terms, and the loans are current or less than ninety days past due.

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The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the three and nine months ended September 30, 2018 and 2017.

(Dollars in thousands)	Maturity Date Extension No. of Loans	Maturity Date Extension Amount	Amortization Period Extension No. of Loans	Amortization Period Extension Amount	Total Concessions Granted No. of Loans	Total Concessions Granted Amount
Three Months Ended September 30, 2018						
Accruing Troubled Debt Restructured Loans:						
Total	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:						
Total	—	$ —	—	$ —	—	$ —
Three Months Ended September 30, 2017						
Accruing Troubled Debt Restructured Loans:						
Total	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:						
Total	—	$ —	—	$ —	—	$ —
Nine Months Ended September 30, 2018						
Accruing Troubled Debt Restructured Loans:						
Total	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:						
Real estate—residential secured for personal purpose	—	$ —	1	$ 66	1	$ 66
Total	—	$ —	1	$ 66	1	$ 66
Nine Months Ended September 30, 2017						
Accruing Troubled Debt Restructured Loans:						
Real estate—commercial real estate	—	$ —	3	$ 9,206	3	$ 9,206
Total	—	$ —	3	$ 9,206	3	$ 9,206
Nonaccrual Troubled Debt Restructured Loans:						
Real estate—commercial real estate	1	$ 328	—	$ —	1	$ 328
Total	1	$ 328	—	$ —	1	$ 328

The following presents, by class of loans, information regarding accruing and nonaccrual troubled debt restructured loans, for which there were payment defaults within twelve months of the restructuring date:

(Dollars in thousands)	Three Months Ended September 30, 2018 Number of Loans	2018 Recorded Investment	2017 Number of Loans	2017 Recorded Investment	Nine Months Ended September 30, 2018 Number of Loans	2018 Recorded Investment	2017 Number of Loans	2017 Recorded Investment
Accruing Troubled Debt Restructured Loans:								
Total	—	$ —	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	—	$ —	1	$ 953	—	$ —
Total	—	$ —	—	$ —	1	$ 953	—	$ —

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The following presents, by class of loans, information regarding consumer mortgages collateralized by residential real estate property that are in the process of foreclosure at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	At September 30, 2018	At December 31, 2017
Real estate-residential secured for personal purpose	$ —	$ 31
Real estate-home equity secured for personal purpose	812	—
Total	$ 812	$ 31

The following presents foreclosed residential real estate property included in other real estate owned at September 30, 2018 and December 31, 2017.

(Dollars in thousands)	At September 30, 2018	At December 31, 2017
Foreclosed residential real estate	$ 57	$ 80

Note 5. Goodwill and Other Intangible Assets

The Corporation has core deposit and customer-related intangibles and servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The Corporation also has goodwill which is deemed to be an indefinite intangible asset and is not amortized.

Changes in the carrying amount of the Corporation's goodwill by business segment for the nine months ended September 30, 2018 were as follows:

(Dollars in thousands)	Banking	Wealth Management	Insurance	Consolidated
Balance at December 31, 2017	$138,476	$ 15,434	$ 18,649	$ 172,559
Addition to goodwill from acquisitions	—	—	—	—
Balance at September 30, 2018	$138,476	$ 15,434	$ 18,649	$ 172,559

The following table reflects the components of intangible assets at the dates indicated:

(Dollars in thousands)	At September 30, 2018 Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount	At December 31, 2017 Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount
Amortized intangible assets:						
Covenants not to compete	$710	$ 710	$ —	$710	$ 580	$ 130
Core deposit intangibles	6,788	2,903	3,885	6,788	2,135	4,653
Customer related intangibles	12,381	10,576	1,805	12,381	9,828	2,553
Servicing rights	16,949	10,234	6,715	15,855	9,282	6,573
Total amortized intangible assets	$36,828	$ 24,423	$ 12,405	$35,734	$ 21,825	$ 13,909

The estimated aggregate amortization expense for core deposit and customer related intangibles for the remainder of 2018 and the succeeding fiscal years is as follows:

Year	(Dollars in thousands) Amount
Remainder of 2018	$ 468
2019	1,565
2020	1,200
2021	923
2022	666
Thereafter	868

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The Corporation has originated mortgage servicing rights, which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method and an accelerated amortization method for loan payoffs. Mortgage servicing rights are subject to impairment testing on a quarterly basis. The aggregate fair value of these rights was $11.9 million at September 30, 2018 and $10.0 million at December 31, 2017. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at September 30, 2018 and December 31, 2017. The Corporation also records servicing rights on small business administration (SBA) loans. The value of these servicing rights was $32 thousand and $21 thousand at September 30, 2018 and December 31, 2017, respectively. Changes in the servicing rights balance are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Beginning of period	$6,650	$6,548	$6,573	$6,485
Servicing rights capitalized	406	376	1,093	1,106
Amortization of servicing rights	(341)	(368)	(951)	(1,035)
End of period	$6,715	$6,556	$6,715	$6,556
Residential mortgage and SBA loans serviced for others	$1,024,229	$997,169	$1,024,229	$997,169

The estimated amortization expense of servicing rights for the remainder of 2018 and the succeeding fiscal years is as follows:

Year	(Dollars in thousands) Amount
Remainder of 2018	$ 858
2019	770
2020	682
2021	603
2022	533
Thereafter	3,269

Note 6. Deposits

Deposits and their respective weighted average interest rate at September 30, 2018 and December 31, 2017 consist of the following:

	At September 30, 2018		At December 31, 2017	
	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount
	(Dollars in thousands)			
Noninterest-bearing deposits	— %	$1,047,081	— %	$1,040,026
Demand deposits	0.93	1,350,720	0.43	1,109,438
Savings deposits	0.28	750,764	0.26	830,706
Time deposits	1.66	671,483	1.12	574,749
Total	0.67%	$3,820,048	0.38%	$3,554,919

The aggregate amount of time deposits in denominations of $100 thousand or more was $276.6 million at September 30, 2018 and $250.0 million at December 31, 2017. Deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Deposit insurance per account owner is currently up to $250 thousand. The aggregate amount of time deposits in denominations over $250 thousand was $126.7 million at September 30, 2018 and $118.4 million at December 31, 2017.

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At September 30, 2018, the scheduled maturities of time deposits are as follows:

Year (Dollars in thousands)	Amount
Remainder of 2018	$92,465
2019	335,088
2020	114,034
2021	32,865
2022	33,222
Thereafter	63,809
Total	$671,483

Note 7. Borrowings

The following is a summary of borrowings by type. Short-term borrowings consist of overnight borrowings and term borrowings with an original maturity of one year or less. The long-term debt balances and weighted average interest rates include purchase accounting fair value adjustments, net of related amortization, from the Fox Chase acquisition.

	At September 30, 2018		At December 31, 2017	
(Dollars in thousands)	Balance at End of Period	Weighted Average Interest Rate at End of Period	Balance at End of Period	Weighted Average Interest Rate at End of Period
Short-term borrowings:				
FHLB borrowings	$16,980	2.38 %	$30,225	1.54 %
Federal funds purchased	50,000	2.33	55,000	1.56
Customer repurchase agreements	19,785	0.05	20,206	0.05
Long-term debt:				
FHLB advances	$115,000	1.82 %	$125,036	1.73 %
Security repurchase agreements	30,430	2.14	30,792	1.52
Subordinated notes	$94,514	5.34 %	$94,331	5.35 %

The Corporation, through the Bank, has a credit facility with the Federal Home Loan Bank (FHLB) with a maximum borrowing capacity of approximately $1.6 billion. Advances from the FHLB are collateralized by a blanket floating lien on all first mortgage loans of the Bank, FHLB capital stock owned by the Bank and any funds on deposit with the FHLB. At September 30, 2018 and December 31, 2017, the Bank had outstanding short-term letters of credit with the FHLB totaling $382.9 million and $234.2 million, respectively, which were utilized to collateralize public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of the Bank's qualifying collateral assets as well as the FHLB's internal credit rating of the Bank.

The Corporation, through the Bank, maintains uncommitted federal fund credit lines with several correspondent banks totaling $367.0 million at September 30, 2018 and December 31, 2017. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, holds collateral at the Federal Reserve Bank of Philadelphia in order to access the Discount Window Lending program. The collateral consisting of investment securities was valued at $66.2 million and $52.0 million at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, the Corporation had no outstanding borrowings under this program.

The Corporation has a $10.0 million line of credit with a correspondent bank. At September 30, 2018 and December 31, 2017, the Corporation had no outstanding borrowings under this line.

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Long-term advances with the FHLB of Pittsburgh mature as follows:

(Dollars in thousands)	As of September 30, 2018	Weighted Average Rate
Remainder of 2018	$ —	— %
2019	10,000	1.35
2020	40,000	1.70
2021	55,000	1.94
2022	10,000	2.09
Thereafter	—	—
Total	$ 115,000	1.82 %

Long-term debt under security repurchase agreements with large commercial banks mature as follows:

(Dollars in thousands)	As of September 30, 2018	Weighted Average Rate
Remainder of 2018	$ 10,032	1.52 %
2019	10,152	2.45
2020	10,246	2.44
2021	—	—
2022	—	—
Thereafter	—	—
Total	$ 30,430	2.14 %

Long-term debt under security repurchase agreements totaling $25.4 million are variable based on the one-month LIBOR rate plus a spread. One borrowing for $5.0 million has a fixed interest rate and may be called by the lender based on the underlying agreement.

Note 8. Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Employees hired on or after December 8, 2009 are not eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits to certain former executives, a portion of which is in excess of limits imposed on qualified plans by federal tax law; these plans are non-qualified benefit plans. These non-qualified benefit plans are not offered to new participants; all current participants are now retired. Information on these plans are aggregated and reported under “Retirement Plans” within this footnote.

The Corporation also provides certain postretirement healthcare and life insurance benefits for retired employees. Information on these benefits is reported under “Other Postretirement Benefits” within this footnote.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan, which was established in 1981 prior to the existence of a 401(k) deferred salary savings plan, employee stock purchase plan and long-term incentive plans and therefore is not offered to new participants; all current participants are now retired.

Components of net periodic benefit cost (income) were as follows:

	Three Months Ended September 30,			
	2018	2017	2018	2017
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	$140	$124	$ 22	$ 12
Interest cost	440	487	23	29
Expected return on plan assets	(849)	(797)	—	—
Amortization of net actuarial loss	280	309	1	11
Accretion of prior service cost	(70)	(71)	—	—
Net periodic benefit (income) cost	$(59)	$52	$ 46	$ 52

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(Dollars in thousands)	Nine Months Ended September 30,			
	2018	2017	2018	2017
	Retirement Plans		Other Post Retirement Benefits	
Service cost	$420	$399	$ 66	$ 36
Interest cost	1,320	1,439	69	88
Expected return on plan assets	(2,440)	(2,298)	—	—
Amortization of net actuarial loss	841	886	3	32
Accretion of prior service cost	(212)	(212)	—	—
Net periodic benefit (income) cost	$(71)	$214	$ 138	$ 156

The components of net periodic benefit cost other than the service cost component are included in other noninterest expense in the consolidated statements of income.

The Corporation made a contribution of $3.0 million to its qualified retirement plan on July 5, 2018. The Corporation previously disclosed in its financial statements for the year ended December 31, 2017 that it expected to make contributions of $158 thousand to its non-qualified retirement plans and $80 thousand to its other postretirement benefit plans in 2018. During the nine months ended September 30, 2018, the Corporation contributed $120 thousand to its non-qualified retirement plans and $79 thousand to its other postretirement plans. During the nine months ended September 30, 2018, $2.0 million was paid to participants from the retirement plans and $79 thousand was paid to participants from the other postretirement plans.

Note 9. Stock-Based Incentive Plan

The Corporation has a shareholder approved 2013 Long-Term Incentive Plan, which replaced the expired 2003 Long-Term Incentive Plan. Under the 2013 Long-Term Incentive Plan, the Corporation may grant up to 3,698,974 options and restricted stock to employees and non-employee directors, which includes 330,625 shares as a result of the Corporation's common stock issuance in 2017, 857,191 shares as a result of the completion of the acquisition of Fox Chase in 2016 and 473,483 shares as a result of the completion of the acquisition of Valley Green Bank in 2015.

The following is a summary of the Corporation's stock option activity and related information for the nine months ended September 30, 2018:

(Dollars in thousands, except per share data)	Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value at September 30, 2018
Outstanding at December 31, 2017	512,735	$ 21.90		
Granted	192,278	28.50		
Expired	(500)	28.15		
Forfeited	(20,418)	26.14		
Exercised	(59,750)	18.92		
Outstanding at September 30, 2018	624,345	24.08	7.5	$ 2,150
Exercisable at September 30, 2018	259,031	20.41	5.9	1,662

The following is a summary of nonvested stock options at September 30, 2018 including changes during the nine months then ended:

(Dollars in thousands, except per share data)	Nonvested Stock Options	Weighted Average Grant Date Fair Value

Nonvested stock options at December 31, 2017	352,142	$ 6.47
Granted	192,278	6.46
Vested	(158,688)	6.43
Forfeited	(20,418)	6.49
Nonvested stock options at September 30, 2018	365,314	6.48

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The following aggregated assumptions were used to estimate the fair value of options granted during the nine months ended September 30, 2018 and 2017:

	Nine months ended September 30, 2018 Actual	2017
Expected option life in years	6.6	6.9
Risk free interest rate	2.80 %	2.30 %
Expected dividend yield	2.81 %	2.84 %
Expected volatility	27.15%	29.75%
Fair value of options	$6.46	$6.72

The following is a summary of nonvested restricted stock awards at September 30, 2018 including changes during the nine months then ended:

(Dollars in thousands, except per share data)	Nonvested Share Awards	Weighted Average Grant Date Fair Value
Nonvested share awards at December 31, 2017	229,026	$ 21.93
Granted	59,953	28.39
Vested	(94,867)	19.94
Forfeited	(25,780)	21.63
Nonvested share awards at September 30, 2018	168,332	25.41

The fair value of restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period. Certain information regarding restricted stock is summarized below for the periods indicated:

(Dollars in thousands, except per share data)	Nine months ended September 30, 2018	2017
Shares granted	59,953	61,823
Weighted average grant date fair value	$28.39	$28.08
Intrinsic value of awards vested	$2,648	$2,914

The total unrecognized compensation expense and the weighted average period over which unrecognized compensation expense is expected to be recognized related to nonvested stock options and nonvested restricted stock awards at September 30, 2018 is presented below:

(Dollars in thousands)	Unrecognized Compensation Cost	Weighted-Average Period Remaining (Years)
Stock options	$ 1,592	1.9
Restricted stock awards	2,107	1.8
	$ 3,699	1.9

The following table presents information related to the Corporation’s compensation expense related to stock incentive plans recognized for the periods indicated:

(Dollars in thousands)	Nine months ended September 30, 2018	2017
Stock-based compensation expense:		

Stock options	$797	$678
Restricted stock awards	1,582	1,872
Employee stock purchase plan	51	47
Total	$2,430	$2,597
Tax benefit on nonqualified stock option expense, restricted stock awards and disqualifying dispositions of incentive stock options	$624	$1,263

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Note 10. Accumulated Other Comprehensive (Loss) Income

The following table shows the components of accumulated other comprehensive (loss) income, net of taxes, for the periods presented:

(Dollars in thousands)	Net Unrealized (Losses) Gains on Available-for-Sale Investment Securities	Net Change Related to Derivatives Used for Cash Flow Hedges	Net Change Related to Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2017	$ (4,061)	$ 9	$ (13,719)	$ (17,771)
Adjustment to initially apply ASU No. 2016-01 for equity securities measured at fair value (1)	(433)	—	—	(433)
Adjustment to initially apply ASU No. 2018-02 for reclassification of stranded net tax charges (1)	(968)	2	(2,955)	(3,921)
Other comprehensive (loss) income	(7,411)	373	499	(6,539)
Balance, September 30, 2018	$ (12,873)	$ 384	$ (16,175)	$ (28,664)
Balance, December 31, 2016	$ (4,988)	$ (141)	$ (14,325)	$ (19,454)
Net Change	2,624	28	459	3,111
Balance, September 30, 2017	$ (2,364)	$ (113)	$ (13,866)	$ (16,343)

(1) See Note 1, "Summary of Significant Accounting Policies - Accounting Pronouncements Adopted in 2018" for additional information.

Note 11. Derivative Instruments and Hedging Activities

Interest Rate Swaps

The Corporation may use interest rate swap agreements to modify interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The Corporation’s credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in accumulated other comprehensive income until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in earnings. For a qualifying fair value hedge, the gain or loss on the hedging instrument is recognized in earnings, and the change in fair value of the hedge item, to the extent attributable to the hedged risk, adjusts the carrying amount of the hedge item and is recognized in earnings.

In 2014, the Corporation entered into an amortizing interest rate swap classified as a cash flow hedge with a notional amount of $20.0 million to hedge a portion of the debt financing of a pool of 10-year maturity fixed rate loans with balances totaling $29.1 million, at time of the hedge, that were originated in 2013. A brokered money market demand account with a balance exceeding the amortizing interest rate swap balance is being used for the cash flow hedge. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.10% and receives a floating rate of one-month LIBOR. The swap matures in November 2022. The Corporation performed an assessment of the hedge for effectiveness at the inception of the hedge and on a recurring basis to determine that the derivative has been and is expected to continue to be highly effective in offsetting changes in cash flows of the hedged item. At September 30, 2018, approximately $95 thousand in net deferred gains, net of tax, recorded in accumulated other comprehensive loss are expected to be reclassified into earnings during the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2018. At September 30, 2018, the notional amount of the interest rate swap was $17.3 million, with a positive fair value of $485 thousand.

The Corporation has an interest rate swap classified as a fair value hedge with a current notional amount of $1.4 million to hedge a 10-year fixed rate loan that is earning interest at 5.83%. The Corporation pays a fixed rate of 5.83% and receives a floating rate based on the one-month LIBOR plus 350 basis points. The swap matures in October 2021. The difference between changes in the fair values of the interest rate swap agreement and the hedged loan represents hedge ineffectiveness and is recorded in other noninterest income in the consolidated statements of operations.
The Corporation has an interest rate swap with a current notional amount of $445 thousand, for a 15-year fixed rate loan that is earning interest at 7.43%. The Corporation pays a fixed rate of 7.43% and receives a floating rate based on the one-month LIBOR plus 224 basis points. The swap matures in April 2022. The interest rate swap is carried at fair value in accordance with

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FASB ASC 815 "Derivatives and Hedging." The loan is carried at fair value under the fair value option as permitted by FASB ASC 825 "Financial Instruments."

Credit Derivatives

The Corporation has agreements with third-party financial institutions whereby the third-party financial institution enters into interest rate derivative contracts with loan customers referred to them by the Corporation. By the terms of the agreements, the third-party financial institution has recourse to the Corporation for any exposure created under each swap contract in the event the customer defaults on the swap agreement and the agreement is in a paying position to the third-party financial institution. These transactions represent credit derivatives and are a customary arrangement that allows the Corporation to provide access to interest rate transactions for customers without creating the swap. The Corporation records the fair value of credit derivatives in other liabilities on the consolidated balance sheets. The Corporation recognizes changes in the fair value of credit derivatives, net of any fees received, in other noninterest income in the consolidated statements of income.

At September 30, 2018, the Corporation has sixteen variable-rate to fixed-rate interest rate swap transactions between the third-party financial institution and customers with a current notional amount of $84.7 million and remaining maturities ranging from one to 10 years. At September 30, 2018, the fair value of the swaps to the customers was a liability of $24 thousand and all swaps were in paying positions to the third-party financial institution.

The maximum potential payments by the Corporation to the third-party financial institution under these credit derivatives are not estimable as they are contingent on future interest rates and the agreement does not provide for a limitation of the maximum potential payment amount.

Mortgage Banking Derivatives

Derivative loan commitments represent agreements for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. The Corporation's derivative loan commitments are commitments to sell loans secured by 1-to 4-family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

Derivatives Tables

The following table presents the notional amounts and fair values of derivatives designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2018 and December 31, 2017. The Corporation pledges cash or securities to cover the negative fair value of derivative instruments. Cash collateral associated with derivative instruments are not added to or netted against the fair value amounts.

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At September 30, 2018					
Interest rate swap - cash flow hedge	$ 17,269	Other assets	$ 485		$ —
Interest rate swap - fair value hedge	1,357	Other assets	20		—
Total	$ 18,626		$ 505		$ —
At December 31, 2017					
Interest rate swap - cash flow hedge	$ 17,836	Other assets	$ 13		$ —
Interest rate swap - fair value hedge	1,388		—	Other liabilities	12
Total	$ 19,224		$ 13		$ 12

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The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	Notional Amount	Derivative Assets Balance Sheet Classification	Derivative Assets Fair Value	Derivative Liabilities Balance Sheet Classification	Derivative Liabilities Fair Value
At September 30, 2018					
Interest rate swap	$445		$—	Other liabilities	$ 20
Credit derivatives	84,709		—	Other liabilities	24
Interest rate locks with customers	23,529	Other assets	305		—
Forward loan sale commitments	23,884	Other assets	53		—
Total	$132,567		$358		$ 44
At December 31, 2017					
Interest rate swap	$523		$—	Other liabilities	$ 38
Credit derivatives	75,622		—	Other liabilities	36
Interest rate locks with customers	27,411	Other assets	527		—
Forward loan sale commitments	29,037	Other assets	61		—
Total	$132,593		$588		$ 74

The following table presents amounts included in the consolidated statements of income for derivatives designated as hedging instruments for the periods indicated:

	Statement of Income Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)		2018	2017	2018	2017
Interest rate swap—cash flow hedge—net interest payments	Interest expense	$1	$41	$27	$148
Interest rate swap—fair value hedge—ineffectiveness	Other noninterest income	1	—	3	5
Net loss		$—	$(41)	$(24)	$(143)

The following table presents amounts included in the consolidated statements of income for derivatives not designated as hedging instruments for the periods indicated:

	Statement of Income Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)		2018	2017	2018	2017
Credit derivatives	Other noninterest income	$48	$25	$87	$149
Interest rate locks with customers	Net (loss) gain on mortgage banking activities	(328)	(129)	(223)	433
Forward loan sale commitments	Net gain (loss) on mortgage banking activities	144	(166)	(8)	(258)
Total		$(136)	$(270)	$(144)	$324

The following table presents amounts included in accumulated other comprehensive (loss) income for derivatives designated as hedging instruments at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	Accumulated Other Comprehensive (Loss) Income	At September 30, 2018	At December 31, 2017
Interest rate swap—cash flow hedge	Fair value, net of taxes	$ 383	$ 9
Total		$ 383	$ 9

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Note 12. Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Corporation determines the fair value of financial instruments based on the fair value hierarchy. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation’s assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances, including assumptions about risk. Three levels of inputs are used to measure fair value. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. Transfers between levels are recognized at the end of the reporting period.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation can access at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities utilizing Level 3 inputs include: financial instruments whose value is determined using pricing models, discounted cash-flow methodologies, or similar techniques, as well as instruments for which the fair value calculation requires significant management judgment or estimation.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include U.S. Treasury securities, most equity securities and money market mutual funds. Mutual funds are registered investment companies which are valued at net asset value of shares on a market exchange at the end of each trading day. Level 2 of the valuation hierarchy includes securities issued by U.S. Government sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, corporate and municipal bonds and certain equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy.

Fair values for securities are determined using independent pricing services and market-participating brokers. The Corporation’s independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the pricing service’s evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. If at any time, the pricing service determines that it does not have sufficient verifiable information to value a particular security, the Corporation will utilize valuations from another pricing service. Management has a sufficient understanding of the third party service’s valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control.

Certain corporate bonds owned by the Corporation are classified as Level 3 as they are not traded in active markets. The fair value of each bond is estimated by benchmarking similar transactions of structure, yield and credit which are owned by the Corporation and are actively traded in the market.

On a quarterly basis, the Corporation reviews changes, as submitted by the pricing service, in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. If, upon the Corporation’s review or in comparing with another service, a material difference between pricing evaluations were to exist, the Corporation may submit an inquiry to the current pricing service regarding the data used to determine the valuation of a particular security. If the Corporation determines there is market information that would support a different valuation than from the current pricing service's evaluation, the Corporation may utilize and change the security's valuation. There were no material differences in valuations noted at September 30, 2018.

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Derivative Financial Instruments

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Interest rate swaps and mortgage banking derivative financial instruments are classified within Level 2 of the valuation hierarchy. Credit derivatives are valued based on credit worthiness of the underlying borrower which is a significant unobservable input and therefore classified in Level 3 of the valuation hierarchy.

Two commercial loans associated with interest rate swaps are classified in Level 3 of the valuation hierarchy since lending credit risk is not an observable input for these loans. The unrealized gain on the two loans was $6 thousand at September 30, 2018.

Contingent Consideration Liability

The Corporation estimates the fair value of the contingent consideration liability by using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The estimated fair value of the contingent consideration liability is reviewed on a quarterly basis and any valuation adjustments resulting from a change of estimated future contingent payments based on projected revenue of the acquired business affecting the contingent consideration liability will be recorded through noninterest expense. Due to the significant unobservable input related to the projected revenue, the contingent consideration liability is classified within Level 3 of the valuation hierarchy. An increase in the projected revenue may result in a higher fair value of the contingent consideration liability. Alternatively, a decrease in the projected revenue may result in a lower estimated fair value of the contingent consideration liability.

The following table presents the assets and liabilities measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017, classified using the fair value hierarchy:

	At September 30, 2018			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$—	$15,316	$—	$ 15,316
State and political subdivisions	—	67,892	—	67,892
Residential mortgage-backed securities	—	156,414	—	156,414
Collateralized mortgage obligations	—	2,981	—	2,981
Corporate bonds	—	67,923	26,407	94,330
Total available-for-sale securities	—	310,526	26,407	336,933
Equity securities:				
Equity securities - financial services industry	1,103	—	—	1,103
Money market mutual funds	1,161	—	—	1,161
Total equity securities	2,264	—	—	2,264
Loans*	—	—	1,801	1,801
Interest rate swaps*	—	505	—	505
Interest rate locks with customers*	—	305	—	305
Forward loan sale commitments*	—	53	—	53
Total assets	$2,264	$311,389	$28,208	$ 341,861
Liabilities:				
Contingent consideration liability	$—	$—	$310	$ 310
Interest rate swaps*	—	20	—	20
Credit derivatives*	—	—	24	24
Total liabilities	$—	$20	$334	$ 354

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(Dollars in thousands)	At December 31, 2017 Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$—	$16,961	$—	$ 16,961
State and political subdivisions	—	78,297	—	78,297
Residential mortgage-backed securities	—	185,421	—	185,421
Collateralized mortgage obligations	—	3,602	—	3,602
Corporate bonds	—	79,190	27,986	107,176
Total available-for-sale securities	—	363,471	27,986	391,457
Equity securities:				
Equity securities - financial services industry	1,076	—	—	1,076
Money market mutual funds	5,985	—	—	5,985
Total equity securities	7,061	—	—	7,061
Loans*	—	—	1,958	1,958
Interest rate swap*	—	13	—	13
Interest rate locks with customers*	—	527	—	527
Forward loan sale commitments*	—	61	—	61
Total assets	$7,061	$364,072	$29,944	$ 401,077
Liabilities:				
Contingent consideration liability	$—	$—	$339	$ 339
Interest rate swaps*	—	50	—	50
Credit derivatives*	—	—	36	36
Total liabilities	$—	$50	$375	$ 425

* Such financial instruments are recorded at fair value as further described in Note 11, "Derivative Instruments and Hedging Activities."

The following table includes a rollforward of corporate bonds, loans and credit derivatives for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Nine Months Ended September 30, 2018 Balance at December 31, 2017	Purchases/additions	Sales	Payments received	Premium amortization, net	(Decrease) increase in value	Balance at September 30, 2018
Corporate bonds	$27,986	$ —	$ —	$ —	$ —	$ (1,579)	$ 26,407
Loans	1,958	—	—	(110)	—	(47)	1,801
Credit derivatives	(36)	(75)	—	—	—	87	(24)
Net total	$29,908	$ (75)	$ —	$ (110)	$ —	$ (1,539)	$ 28,184

(Dollars in thousands)	Nine Months Ended September 30, 2017 Balance at December 31, 2016	Purchases/additions	Sales	Payments received	Premium amortization, net	(Decrease) increase in value	Balance at September 30, 2017
Corporate bonds	$28,778	$ —	$ —	$ —	$ —	$ (233)	$ 28,545
Loans	2,138	—	—	(102)	—	(22)	2,014
Credit derivatives	(9)	(272)	—	—	—	149	(132)
Net total	$30,907	$ (272)	$ —	$ (102)	$ —	$ (106)	$ 30,427

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The following table presents the change in the balance of the contingent consideration liability related to acquisitions for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Nine Months Ended September 30, 2018				
	Balance at December 31, 2017	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at September 30, 2018
Girard Partners	339	—	67	38	310
Total contingent consideration liability	$339	$ —	$ 67	$ 38	$ 310

(Dollars in thousands)	Nine Months Ended September 30, 2017				
	Balance at December 31, 2016	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at September 30, 2017
Sterner Insurance Associates	$331	$ —	$ 30	$ (301)	$ —
Girard Partners	5,668	—	5,350	41	359
Total contingent consideration liability	$5,999	$ —	$ 5,380	$ (260)	$ 359

The Corporation may be required to periodically measure certain assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or impairment charges of individual assets. The following table represents assets measured at fair value on a non-recurring basis at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	At September 30, 2018			
	Level 1	Level 2	Level 3	Assets at Fair Value
Impaired loans held for investment	$—	$ —	$27,674	$27,674
Impaired leases held for investment	—	—	1,250	1,250
Other real estate owned	—	—	1,433	1,433
Total	$—	$ —	$30,357	$30,357

(Dollars in thousands)	At December 31, 2017			
	Level 1	Level 2	Level 3	Assets at Fair Value
Impaired loans held for investment	$—	$ —	$28,351	$28,351
Impaired leases held for investment	—	—	1,250	1,250
Other real estate owned	—	—	1,843	1,843
Total	$—	$ —	$31,444	$31,444

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The following table presents assets and liabilities and off-balance sheet items not measured at fair value on a recurring or non-recurring basis in the Corporation's consolidated balance sheets but for which the fair value is required to be disclosed at September 30, 2018 and December 31, 2017. The disclosed fair values are classified using the fair value hierarchy.

	At September 30, 2018				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$84,110	$—	$—	$84,110	$84,110
Held-to-maturity securities	—	105,642	—	105,642	108,142
Federal Home Loan Bank, Federal Reserve Bank and other stock	NA	NA	NA	NA	33,071
Loans held for sale	—	114	—	114	106
Net loans and leases held for investment	—	—	3,794,987	3,794,987	3,808,073
Servicing rights	—	—	11,935	11,935	6,715
Total assets	$84,110	$105,756	$3,806,922	$3,996,788	$4,040,217
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$3,148,565	$—	$—	$3,148,565	$3,148,565
Time deposits	—	661,806	—	661,806	671,483
Total deposits	3,148,565	661,806	—	3,810,371	3,820,048
Short-term borrowings	—	86,765	—	86,765	86,765
Long-term debt	—	142,862	—	142,862	145,430
Subordinated notes	—	96,063	—	96,063	94,514
Total liabilities	$3,148,565	$987,496	$—	$4,136,061	$4,146,757
Off-Balance-Sheet:					
Commitments to extend credit	$—	$(2,508)	$—	$(2,508)	$—

	At December 31, 2017				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$75,409	$—	$—	$75,409	$75,409
Held-to-maturity securities	—	55,320	—	55,320	55,564
Federal Home Loan Bank, Federal Reserve Bank and other stock	NA	NA	NA	NA	27,204
Loans held for sale	—	1,676	—	1,676	1,642
Net loans and leases held for investment	—	—	3,547,451	3,547,451	3,566,953
Servicing rights	—	—	10,046	10,046	6,573
Total assets	$75,409	$56,996	$3,557,497	$3,689,902	$3,733,345
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$2,980,170	$—	$—	$2,980,170	$2,980,170
Time deposits	—	574,737	—	574,737	574,749
Total deposits	2,980,170	574,737	—	3,554,907	3,554,919
Short-term borrowings	—	105,431	—	105,431	105,431
Long-term debt	—	156,834	—	156,834	155,828
Subordinated notes	—	98,075	—	98,075	94,331
Total liabilities	$2,980,170	$935,077	$—	$3,915,247	$3,910,509
Off-Balance-Sheet:					

Commitments to extend credit	$—	$(2,414	) $—	$(2,414	) $—

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The following valuation methods and assumptions were used by the Corporation in estimating the fair value for financial instruments measured at fair value on a non-recurring basis and financial instruments not measured at fair value on a recurring or non-recurring basis in the Corporation's consolidated balance sheets but for which the fair value is required to be disclosed:

Cash and short-term interest-earning assets: The carrying amounts reported in the balance sheet for cash and due from banks, interest-earning deposits with other banks, federal funds sold and other short-term investments is their stated value. Cash and short-term interest-earning assets are classified within Level 1 in the fair value hierarchy.

Held-to-maturity securities: Fair values for the held-to-maturity investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics and are classified in Level 2 in the fair value hierarchy.

Federal Home Loan Bank, Federal Reserve Bank and other stock: It is not practical to determine the fair values of Federal Home Loan Bank, Federal Reserve Bank and other stock, due to restrictions placed on their transferability.

Loans held for sale: The fair value of the Corporation's mortgage loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. These loans are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. There were no valuation adjustments for loans held for sale at September 30, 2018 and December 31, 2017.

Loans and leases held for investment: As of September 30, 2018, the fair values for loans and leases held for investment are estimated using discounted cash flow analyses, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers, adjusted as appropriate to consider credit, liquidity and marketability factors to arrive at a fair value that represents the Corporation's exit price at which these instruments would be sold or transferred. As of December 31, 2017, the fair values for loans and leases held for investment were estimated using discounted cash flow analyses, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers and include components for credit risk, operating expense and embedded prepayment options. An overall valuation adjustment was made for specific credit risks in addition to general portfolio risk and is significant to the valuation. Loans and leases are classified within Level 3 in the fair value hierarchy.

Impaired loans and leases held for investment: For impaired loans and leases, the Corporation uses a variety of techniques to measure fair value, such as using the current appraised value of the collateral, agreements of sale, discounting the contractual cash flows, and analyzing market data that the Corporation may adjust due to specific characteristics of the loan/lease or collateral. At September 30, 2018, impaired loans held for investment had a carrying amount of $28.7 million with a valuation allowance of $1.0 million. At December 31, 2017, impaired loans held for investment had a carrying amount of $28.5 million with a valuation allowance of $131 thousand. The Corporation had impaired leases of $1.3 million with no reserve at September 30, 2018 and December 31, 2017.

Servicing rights: The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 3 in the fair value hierarchy based upon management's assessment of the inputs. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. The Corporation also records servicing rights on SBA loans. At September 30, 2018 and December 31, 2017, servicing rights had a carrying amount of $6.7 million and $6.6 million, respectively, with no valuation allowance.

Goodwill and other identifiable assets: Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other identifiable intangible assets. During the nine months ended September 30, 2018, there were no triggering events that required valuation of goodwill and other identifiable intangible assets.

Other real estate owned: The fair value of other real estate owned (OREO) is originally estimated based upon the appraised value less estimated costs to sell. The fair value less cost to sell becomes the "original cost" of the OREO asset. Subsequently, OREO is reported at the lower of the original cost or the current fair value less cost to sell. Capital improvement expenses associated with the construction or repair of the property are capitalized as part of the cost of the OREO asset; however, the capitalized expenses may not increase the OREO asset's recorded value to an amount greater than the asset's fair value after improvements and less cost to sell. New appraisals are generally obtained on an annual basis if an agreement of sale does not exist. During the nine months ended September 30, 2018, two properties had write-downs totaling $503 thousand, four properties were transferred into OREO with a fair value of $477 thousand and three properties were sold with total proceeds of $362 thousand. At September 30,

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2018 and December 31, 2017, OREO had a carrying amount of $1.4 million and $1.8 million, respectively. Other real estate owned is classified within Level 3 of the valuation hierarchy due to the unique characteristics of the collateral for each loan.

Deposit liabilities: The fair values for demand and savings accounts, with no stated maturities, is the amount payable on demand at the reporting date (carrying value) and are classified within Level 1 in the fair value hierarchy. The fair values for time deposits with fixed maturities are estimated by discounting the final maturity using interest rates currently offered for deposits with similar remaining maturities. Time deposits are classified within Level 2 in the fair value hierarchy.

Short-term borrowings: The fair value of short-term borrowings are estimated using current market rates for similar borrowings and are classified within Level 2 in the fair value hierarchy.

Long-term debt: The fair value of long-term debt is estimated by using discounted cash flow analysis, based on current market rates for debt with similar terms and remaining maturities. Long-term debt is classified within Level 2 in the fair value hierarchy.

Subordinated notes: The fair value of the subordinated notes are estimated by discounting the principal balance using the treasury yield curve for the term to the call date as the Corporation has the option to call the subordinated notes. The subordinated notes are classified within Level 2 in the fair value hierarchy.

Off-balance-sheet instruments: Fair values for the Corporation’s off-balance-sheet instruments are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing and are classified within Level 2 in the fair value hierarchy.

Note 13. Segment Reporting

At September 30, 2018, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines the segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. The parent holding company and intercompany eliminations are included in the "Other" segment.

The Corporation's Banking segment consists of commercial, consumer and mortgage banking as well as lease financing. The Wealth Management segment consists of investment advisory services, retirement plan services, trust, municipal pension services and broker/dealer services. The Insurance segment consists of commercial lines, personal lines, benefits and human resources consulting.

Each segment generates revenue from a variety of products and services it provides. Examples of products and services provided for each reportable segment are indicated below.

The Banking segment provides financial services to consumer and commercial customers and governmental units. These services include a full range of banking services such as deposit taking, loan origination and servicing, mortgage banking, other general banking services and equipment lease financing.

The Wealth Management segment offers trust and investment advisory services, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisory managing private investment accounts for both individuals and institutions.

The Insurance segment includes a full-service insurance brokerage agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions, personal insurance lines and human resources consulting.

The following table provides total assets by reportable business segment as of the dates indicated.

(Dollars in thousands)	At September 30, 2018	At December 31, 2017	At September 30, 2017
Banking	$4,711,093	$4,466,301	$4,327,920
Wealth Management	38,042	34,600	34,903
Insurance	29,299	27,846	25,139
Other	23,564	26,115	29,401
Consolidated assets	$4,801,998	$4,554,862	$4,417,363

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The following tables provide reportable segment-specific information and reconciliations to consolidated financial information for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30, 2018				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$49,238	$ 9	$ —	$8	$ 49,255
Interest expense	7,571	—	—	1,261	8,832
Net interest income	41,667	9	—	(1,253)	40,423
Provision for loan and lease losses	2,745	—	—	—	2,745
Noninterest income	5,070	5,795	3,845	151	14,861
Intangible expenses	240	136	103	—	479
Other noninterest expense	26,542	3,547	3,087	716	33,892
Intersegment (revenue) expense*	(512)	377	135	—	—
Income (expense) before income taxes	17,722	1,744	520	(1,818)	18,168
Income tax (benefit) expense	3,171	493	156	(616)	3,204
Net income (loss)	$14,551	$ 1,251	$ 364	$(1,202)	$ 14,964
Capital expenditures	$570	$ 73	$ 16	$86	$ 745

	Three Months Ended September 30, 2017				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$42,161	$ 4	$ —	$7	$ 42,172
Interest expense	4,031	—	—	1,254	5,285
Net interest income	38,130	4	—	(1,247)	36,887
Provision for loan and lease losses	2,689	—	—	—	2,689
Noninterest income	4,993	5,428	3,620	68	14,109
Intangible expenses	357	168	165	—	690
Other noninterest expense	25,733	3,472	2,803	(3)	32,005
Intersegment (revenue) expense*	(264)	146	118	—	—
Income (expense) before income taxes	14,608	1,646	534	(1,176)	15,612
Income tax expense (benefit)	4,033	648	224	(489)	4,416
Net income (loss)	$10,575	$ 998	$ 310	$(687)	$ 11,196
Capital expenditures	$582	$ 5	$ 3	$178	$ 768

	Nine Months Ended September 30, 2018				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$139,204	$ 22	$ —	$23	$ 139,249
Interest expense	18,781	—	—	3,783	22,564
Net interest income	120,423	22	—	(3,760)	116,685
Provision for loan and lease losses	20,207	—	—	—	20,207
Noninterest income	15,320	17,397	12,835	205	45,757
Intangible expenses	898	415	372	—	1,685
Restructuring charges	571	—	—	—	571
Other noninterest expense	80,790	10,969	9,425	403	101,587
Intersegment (revenue) expense*	(1,098)	686	412	—	—
Income (expense) before income taxes	34,375	5,349	2,626	(3,958)	38,392
Income tax expense (benefit)	5,006	1,636	775	(1,196)	6,221

Net income (loss)	$29,369	$ 3,713	$ 1,851	$(2,762)	$ 32,171
Capital expenditures	$2,360	$ 162	$ 25	$151	$ 2,698

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(Dollars in thousands)	Nine Months Ended September 30, 2017 Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$120,575	$ 6	$ —	$17	$ 120,598
Interest expense	10,352	—	—	3,776	14,128
Net interest income	110,223	6	—	(3,759)	106,470
Provision for loan and lease losses	7,900	—	—	—	7,900
Noninterest income	16,945	15,965	11,913	265	45,088
Intangible expenses	1,151	506	238	—	1,895
Other noninterest expense	74,949	10,404	8,718	1,307	95,378
Intersegment (revenue) expense*	(792)	438	354	—	—
Income (expense) before income taxes	43,960	4,623	2,603	(4,801)	46,385
Income tax expense (benefit)	11,754	1,812	1,095	(2,106)	12,555
Net income (loss)	$32,206	$ 2,811	$ 1,508	$(2,695)	$ 33,830
Capital expenditures	$6,921	$ 27	$ 202	$262	$ 7,412

*Includes an allocation of general and administrative expenses from both the parent holding company and the Bank. These expenses are generally allocated based upon number of employees and square footage utilized.

Note 14. Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequent related updates. The Corporation adopted the guidance effective January 1, 2018 using the modified retrospective method though no adjustments were made to retained earnings as a result of the adoption. The Corporation's revenue is the sum of net interest income and noninterest income. Revenues are recognized when obligations under the terms of contracts with customers are satisfied, including the transfer of control of the promised goods or services to customers, in an amount that reflects the consideration the Corporation expects to be entitled to in exchange for those goods or services. The Corporation provides services to customers which have related performance obligations that are completed to recognize revenue. The Corporation's revenues are generally recognized either immediately upon the completion of the services or over time as the services are performed. Any services performed over time generally require services to be rendered each period and therefore progress in completing these services is measured based upon the passage of time.

The following tables disaggregate the Corporation's revenue by major source for the three and nine months ended September 30, 2018 and 2017.

(Dollars in thousands)	Three Months Ended September 30, 2018 Banking	Wealth Management	Insurance	Other	Consolidated
Net interest income (1)	$41,667	$ 9	$ —	$(1,253)	$ 40,423
Noninterest income:					
Trust fee income	—	1,960	—	—	1,960
Service charges on deposit accounts	1,454	—	—	—	1,454
Investment advisory commission and fee income	—	3,785	—	—	3,785
Insurance commission and fee income	—	—	3,643	—	3,643
Other service fee income (2)	2,032	50	202	—	2,284
Bank owned life insurance income (1)	708	—	—	157	865
Net gain on mortgage banking activities (1)	754	—	—	—	754

Other (loss) income (2)	122	—	—	(6)	116
Total noninterest income	$5,070	$ 5,795	$ 3,845	$151	$ 14,861

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(Dollars in thousands)	Three Months Ended September 30, 2017 Banking	Wealth Management	Insurance	Other	Consolidated
Net interest income (1)	$38,130	$ 4	$ —	$(1,247)	$ 36,887
Noninterest income:					
Trust fee income	—	1,924	—	—	1,924
Service charges on deposit accounts	1,371	—	—	—	1,371
Investment advisory commission and fee income	—	3,455	—	—	3,455
Insurance commission and fee income	—	—	3,492	—	3,492
Other service fee income (2)	1,947	49	127	—	2,123
Bank owned life insurance income (1)	675	—	—	67	742
Net gain on sales of investment securities (1)	6	—	—	1	7
Net gain on mortgage banking activities (1)	908	—	—	—	908
Other income (2)	86	—	1	—	87
Total noninterest income	$4,993	$ 5,428	$ 3,620	$68	$ 14,109

(Dollars in thousands)	Nine Months Ended September 30, 2018 Banking	Wealth Management	Insurance	Other	Consolidated
Net interest income (1)	$120,423	$ 22	$—	$(3,760)	$ 116,685
Noninterest income:					
Trust fee income	—	6,000	—	—	6,000
Service charges on deposit accounts	4,116	—	—	—	4,116
Investment advisory commission and fee income	—	11,246	—	—	11,246
Insurance commission and fee income	—	—	12,243	—	12,243
Other service fee income (2)	6,139	151	594	—	6,884
Bank owned life insurance income (1)	2,567	—	—	177	2,744
Net gain on sales of investment securities (1)	10	—	—	—	10
Net gain on mortgage banking activities (1)	2,412	—	—	—	2,412
Other (loss) income (2)	76	—	(2)	28	102
Total noninterest income	$15,320	$ 17,397	$12,835	$205	$ 45,757

(Dollars in thousands)	Nine Months Ended September 30, 2017 Banking	Wealth Management	Insurance	Other	Consolidated
Net interest income (1)	$110,223	$ 6	$—	$(3,759)	$ 106,470
Noninterest income:					
Trust fee income	—	5,847	—	—	5,847
Service charges on deposit accounts	3,927	—	—	—	3,927
Investment advisory commission and fee income	—	9,969	—	—	9,969
Insurance commission and fee income	—	—	11,530	—	11,530
Other service fee income (2)	5,825	149	381	—	6,355
Bank owned life insurance income (1)	2,886	—	—	261	3,147
Net gain on sales of investment securities (1)	39	—	—	4	43
Net gain on mortgage banking activities (1)	3,558	—	—	—	3,558

Other income (2)	710	—	2	—	712
Total noninterest income	$16,945	$ 15,965	$ 11,913	$265	$ 45,088

(1) Net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives are excluded from the scope of the standard. Noninterest income streams that are out-of-scope of the standard include bank owned life insurance income, sales of investment securities and mortgage banking activities.

(2) Other service fee income and other income include certain items that are in scope and certain items that are out of scope of the standard and are described further in the following paragraphs.

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Banking Segment

The Banking segment provides financial services to consumer and commercial customers and governmental units. These services include a full range of banking services such as deposit taking, loan origination and servicing, mortgage banking, other general banking services and equipment lease financing.

Service charges on deposit accounts are generally earned on depository accounts for commercial and consumer customers and primarily includes fees for account services, overdraft services, and cash management services for commercial customers. Account services include fees for event-driven services such as ATM transactions and fees for periodic account maintenance activities. Cash management services for commercial customers include fees for event-driven services such as lockbox processing and line sweep services and fees for periodic account maintenance activities. The Corporation's obligation for event-driven services is satisfied at the time of the event when the service is delivered, while the obligation for periodic services is satisfied over the course of each month. Obligations for overdraft services is satisfied at the time of the overdraft.

Other service fee income is earned from commercial and consumer customers and primarily includes credit and debit card interchange and merchant revenues, mortgage servicing income, which is out of scope of the standard, and other deposit related service fee income such as wire transfers, check services and safe deposit boxes. Interchange and merchant revenues are recognized concurrently with the delivery of services on a monthly basis. Other deposit related service fee income include fees for event-driven services, such as wire transfers and check services, and fees for periodic services such as safe deposit box services. The obligation for event-driven services is satisfied at the time of the event when the service is delivered, while the obligation for periodic services is satisfied over the course of each month.

Other income primarily includes net gains or losses from the sales of loans and leases, net gains or losses from the sales or disposition of fixed assets and net gains or losses on interest rate swaps, all of which are out of scope of the standard, and net gains or losses on sales and write-downs of other real estate owned. Net gains or losses on sales of other real estate owned are recognized at the point in time in which control of the other real estate owned is transferred.

Wealth Management Segment

The wealth management segment offers trust and investment advisory services, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisory managing private investment accounts for both individuals and institutions.

Trust fee income is earned for providing trust, investment management and other related services. Obligations for trust and other related services are generally satisfied over time but may be satisfied at points in time for certain activities that are transactional in nature and obligations for investment management services are generally performed over time. Fees for trust fee income are typically based on a tiered scale relative to the market value of assets under management and are recognized in conjunction with the delivery of services.
Investment advisory commission and fee income include fees for financial planning, guardian and custodian of employee benefits, investment advisory, and brokerage services. Obligations for financial planning, guardian and custodian of employee benefits, and investment advisory services are generally satisfied over time and fees, typically based on a tiered scale relative to the market value of assets under management are recognized in conjunction with the delivery of services. Brokerage services are typically event driven and are based on the size and number of transactions executed at the client’s direction and recognized on the trade date.

Insurance Segment

The insurance segment includes a full-service insurance brokerage agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions, personal insurance lines and human resources consulting.

Insurance commission and fee income is derived primarily from commissions from the sale of insurance policies, which are generally calculated as a percentage of the policy premium, and contingent income, which is calculated based on the performance of the policies held by each carrier. Obligations for the sale of insurance policies are generally satisfied at the point in time which the policy is executed and are recognized at the point in time in which the amounts are known and collection is reasonably assured. Obligations for contingent income are generally satisfied over time and are recognized at the point in time in which the amounts are known and collection is reasonably assured.

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Other service fee income is earned from human resources consulting services. These obligations are generally satisfied over time and are recognized on a periodic basis.

Note 15. Restructuring Charges

During January 2018, the Corporation announced the closure of two owned financial centers and one leased financial center and reduced staff associated with these financial centers, resulting in accruing a loss of $571 thousand related to the Banking business segment. These financial centers were closed in April 2018. The remaining accrued restructuring expense at January 1, 2018 of $23 thousand relates to 2016 restructuring charges.

A roll-forward of the remaining accrued restructuring expense for the nine months ended September 30, 2018 is as follows:

(Dollars in thousands)	Severance expenses	Write-downs and retirements of fixed assets	Lease cancellations	Total
Accrued at January 1, 2018	$ —	$ —	$ 23	$23
Restructuring charges	366	48	157	571
Payments	(284)	—	(30)	(314)
Non-cash settlement	—	(48)	—	(48)
Accrued at September 30, 2018	$ 82	$ —	$ 150	$232

Note 16. Contingencies

The Corporation is periodically subject to various pending and threatened legal actions, which involve claims for monetary relief. Based upon information presently available to the Corporation, it is the Corporation's opinion that any legal and financial responsibility arising from such claims will not have a material adverse effect on the Corporation's results of operations, financial position or cash flows.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

(All dollar amounts presented in tables are in thousands, except per share data. “BP” equates to “basis points”; “N/ M” equates to “not meaningful”; “—” equates to “zero” or “doesn’t round to a reportable number”; and “N/A” equates to “not appl
Certain prior period amounts have been reclassified to conform to the current-year presentation.)

Forward-Looking Statements

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words “believe,” “anticipate,” “estimate,” “expect,” “project,” “target,” “goal” and simil expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including but not limited to those set forth below:

- Operating, legal and regulatory risks;
- Economic, political and competitive forces impacting various lines of business;
- Legislative, regulatory and accounting changes;
- Demand for our financial products and services in our market area;
- Volatility in interest rates;
- The quality and composition of our loan and investment portfolios;
- Timing of revenues and expenditures;
- Returns on investment decisions;
- Other risks and uncertainties, including those occurring in the U.S. and world financial systems; and
- The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These and other risk factors are more fully described in this report and in the Univest Corporation of Pennsylvania (the Corporation) Annual Report on Form 10-K for the year ended December 31, 2017 under the section entitled "Item 1A -- Risk Factors," and from time to time in other filings made by the Corporation with the SEC.

These forward-looking statements speak only at the date of the report. The Corporation expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Corporation’s expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Policies

Management, in order to prepare the Corporation’s financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that affect the amounts reported in the Corporation’s financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the fair value measurement of investment securities available-for-sale, reserve for loan and lease losses and purchase accounting as areas with critical accounting policies. For more information on these critical accounting policies, please refer to the Corporation’s 2017 Annual Report on Form 10-K.

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General

The Corporation is a bank holding company and owns all of the capital stock of Univest Bank and Trust Co. (the Bank).

The Bank is engaged in the commercial and consumer banking business and provides a full range of banking and trust services to customers. The Bank is the parent company of Delview, Inc., which is the parent company of Univest Insurance, Inc., an independent insurance agency, Univest Investments, Inc., a full-service broker-dealer and investment advisory firm, and Girard Partners Ltd. (Girard Partners), a registered investment advisory firm. The Bank is also the parent company of Univest Capital, Inc., an equipment financing business, and TCG Investment Advisory, a registered investment advisor, which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals, municipalities and businesses throughout the Bank's markets of operation.

The Corporation earns revenue primarily from the margins and fees generated from lending and depository services to customers as well as fee-based income from trust, insurance, mortgage banking and investment services to customers. The Corporation seeks to achieve adequate and reliable earnings through business growth while maintaining adequate levels of capital and liquidity and limiting exposure to credit and interest rate risk to Board of Directors approved levels.

The Corporation seeks to establish itself as the financial provider of choice in the markets it serves. The Corporation plans to achieve this goal by offering a broad range of high quality financial products and services and by increasing market awareness of its brand and the benefits that can be derived from its products. The Corporation operates in an attractive market for financial services but also faces intense competition from domestic and international banking organizations and other insurance and wealth management providers. The Corporation has taken initiatives to achieve its business objectives by acquiring banks and other financial service providers in strategic markets, through marketing, public relations and advertising, by establishing standards of service excellence for customers, and by using technology to ensure that the needs of customers are understood and satisfied.

Executive Overview

The Corporation’s consolidated net income, earnings per share and return on average assets and average equity were as follows:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands, except per share data)	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Net income	$14,964	$11,196	$3,768	33.7 %	$32,171	$33,830	$(1,659)	(4.9)%
Net income per share:								
Basic	$0.51	$0.42	$0.09	21.4	$1.10	$1.27	$(0.17)	(13.4)
Diluted	0.51	0.42	0.09	21.4	1.09	1.27	(0.18)	(14.2)
Return on average assets	1.23 %	1.01 %	22 BP	21.8	0.92 %	1.05 %	(13) BP	(12.4)
Return on average equity	9.70	8.43	127 BP	15.1	7.05	8.73	(168) BP	(19.2)

The Corporation reported net income of $15.0 million, or $0.51 diluted earnings per share, for the three months ended September 30, 2018, compared to net income of $11.2 million, or $0.42 diluted earnings per share, for the three months ended September 30, 2017. Net income for the nine months ended September 30, 2018 was $32.2 million, or $1.09 diluted earnings per share, compared to net income of $33.8 million, or $1.27 diluted earnings per share, for the nine months ended September 30, 2017.

The financial results for the nine months ended September 30, 2018 included a pre-tax charge to the provision for loan and lease losses of $12.7 million (after-tax charge of $10.1 million) in the second quarter of 2018, which represented $0.34 diluted earnings per share, related to alleged fraudulent activities perpetrated by one or more employees of a borrower. In addition, the financial results for the nine months ended September 30, 2018 included tax-free bank owned life insurance ("BOLI") death benefit claims of $446 thousand during the second quarter of 2018, which represented $0.02 diluted earnings per share, as well as restructuring costs related to financial center closures of $451 thousand, net of tax, or $0.02 of diluted earnings per share, recognized in the first quarter of 2018. There were no restructuring costs during the nine months ended September 30, 2017

The financial results for the nine months ended September 30, 2017 included a tax-free BOLI death benefit claim of $889 thousand recognized in the second quarter of 2017, which represented $0.03 diluted earnings per share.

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The financial results for the three and nine months ended September 30, 2018 also included a reduction in the Corporation's statutory federal income tax rate from 35% to 21% effective January 1, 2018 in accordance with the Tax Cuts and Jobs Act of 2017 (“TCJA”).

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation’s revenue. Table 1 presents a summary of the Corporation’s average balances, tax-equivalent interest income and interest expense and the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders’ equity on a tax-equivalent basis for the three and nine months ended September 30, 2018 and 2017. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the weighted average tax-equivalent yield on interest-earning assets less the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders’ equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components.

Table 1, Table 2, and the interest income and net interest income analysis contain tax-equivalent financial information and measures determined by methods other than in accordance with U.S. GAAP. The management of the Corporation uses this non-GAAP financial information and measures in its analysis of the Corporation's performance. This financial information and measures should not be considered a substitute for GAAP basis financial information or measures nor should they be viewed as a substitute for operating results determined in accordance with GAAP. Management believes the presentation of the non-GAAP financial information and measures provide useful information that is essential to a proper understanding of the financial results of the Corporation.

The statutory federal tax rate utilized in the respective tables and analyses was 21% for the three and nine months ended September 30, 2018 and was 35% for the three and nine months ended September 30, 2017.

Three and nine months ended September 30, 2018 versus 2017

Reported net interest income for the three months ended September 30, 2018 was $40.4 million, an increase of $3.5 million, or 9.6%, compared to the three months ended September 30, 2017. Net interest income on a tax-equivalent basis for the three months ended September 30, 2018 was $41.1 million, an increase of $2.8 million, or 7.3%, compared to the three months ended September 30, 2017. Reported net interest income for the nine months ended September 30, 2018 was $116.7 million, an increase of $10.2 million, or 9.6%, compared to the same period in 2017. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2018 was $118.7 million, an increase of $8.0 million, or 7.2%, compared to the same period in 2017.

The increase in reported and tax-equivalent net interest income for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to the growth in average loans of 10.2% and interest free funding through growth in average equity of 17.7%.

The net interest margin on a tax-equivalent basis for the third quarter of 2018 was 3.71%, compared to 3.80% for the third quarter of 2017. The net interest margin on a tax-equivalent basis for the nine months ended September 30, 2018 was 3.72%, compared to 3.78% for the nine months ended September 30, 2017. The favorable impact of purchase accounting accretion was three basis points ($343 thousand) for the three months ended September 30, 2018, compared to 11 basis points ($1.1 million) for the three months ended September 30, 2017. The favorable impact of purchase accounting accretion was three basis points ($838 thousand) for the nine months ended September 30, 2018, compared to nine basis points ($2.6 million) for the nine months ended September 30, 2017.

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Table 1—Average Balances and Interest Rates—Tax-Equivalent Basis

	Three Months Ended September 30,					
	2018			2017		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	$80,678	$398	1.96 %	$43,941	$133	1.20 %
U.S. government obligations	22,331	90	1.60	31,126	110	1.40
Obligations of states and political subdivisions	68,703	581	3.36	81,114	846	4.14
Other debt and equity securities	362,388	2,258	2.47	347,622	1,745	1.99
Federal funds sold and other earning assets	31,107	484	6.17	28,063	375	5.30
Total interest-earning deposits, investments, federal funds sold and other earning assets	565,207	3,811	2.68	531,866	3,209	2.39
Commercial, financial and agricultural loans	796,593	10,184	5.07	762,418	8,656	4.50
Real estate—commercial and construction loans	1,729,538	20,527	4.71	1,549,799	17,999	4.61
Real estate—residential loans	880,589	10,447	4.71	770,839	8,751	4.50
Loans to individuals	32,057	499	6.18	27,509	416	6.00
Municipal loans and leases	316,149	3,037	3.81	281,509	3,208	4.52
Lease financings	77,369	1,409	7.23	75,161	1,331	7.03
Gross loans and leases	3,832,295	46,103	4.77	3,467,235	40,361	4.62
Total interest-earning assets	4,397,502	49,914	4.50	3,999,101	43,570	4.32
Cash and due from banks	48,737			46,969		
Reserve for loan and lease losses	(26,099)			(21,425)		
Premises and equipment, net	60,622			65,025		
Other assets	336,559			326,662		
Total assets	$4,817,321			$4,416,332		
Liabilities:						
Interest-bearing checking deposits	$465,992	$541	0.46	$438,956	$132	0.12
Money market savings	813,769	2,664	1.30	587,590	919	0.62
Regular savings	787,383	581	0.29	904,528	646	0.28
Time deposits	633,552	2,492	1.56	557,757	1,371	0.98
Total time and interest-bearing deposits	2,700,696	6,278	0.92	2,488,831	3,068	0.49
Short-term borrowings	129,365	584	1.79	72,719	169	0.92
Long-term debt	148,323	709	1.90	207,057	794	1.52
Subordinated notes	94,480	1,261	5.30	94,238	1,254	5.28
Total borrowings	372,168	2,554	2.72	374,014	2,217	2.35
Total interest-bearing liabilities	3,072,864	8,832	1.14	2,862,845	5,285	0.73
Noninterest-bearing deposits	1,091,931			991,487		
Accrued expenses and other liabilities	40,723			34,968		
Total liabilities	4,205,518			3,889,300		
Shareholders' Equity:						
Common stock	157,784			144,559		
Additional paid-in capital	291,499			231,575		
Retained earnings and other equity	162,520			150,898		
Total shareholders' equity	611,803			527,032		
Total liabilities and shareholders' equity	$4,817,321			$4,416,332		
Net interest income		$41,082			$38,285	
Net interest spread			3.36			3.59
Effect of net interest-free funding sources			0.35			0.21

Net interest margin		3.71 %		3.80 %
Ratio of average interest-earning assets to average interest-bearing liabilities	143.11 %		139.69 %	

Notes: For rate calculation purposes, average loan and lease categories include deferred fees and costs, purchase accounting adjustments,
and unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the three months ended September 30, 2018 and 2017 have been calculated using the Corporation's federal applicable rate of 21% and 35%, respectively.

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(Dollars in thousands)	Nine Months Ended September 30, 2018 Average Balance	Income/ Expense	Average Rate	2017 Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	$45,931	$622	1.81 %	$23,624	$188	1.06 %
U.S. government obligations	23,139	275	1.59	32,862	329	1.34
Obligations of states and political subdivisions	71,429	1,777	3.33	83,424	2,654	4.25
Other debt and equity securities	359,324	6,530	2.43	349,930	5,047	1.93
Federal funds sold and other earning assets	30,992	1,497	6.46	27,952	1,129	5.40
Total interest-earning deposits, investments, federal funds sold and other earning assets	530,815	10,701	2.70	517,792	9,347	2.41
Commercial, financial and agricultural loans	796,520	28,834	4.84	748,489	24,669	4.41
Real estate—commercial and construction loans	1,664,183	57,189	4.59	1,504,024	50,368	4.48
Real estate—residential loans	857,442	30,168	4.70	753,186	25,466	4.52
Loans to individuals	29,683	1,356	6.11	28,304	1,222	5.77
Municipal loans and leases	313,710	8,890	3.79	281,347	9,513	4.52
Lease financings	75,853	4,106	7.24	77,050	4,230	7.34
Gross loans and leases	3,737,391	130,543	4.67	3,392,400	115,468	4.55
Total interest-earning assets	4,268,206	141,244	4.42	3,910,192	124,815	4.27
Cash and due from banks	45,490			44,257		
Reserve for loan and lease losses	(24,027)			(20,045)		
Premises and equipment, net	61,194			65,076		
Other assets	335,433			328,010		
Total assets	$4,686,296			$4,327,490		
Liabilities:						
Interest-bearing checking deposits	$451,542	$1,216	0.36	$437,099	$355	0.11
Money market savings	722,859	5,765	1.07	560,071	2,177	0.52
Regular savings	808,276	1,720	0.28	849,629	1,441	0.23
Time deposits	576,540	5,810	1.35	565,437	3,747	0.89
Total time and interest-bearing deposits	2,559,217	14,511	0.76	2,412,236	7,720	0.43
Short-term borrowings	174,002	2,187	1.68	120,390	756	0.84
Long-term debt	153,211	2,083	1.82	185,315	1,876	1.35
Subordinated notes	94,420	3,783	5.36	94,177	3,776	5.36
Total borrowings	421,633	8,053	2.55	399,882	6,408	2.14
Total interest-bearing liabilities	2,980,850	22,564	1.01	2,812,118	14,128	0.67
Noninterest-bearing deposits	1,055,456			960,797		
Accrued expenses and other liabilities	40,154			36,581		
Total liabilities	4,076,460			3,809,496		
Shareholders' Equity:						
Common stock	157,784			144,559		
Additional paid-in capital	290,746			230,793		
Retained earnings and other equity	161,306			142,642		
Total shareholders' equity	609,836			517,994		
Total liabilities and shareholders' equity	$4,686,296			$4,327,490		
Net interest income		$118,680			$110,687	
Net interest spread			3.41			3.60
Effect of net interest-free funding sources			0.31			0.18
Net interest margin			3.72 %			3.78 %

Ratio of average interest-earning assets to average interest-bearing liabilities	143.19	%	139.05	%

Notes: For rate calculation purposes, average loan and lease categories include deferred fees and costs, purchase accounting adjustments,
and unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the nine months ended September 30, 2018 and 2017 have been calculated using the Corporation’s federal applicable rate of 21% and 35%, respectively.

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Table 2—Analysis of Changes in Net Interest Income

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the periods indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

	Three Months Ended September 30, 2018 Versus 2017			Nine Months Ended September 30, 2018 Versus 2017		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$151	$114	$265	$248	$186	$434
U.S. government obligations	(34)	14	(20)	(108)	54	(54)
Obligations of states and political subdivisions	(119)	(146)	(265)	(350)	(527)	(877)
Other debt and equity securities	77	436	513	140	1,343	1,483
Federal funds sold and other earning assets	43	66	109	131	237	368
Interest on deposits, investments, federal funds sold and other earning assets	118	484	602	61	1,293	1,354
Commercial, financial and agricultural loans	400	1,128	1,528	1,653	2,512	4,165
Real estate—commercial and construction loans	2,129	399	2,528	5,543	1,278	6,821
Real estate—residential loans	1,277	419	1,696	3,652	1,050	4,702
Loans to individuals	71	12	83	61	73	134
Municipal loans and leases	368	(539)	(171)	1,019	(1,642)	(623)
Lease financings	40	38	78	(66)	(58)	(124)
Interest and fees on loans and leases	4,285	1,457	5,742	11,862	3,213	15,075
Total interest income	4,403	1,941	6,344	11,923	4,506	16,429
Interest expense:						
Interest-bearing checking deposits	9	400	409	12	849	861
Money market savings	453	1,292	1,745	773	2,815	3,588
Regular savings	(87)	22	(65)	(65)	344	279
Time deposits	209	912	1,121	76	1,987	2,063
Interest on time and interest-bearing deposits	584	2,626	3,210	796	5,995	6,791
Short-term borrowings	187	228	415	441	990	1,431
Long-term debt	(256)	171	(85)	(364)	571	207
Subordinated notes	3	4	7	7	—	7
Interest on borrowings	(66)	403	337	84	1,561	1,645
Total interest expense	518	3,029	3,547	880	7,556	8,436
Net interest income	$3,885	$(1,088)	$2,797	$11,043	$(3,050)	$7,993

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Interest Income

Three and nine months ended September 30, 2018 versus 2017

Interest income on a tax-equivalent basis for the three months ended September 30, 2018 was $49.9 million, an increase of $6.3 million, or 14.6%, from the same period in 2017. Interest income on a tax-equivalent basis for the nine months ended September 30, 2018 was $141.2 million, an increase of $16.4 million, or 13.2% from the same period in 2017. The increase in interest income (tax-equivalent) for the three and nine months ended September 30, 2018 was primarily due to organic loan growth in commercial real estate, commercial business and residential real estate loans. In addition, loan yields increased as the Federal Reserve increased interest rates 75 basis points in 2017 and 75 basis points in 2018. The favorable impact of purchase accounting accretion on interest-earning assets was one basis point ($182 thousand) for the three months ended September 30, 2018, compared to a favorable impact of five basis points ($527 thousand) for the same period in the prior year. The favorable impact of purchase accounting accretion on interest-earning assets was one basis point ($308 thousand) for the nine months ended September 30, 2018, compared to a favorable impact of three basis points ($837 thousand) for the same period in the prior year.

Interest Expense

Three and nine months ended September 30, 2018 versus 2017

Interest expense for the three months ended September 30, 2018 was $8.8 million, an increase of $3.5 million, or 67.1%, from the same period in 2017. Interest expense for the nine months ended September 30, 2018 was $22.6 million, an increase of $8.4 million, or 59.7%, from the same period in 2017. The increase in interest expense for the three months ended September 30, 2018 was primarily due to higher deposit and borrowing costs, which were impacted by the Federal Reserve interest rate increases in 2017 and 2018. The favorable impact of purchase accounting amortization on interest-bearing liabilities was two basis points ($161 thousand) for the three months ended September 30, 2018, compared to a favorable impact of eight basis points ($539 thousand) for the same period in the prior year. The favorable impact of purchase accounting amortization on interest-bearing liabilities was three basis points ($529 thousand) for the nine months ended September 30, 2018, compared to a favorable impact of eight basis points ($1.7 million) for the same period in the prior year.

Provision for Loan and Lease Losses

The provision for loan and lease losses for the three months ended September 30, 2018 was $2.7 million, consistent with the same period in 2017. Net and lease charge-offs for the three months ended September 30, 2018 were $1.0 million compared to $3.1 million for the same period in the prior year.

The provision for loan and lease losses for the nine months ended September 30, 2018 was $20.2 million compared to $7.9 million for the same period in 2017. Net loan and lease charge-offs for the nine months ended September 30, 2018 were $14.4 million compared to $4.9 million for the same period in the prior year. The increase in both the provision for loan and leases losses and loan and lease charge-offs for the nine months ended September 30, 2018 was primarily due to the $12.7 million commercial loan charge-off during the second quarter of 2018 previously discussed in the Executive Overview.

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Noninterest Income

The following table presents noninterest income for the three and nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change Amount	Change Percent	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change Amount	Change Percent
Trust fee income	$1,960	$1,924	$36	1.9 %	$6,000	$5,847	$153	2.6 %
Service charges on deposit accounts	1,454	1,371	83	6.1	4,116	3,927	189	4.8
Investment advisory commission and fee income	3,785	3,455	330	9.6	11,246	9,969	1,277	12.8
Insurance commission and fee income	3,643	3,492	151	4.3	12,243	11,530	713	6.2
Other service fee income	2,284	2,123	161	7.6	6,884	6,355	529	8.3
Bank owned life insurance income	865	742	123	16.6	2,744	3,147	(403)	(12.8)
Net gain on sales of investment securities	—	7	(7)	N/M	10	43	(33)	(76.7)
Net gain on mortgage banking activities	754	908	(154)	(17.0)	2,412	3,558	(1,146)	(32.2)
Other income	116	87	29	33.3	102	712	(610)	(85.7)
Total noninterest income	$14,861	$14,109	$752	5.3 %	$45,757	$45,088	$669	1.5 %

Three and nine months ended September 30, 2018 versus 2017

Noninterest income for the three months ended September 30, 2018 was $14.9 million, an increase of $752 thousand, or 5.3%, from the three months ended September 30, 2017. Noninterest income for the nine months ended September 30, 2018 was $45.8 million, an increase of $669 thousand, or 1.5%, from the same period in the prior year.

Investment advisory commission and fee income increased $330 thousand, or 9.6%, for the three months and $1.3 million, or 12.8%, for the nine months ended September 30, 2018, primarily due to new customer relationships and continued favorable market performance. Insurance commission and fee income increased $151 thousand, or 4.3%, for the three months and $713 thousand, or 6.2%, for the nine months ended September 30, 2018, primarily due to an increase in group life and health premiums and an increase in contingent commission income of $374 thousand, which is largely recognized in the first quarter of the year. Other service fee income increased $161 thousand, or 7.6%, for the three months and $529 thousand, or 8.3%, for the nine months ended September 30, 2018, primarily due to increases in debit card interchange income, mortgage servicing fees and human resource and payroll consulting services within the insurance line of business. Service charges on deposit accounts increased $83 thousand, or 6.1%, for the three months and $189 thousand, or 4.8%, for the nine months ended September 30, 2018, primarily due to increased fee income on cash management accounts.

BOLI income decreased $403 thousand for the nine months ended September 30, 2018 primarily due to proceeds from BOLI death benefits of $446 thousand in the second quarter of 2018 compared to $889 thousand in the second quarter of 2017. The net gain on mortgage banking decreased $154 thousand, or 17.0%, for the three months and $1.1 million, or 32.2%, for the nine months ended September 30, 2018, primarily due to a decrease in refinance mortgage volume, a shortage of housing supply and the Bank retaining, on balance-sheet, a higher percentage of its mortgage originations. Such on balance-sheet loans are predominantly hybrid adjustable rate mortgages. Other income decreased $610 thousand, or 85.7%, for the nine months ended September 30, 2018. The decrease in the nine months ended September 30, 2018 was primarily due to a net loss of $325 thousand related to valuations and sales of other real estate owned and sales of closed branches as compared to a net gain of $245 thousand of such assets in the nine months ended September 30, 2017.

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Noninterest Expense

The following table presents noninterest expense for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Salaries, benefits and commissions	$20,321	$19,185	$1,136	5.9 %	$61,033	$56,652	$4,381	7.7 %
Net occupancy	2,515	2,523	(8)	(0.3)	7,805	7,872	(67)	(0.9)
Equipment	1,042	1,019	23	2.3	3,132	3,043	89	2.9
Data processing	2,339	2,118	221	10.4	6,662	6,257	405	6.5
Professional fees	1,370	1,447	(77)	(5.3)	4,056	3,934	122	3.1
Marketing and advertising	461	271	190	70.1	1,368	1,125	243	21.6
Deposit insurance premiums	544	409	135	33.0	1,387	1,262	125	9.9
Intangible expenses	479	690	(211)	(30.6)	1,685	1,895	(210)	(11.1)
Restructuring charges	—	—	—	—	571	—	571	N/M
Other expense	5,300	5,033	267	5.3	16,144	15,233	911	6.0
Total noninterest expense	$34,371	$32,695	$1,676	5.1 %	$103,843	$97,273	$6,570	6.8 %

Three and nine months ended September 30, 2018 versus 2017

Noninterest expense for the three months ended September 30, 2018 was $34.4 million, an increase of $1.7 million, or 5.1%, from the three months ended September 30, 2017. Noninterest expense for the nine months ended September 30, 2018 was $103.8 million, an increase of $6.6 million, or 6.8%, from the comparable period in the prior year.

Salaries, benefits and commissions increased $1.1 million, or 5.9%, for the three months and $4.4 million, or 7.7%, for the nine months ended September 30, 2018, primarily attributable to additional staff hired to support revenue generation across all business lines, expansion of our financial center footprint in Lancaster County and annual merit increases. Data processing expense increased $221 thousand for the three months and $405 thousand for the nine months ended September 30, 2018 primarily due to increased investments in customer relationship management software, internal infrastructure improvements and outsourced data processing solutions. Marketing and advertising expense increased $190 thousand for the three months and $243 thousand for the nine months ended September 30, 2018 primarily related to deposit product campaigns. Other expense increased $267 thousand for the three months and $911 thousand for the nine months ended September 30, 2018 primarily due to increases in Bank shares tax, loan processing expenses and increased corporate development expenses. Restructuring costs related to financial center closures and staffing rationalization were $571 thousand during the first quarter of 2018. There were no restructuring costs during the nine months ended September 30, 2017. Excluding restructuring costs, noninterest expense for the nine months increased $6.0 million or 6.2% from the comparable period in 2017.

Tax Provision

The provision for income taxes for the three months ended September 30, 2018 and 2017 was $3.2 million and $4.4 million, at effective rates of 17.6% and 28.3%, respectively. The provision for income taxes for the nine months ended September 30, 2018 and 2017 was $6.2 million and $12.6 million, at effective rates of 16.2% and 27.1%, respectively. As previously discussed, the Corporation's statutory federal tax rate was reduced to 21% effective January 1, 2018 in accordance with the TCJA. The Corporation's effective income tax rate for the nine months ended September 30, 2018 was favorably impacted by discrete tax benefits and proceeds from BOLI death benefits. Excluding these discrete items, the effective tax rate was 18.3% for the nine months ended September 30, 2018, which reflects the impact of the Corporation's level of tax-exempt income for the period relative to the overall level of taxable income.

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Financial Condition

Assets

The following table presents assets at the dates indicated:

(Dollars in thousands)	At September 30, 2018	At December 31, 2017	Change Amount	Percent
Cash and interest-earning deposits	$84,110	$75,409	$8,701	11.5
Investment securities	447,339	454,082	(6,743)	(1.5)
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	33,071	27,204	5,867	21.6
Loans held for sale	106	1,642	(1,536)	(93.5)
Loans and leases held for investment	3,866,169	3,620,067	246,102	6.8
Reserve for loan and lease losses	(27,371)	(21,555)	(5,816)	(27.0)
Premises and equipment, net	60,393	61,797	(1,404)	(2.3)
Goodwill and other intangibles, net	184,964	186,468	(1,504)	(0.8)
Bank owned life insurance	110,392	108,246	2,146	2.0
Accrued interest receivable and other assets	42,825	41,502	1,323	3.2
Total assets	$4,801,998	$4,554,862	$247,136	5.4 %

Investment Securities

Total investments securities at September 30, 2018 decreased $6.7 million from December 31, 2017. Maturities and pay-downs of $55.3 million, calls of $8.4 million, sales of $1.0 million and decreases in the fair value of available-for-sale investment securities of $9.4 million were partially off-set by purchases of $69.2 million. The decrease in the fair value of available-for-sale investment securities was due to increased interest rates during the year.

Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost

The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership as determined by the FHLB. The Bank is required to hold additional stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $18.3 million and $12.5 million at September 30, 2018 and December 31, 2017, respectively. FHLB stock increased $5.8 million mainly due to purchase requirements related to the increase in FHLB borrowing volume during the year.

The Bank held $14.6 million in Federal Reserve Bank stock as required by the Federal Reserve Bank at September 30, 2018 and December 31, 2017.

Loans and Leases

Gross loans and leases held for investment grew $246.1 million, or 6.8%, from December 31, 2017. The growth in loans was primarily in commercial real estate, commercial business and residential real estate loans.

Asset Quality

The Bank's strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans and leases. Performance of the loan and lease portfolio is monitored on a regular basis by Bank management and lending officers.

Loans and leases are deemed impaired when, based on current information and events, it is probable that the Bank will be unable to collect all proceeds due according to the original contractual terms of the agreement or when a loan or lease is classified as a troubled debt restructuring. Factors considered by management in determining impairment include payment status, borrower cash flows, collateral value and the probability of collecting scheduled principal and interest payments when due.

When a loan or lease, including a loan or lease that is impaired, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease is typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest,

even though the loan or lease is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income is reversed and the amortization of net deferred costs is suspended. Interest payments received on nonaccrual loans and leases are either applied against principal or reported as interest income, according to management’s judgment as to the ultimate collectability of principal.

Loans or leases are usually restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

At September 30, 2018, the recorded investment in loans and leases held for investment that were considered to be impaired was $30.0 million. The related reserve for loan and lease losses was $1.0 million. At December 31, 2017, the recorded investment in loans and leases that were considered to be impaired was $29.7 million. The related reserve for loan and lease losses was $131 thousand. During the first quarter of 2018, one commercial real-estate loan totaling $12.3 million was placed on non-accrual status. This was partially offset by troubled debt restructured commercial real estate loans for another borrower totaling $10.3 million being returned to performing status during the first quarter of 2018 as the borrower was in compliance with the modified terms of the restructuring for the required time period. The impaired loan and lease balances consisted mainly of commercial real estate loans and business loans. Impaired loans and leases include nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the original contractual terms. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management’s judgments about the ultimate outcome of these credits.

Other real estate owned was $1.4 million at September 30, 2018, compared to $1.8 million at December 31, 2017. During the nine months ended September 30, 2018, two residential properties with a carrying value of $403 thousand and two parcels of land with a carrying value of $74 thousand was transferred to other real estate owned and three residential properties with a carrying value of $366 thousand were sold for a net loss of $4 thousand. Additionally, the market value of a parcel of land was written down by $460 thousand based on a potential agreement to sell the property and the market value of a residential property was written down by $43 thousand to reflect current market conditions.

Reserve for Loan and Lease Losses

The reserve for loan and lease losses is maintained at a level representing management's best estimate of known risks and inherent losses in the portfolio, based upon management's evaluation of the portfolio's collectability. Management evaluates the need to establish reserves against losses on loans and leases on a quarterly basis. When changes in the reserve are necessary, an adjustment is made.

The reserve for loan and lease losses consists of a reserve for impaired loans and leases and a general valuation allowance on the remainder of the originated portfolio. Although management determines the amount of each element of the reserve separately, the entire reserve for loan and lease losses is available for losses on the portfolio. The Corporation records a provision for loan loss for the acquired non-impaired loans only when additional deterioration of the portfolio is identified over the projections utilized in the initial fair value analysis. After the acquisition measurement period, the present value of any decreases in expected cash flows of acquired credit impaired loans will generally result in an impairment charge recorded as a provision for loan loss, resulting in an increase to the allowance.

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. The reserve for these off-balance sheet credits was $437 thousand and $390 thousand at September 30, 2018 and December 31, 2017, respectively.

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Table 3—Nonaccrual and Past Due Loans and Leases; Troubled Debt Restructured Loans and Lease Modifications; Other Real Estate Owned; and Related Ratios

The following table details information pertaining to the Corporation's nonperforming assets at the dates indicated. Nonperforming loans and assets exclude acquired credit impaired loans from Fox Chase and Valley Green.

(Dollars in thousands)	At September 30, 2018		At December 31, 2017	
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:				
Commercial, financial and agricultural	$2,795		$4,448	
Real estate—commercial	18,425		4,285	
Real estate—construction	106		365	
Real estate—residential	4,691		3,820	
Lease financings	1,542		1,599	
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	27,559		14,517	
Accruing troubled debt restructured loans and lease modifications not included in the above	766		11,435	
Accruing loans and leases 90 days or more past due:				
Real estate—commercial	83		—	
Real estate—residential	128		310	
Loans to individuals	165		195	
Lease financings	848		256	
Total accruing loans and leases, 90 days or more past due	1,224		761	
Total nonperforming loans and leases	29,549		26,713	
Other real estate owned	1,433		1,843	
Total nonperforming assets	$30,982		$28,556	
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment	0.71	%	0.40	%
Nonperforming loans and leases / loans and leases held for investment	0.76		0.74	
Nonperforming assets / total assets	0.65		0.63	
Allowance for loan and lease losses	$27,371		$21,555	
Allowance for loan and lease losses / loans and leases held for investment	0.71	%	0.60	%
Allowance for loan and lease losses / loans and leases held for investment (excluding acquired loans at period-end)	0.79		0.70	
Allowance for loan and lease losses / nonaccrual loans and leases held for investment	99.32		148.48	
Allowance for loan and lease losses / nonperforming loans and leases held for investment	92.63		80.69	
Acquired credit impaired loans	$900		$1,583	
Nonperforming loans and leases and acquired credit impaired loans / loans and leases held for investment	0.79	%	0.78	%
Nonperforming assets and acquired credit impaired loans / total assets	0.66		0.66	
* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table	$1,324		$2,513	

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The following table provides additional information on the Corporation’s nonaccrual loans held for investment:

(Dollars in thousands)	At September 30, 2018	At December 31, 2017
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	$27,559	$14,517
Nonaccrual loans and leases with partial charge-offs	3,490	5,397
Life-to-date partial charge-offs on nonaccrual loans and leases	2,667	4,107
Charge-off rate of nonaccrual loans and leases with partial charge-offs	43.3 %	43.2 %
Specific reserves on impaired loans	$1,048	$131

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has core deposit and customer-related intangibles and servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets was $812 thousand and $1.0 million for the three months ended September 30, 2018 and 2017, respectively. The amortization of intangible assets was $2.6 million and $3.2 million for the nine months ended September 30, 2018 and 2017, respectively. See Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for a summary of intangible assets at September 30, 2018 and December 31, 2017. The Corporation also has goodwill with a net carrying value of $172.6 million at September 30, 2018 and December 31, 2017, which is deemed to be an indefinite intangible asset and is not amortized.

The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation also completes an impairment test for other identifiable intangible assets on an annual basis or more often if events and circumstances indicate there may be impairment. There was no impairment of goodwill or identifiable intangibles during the nine months ended September 30, 2018 and 2017. Since the last annual impairment analysis during 2017, there have been no circumstances to indicate impairment. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Liabilities

The following table presents liabilities at the dates indicated:

(Dollars in thousands)	At September 30, 2018	At December 31, 2017	Change Amount	Change Percent
Deposits	$3,820,048	$3,554,919	$265,129	7.5 %
Short-term borrowings	86,765	105,431	(18,666)	(17.7)
Long-term debt	145,430	155,828	(10,398)	(6.7)
Subordinated notes	94,514	94,331	183	0.2
Accrued interest payable and other liabilities	40,999	40,979	20	N/M
Total liabilities	$4,187,756	$3,951,488	$236,268	6.0 %

Deposits

Total deposits increased $265.1 million, or 7.5%, from December 31, 2017, primarily due to increases in commercial, public funds and consumer time deposits.

Borrowings

Total borrowings decreased $28.9 million from December 31, 2017, primarily due to a decrease in short-term borrowings of $18.7 million and repayment of long-term FHLB debt of $10.0 million in the third quarter of 2018. The increase in seasonal public funds deposits and time deposits reduce the need to borrow short-term funds.

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Shareholders' Equity

The following table presents total shareholders' equity at the dates indicated:

(Dollars in thousands)	At September 30, 2018	At December 31, 2017	Change Amount	Change Percent
Common stock	$157,784	$157,784	$—	N/M
Additional paid-in capital	291,992	290,133	1,859	0.6
Retained earnings	235,658	216,761	18,897	8.7
Accumulated other comprehensive loss	(28,664)	(17,771)	(10,893)	(61.3)
Treasury stock	(42,528)	(43,533)	1,005	2.3
Total shareholders' equity	$614,242	$603,374	$10,868	1.8 %

The increase in shareholder's equity at September 30, 2018 of $10.9 million from December 31, 2017 was primarily related to an increase in retained earnings of $18.9 million. Retained earnings at September 30, 2018 were impacted by the nine months of net income of $32.2 million and the reclassification of $3.9 million and $433 thousand from accumulated other comprehensive income related to the January 1, 2018 adoption of ASU 2016-01 and ASU 2018-02, respectively, partially offset by cash dividends declared of $17.6 million. Accumulated other comprehensive loss increased by $10.9 million mainly attributable to decreases in the fair value of available-for-sale investment securities of $7.4 million, net of tax, and the reclassification to retained earnings from the previously discussed adoption of ASU 2016-01 and ASU 2018-02 ($3.0 million related to the defined benefit pension plans and $1.4 million related to investment securities). Treasury stock decreased by $1.0 million primarily due to the issuance of restricted stock.

Capital Adequacy

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Capital adequacy guidelines, and additionally for the Bank the prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total capital, Tier 1 capital and Tier 1 common capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined), or leverage ratio.

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies' capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The new minimum capital requirements were effective on January 1, 2015. Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The capital conservation buffer requirements began to be phased in over a four-year period beginning January 1, 2016 with final phase in occurring 2019.

The Corporation adopted the new Basel III regulatory capital rules during the first quarter of 2015 under the transition rules, primarily relating to regulatory deductions and adjustments impacting common equity tier 1 capital and tier 1 capital, to be phased in over a four-year period beginning January 1, 2015. Under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. During 2018, the Corporation and the Bank must hold a capital conservation buffer greater than 1.875% above its minimum risk-based capital requirements in order to avoid limitations on capital distributions. It is the Corporation's and Bank's intent to maintain capital levels in excess of the capital conservation buffer which would require Tier 1 Capital to Risk Weighted Assets to exceed 8.50% and Total Capital to Risk Weighted Assets to exceed 10.50% beginning in the first quarter of 2019.

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Table 4—Regulatory Capital

The Corporation's and Bank's actual and required capital ratios as of September 30, 2018 and December 31, 2017 under regulatory capital rules were as follows.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2018						
Total Capital (to Risk-Weighted Assets):						
Corporation	$591,928	13.87%	$341,489	8.00%	$ 426,861	10.00 %
Bank	491,854	11.59	339,613	8.00	424,516	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	469,309	10.99	256,117	6.00	341,489	8.00
Bank	463,749	10.92	254,709	6.00	339,613	8.00
Tier 1 Common Capital (to Risk-Weighted Assets):						
Corporation	469,309	10.99	192,087	4.50	277,460	6.50
Bank	463,749	10.92	191,032	4.50	275,935	6.50
Tier 1 Capital (to Average Assets):						
Corporation	469,309	10.07	186,356	4.00	232,944	5.00
Bank	463,749	10.01	185,237	4.00	231,546	5.00
At December 31, 2017						
Total Capital (to Risk-Weighted Assets):						
Corporation	$563,797	14.00%	$322,148	8.00%	$ 402,685	10.00 %
Bank	464,851	11.62	320,003	8.00	400,004	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	447,228	11.11	241,611	6.00	322,148	8.00
Bank	442,613	11.07	240,002	6.00	320,003	8.00
Tier 1 Common Capital (to Risk-Weighted Assets):						
Corporation	447,228	11.11	181,208	4.50	261,745	6.50
Bank	442,613	11.07	180,002	4.50	260,002	6.50
Tier 1 Capital (to Average Assets):						
Corporation	447,228	10.48	170,753	4.00	213,441	5.00
Bank	442,613	10.45	169,453	4.00	211,816	5.00

At September 30, 2018 and December 31, 2017, management believes that the Corporation and the Bank continued to meet all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 capital and Total capital equal to at least 6.0% and 8.0%, respectively, of total risk-weighted assets (including various off-balance-sheet items). The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. During 2018, the Corporation and the Bank must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 1.875% of total risk-weighted assets in order to avoid limitations on capital distributions. For a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, Tier 1 and Total capital ratios must be at least 8.0% and 10.0% on a risk-adjusted basis, respectively. At September 30, 2018, the Bank is categorized as “well capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s category. The Corporation will continue to analyze the impact of the phase in of the capital conservation buffer as well as the impact of new accounting rules, such as Lease Accounting (ASU No. 2016-02) and CECL (ASU No. 2016-13) on its regulatory capital ratios. See Note 1 to the financial statements included in Part I, Item I of this Form 10-Q for additional information.

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Asset/Liability Management

The primary functions of Asset/Liability Management are to assure adequate earnings, capital and liquidity while maintaining an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet cash flow requirements of customers and corporate needs. Management's objective to address interest rate risk is to understand the Corporation's sensitivity to changes in interest rates and develop and implement strategies to minimize volatility while maximizing net interest income.

The Corporation uses both interest-sensitivity gap analysis and simulation modeling to quantify exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the impact of declining or rising interest rates on net interest income over a one-year and two-year horizon. The simulation uses expected cash flows and repricing characteristics for all financial instruments at a point in time and incorporates company developed, market-based assumptions regarding growth, pricing, and optionality such as prepayment speeds. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value.

Liquidity

The Corporation, in its role as a financial intermediary, is exposed to certain liquidity risks. Liquidity refers to the Corporation’s ability to ensure that sufficient cash flow and liquid assets are available to satisfy demand for loans, deposit withdrawals, repayment of borrowings and certificates of deposit at maturity, operating expenditures, and capital expansion. The Corporation manages liquidity risk by measuring and monitoring liquidity sources and estimated funding needs on a daily basis. The Corporation has a contingency funding plan in place to address liquidity needs in the event of an institution-specific or a systemic financial crisis.

Sources of Funds

Core deposits continue to be the largest significant funding source for the Corporation. These deposits are primarily generated from a base of consumer, business, municipalities and non-profit customers located in our primary service areas. The Corporation faces increased competition for these deposits from a large array of financial market participants, including banks, credit unions, savings institutions, mutual funds, security dealers and others.

The Corporation also utilizes a mix of short-term and long-term wholesale funding providers. Wholesale funding includes correspondent bank borrowings, secured borrowing lines from the Federal Home Loan Bank, the Federal Reserve Bank of Philadelphia and, at times, brokered deposits and other similar sources.

The Corporation, through the Bank, has a credit facility with the FHLB with a maximum borrowing capacity of approximately $1.6 billion. At September 30, 2018 and December 31, 2017, the carrying amount of overnight borrowings with the FHLB was $17.0 million and $30.2 million, respectively. At September 30, 2018 and December 31, 2017, the carrying amount of long-term borrowings with the FHLB was $115.0 million and $125.0 million, respectively. At September 30, 2018 and December 31, 2017, the Bank had outstanding short-term letters of credit with the FHLB totaling $382.9 million and $234.2 million, respectively, which were utilized to collateralize public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB’s internal credit rating of the Bank.

The Corporation, through the Bank, maintains uncommitted federal fund lines with several correspondent banks totaling $367.0 million at September 30, 2018 and December 31, 2017. At September 30, 2018 and December 31, 2017, the Corporation had $50.0 million and $55.0 million, respectively, of outstanding federal funds purchased with these correspondent banks. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, holds collateral at the Federal Reserve Bank of Philadelphia in order to access the Discount Window Lending program. The collateral consisting of investment securities was valued at $66.2 million and $52.0 million at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, the Corporation had no outstanding borrowings under this program.

The Corporation has a $10.0 million line of credit with a correspondent bank. At September 30, 2018 and December 31, 2017, the Corporation had no outstanding borrowings under this line.

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Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay certificates of deposit and short-term and long-term borrowings. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its financial center network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market. The Bank will also use borrowings and brokered deposits to meet its obligations. Commitments to extend credit are the Bank’s most significant commitment in both the under and over one year time periods. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 1 to the Consolidated Financial Statements, “Summary of Significant Accounting Policies.”

Recent Regulatory and Legislative Developments

On August 17, 2018, the SEC issued Release No. 33-10532, "Disclosure Update and Simplification." This rule amends certain disclosure requirements that were redundant with or superseded by other SEC disclosure requirements or U.S. GAAP or for changes in the information environment. The changes are generally expected to reduce or eliminate some of a SEC registrant's disclosures in certain topics but some provisions require additional disclosures. The rule extends to interim periods the annual disclosure requirement under Regulation S-X of presenting changes in shareholders' equity for the current and comparative year-to-date interim periods. Under the amendments, an analysis of changes in each caption of shareholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should include a reconciliation of the beginning balance to the ending balance for each period for which a statement of comprehensive income is required to be filed. The amendments are effective on November 5, 2018. The Corporation currently includes year-to-date changes in shareholders' equity in the Form 10-Q and will additionally provide the quarterly changes in shareholders' equity in the Form 10-Q for the quarter ending March 31, 2019. The Corporation continues to analyze the amended disclosure requirements under this rule, but does not believe that such changes will materially impact the Corporation’s disclosures.

Economic Growth, Regulatory Relief, and Consumer Protection Act

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Act”), which was designed to ease certain restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Most of the changes made by the new Act can be grouped into five general areas: mortgage lending; certain regulatory relief for “community” banks; enhanced consumer protections in specific areas, including subjecting credit reporting agencies to additional requirements; certain regulatory relief for large financial institutions, including increasing the threshold at which institutions are classified a systemically important financial institutions (from $50 billion to $250 billion) and therefore subject to stricter oversight, and revising the rules for larger institution stress testing; and certain changes to federal securities regulations designed to promote capital formation. Some of the key provisions of the Act as it relates to community banks and bank holding companies include, but are not limited to: (i) designating mortgages held in portfolio as “qualified mortgages” for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; and (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings. The Corporation continues to analyze the changes implemented by the Act, but does not believe that such changes will materially impact the Corporation’s business, operations, or financial results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes in the Corporation’s market risk or market strategy occurred during the current period. A detailed discussion of market risk is provided in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be so disclosed by an issuer is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is periodically subject to various pending and threatened legal actions, which involve claims for monetary relief. Based upon information presently available to the Corporation, it is the Corporation's opinion that any legal and financial responsibility arising from such claims will not have a material adverse effect on the Corporation's results of operations, financial position or cash flows.

Item 1A. Risk Factors

There have been no material changes in risk factors from those disclosed under Item 1A, “Risk Factors” in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on repurchases by the Corporation of its common stock under the Corporation's Board approved program.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – 31, 2018	—	$ —	—	1,014,246
August 1 – 31, 2018	—	—	—	1,014,246
September 1 – 30, 2018	—	—	—	1,014,246
Total	—	$ —	—	

1. Transactions are reported as of trade dates.
2. On October 23, 2013, the Corporation’s Board of Directors approved a new stock repurchase plan for the repurchase of up to 800,000 shares, or approximately 5% of the shares outstanding. On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. The repurchased shares limit does not include normal treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and equity compensation plans. The program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

a. Exhibits

Exhibit 3.1	Amended and Restated Articles of Incorporation are incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the SEC on April 22, 2015.
Exhibit 3.2	Amended By-Laws effective November 23, 2016 are incorporated by reference to Exhibit 3.2 of Form 8-K, filed with the SEC on November 23, 2016.
Exhibit 31.1	Certification of Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Roger S. Deacon, Senior Executive Vice President and Chief Financial Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Roger S. Deacon, Senior Executive Vice President and Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Univest Corporation of Pennsylvania (Registrant)
Date: November 2, 2018	/s/ Jeffrey M. Schweitzer Jeffrey M. Schweitzer President and Chief Executive Officer (Principal Executive Officer)
Date: November 2, 2018	/s/ Roger S. Deacon Roger S. Deacon Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)