

UNIVEST CORP OF PENNSYLVANIA

Form 10-Q

May 03, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period  
ended March 31, 2017.

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 (IRS Employer  
incorporation or organization) 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 ☒ 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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 ☒

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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 26,661,431

(Title of Class) (Number of shares outstanding at April 28, 2017)

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA  
CONSOLIDATED BALANCE SHEETS

|                                                                                                                                                                                                                                                                         | (UNAUDITED)          |                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------|
|                                                                                                                                                                                                                                                                         | At March<br>31, 2017 | At<br>December<br>31, 2016 |
| (Dollars in thousands, except share data)                                                                                                                                                                                                                               |                      |                            |
| <b>ASSETS</b>                                                                                                                                                                                                                                                           |                      |                            |
| Cash and due from banks                                                                                                                                                                                                                                                 | \$44,745             | \$48,757                   |
| Interest-earning deposits with other banks                                                                                                                                                                                                                              | 13,055               | 9,068                      |
| Investment securities held-to-maturity (fair value \$33,022 and \$24,871 at March 31, 2017 and December 31, 2016, respectively)                                                                                                                                         | 33,027               | 24,881                     |
| Investment securities available-for-sale                                                                                                                                                                                                                                | 431,612              | 443,637                    |
| Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost                                                                                                                                                                                                   | 25,322               | 24,869                     |
| Loans held for sale                                                                                                                                                                                                                                                     | 1,110                | 5,890                      |
| Loans and leases held for investment                                                                                                                                                                                                                                    | 3,341,916            | 3,285,886                  |
| Less: Reserve for loan and lease losses                                                                                                                                                                                                                                 | (19,528)             | (17,499)                   |
| Net loans and leases held for investment                                                                                                                                                                                                                                | 3,322,388            | 3,268,387                  |
| Premises and equipment, net                                                                                                                                                                                                                                             | 64,811               | 63,638                     |
| Goodwill                                                                                                                                                                                                                                                                | 172,559              | 172,559                    |
| Other intangibles, net of accumulated amortization and fair value adjustments of \$18,668 and \$17,597 at March 31, 2017 and December 31, 2016, respectively                                                                                                            | 15,923               | 16,651                     |
| Bank owned life insurance                                                                                                                                                                                                                                               | 100,520              | 99,948                     |
| Accrued interest receivable and other assets                                                                                                                                                                                                                            | 48,859               | 52,243                     |
| <b>Total assets</b>                                                                                                                                                                                                                                                     | <b>\$4,273,931</b>   | <b>\$4,230,528</b>         |
| <b>LIABILITIES</b>                                                                                                                                                                                                                                                      |                      |                            |
| Noninterest-bearing deposits                                                                                                                                                                                                                                            | \$947,495            | \$918,337                  |
| Interest-bearing deposits:                                                                                                                                                                                                                                              |                      |                            |
| Demand deposits                                                                                                                                                                                                                                                         | 1,034,363            | 909,963                    |
| Savings deposits                                                                                                                                                                                                                                                        | 830,917              | 803,078                    |
| Time deposits                                                                                                                                                                                                                                                           | 553,176              | 626,189                    |
| Total deposits                                                                                                                                                                                                                                                          | 3,365,951            | 3,257,567                  |
| Short-term borrowings                                                                                                                                                                                                                                                   | 79,366               | 196,171                    |
| Long-term debt                                                                                                                                                                                                                                                          | 182,066              | 127,522                    |
| Subordinated notes                                                                                                                                                                                                                                                      | 94,148               | 94,087                     |
| Accrued interest payable and other liabilities                                                                                                                                                                                                                          | 40,520               | 49,972                     |
| <b>Total liabilities</b>                                                                                                                                                                                                                                                | <b>3,762,051</b>     | <b>3,725,319</b>           |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                                                                                                                             |                      |                            |
| Common stock, \$5 par value: 48,000,000 shares authorized at March 31, 2017 and December 31, 2016; 28,911,799 shares issued at March 31, 2017 and December 31, 2016; 26,645,520 and 26,589,353 shares outstanding at March 31, 2017 and December 31, 2016, respectively | 144,559              | 144,559                    |
| Additional paid-in capital                                                                                                                                                                                                                                              | 230,391              | 230,494                    |
| Retained earnings                                                                                                                                                                                                                                                       | 200,050              | 194,516                    |
| Accumulated other comprehensive loss, net of tax benefit                                                                                                                                                                                                                | (18,992)             | (19,454)                   |
| Treasury stock, at cost; 2,266,279 and 2,322,446 shares at March 31, 2017 and December 31, 2016, respectively                                                                                                                                                           | (44,128)             | (44,906)                   |

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|                                                                                  |             |             |
|----------------------------------------------------------------------------------|-------------|-------------|
| Total shareholders' equity                                                       | 511,880     | 505,209     |
| Total liabilities and shareholders' equity                                       | \$4,273,931 | \$4,230,528 |
| Note: See accompanying notes to the unaudited consolidated financial statements. |             |             |

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UNIVEST CORPORATION OF PENNSYLVANIA  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

|                                                               | Three Months<br>Ended<br>March 31, |          |
|---------------------------------------------------------------|------------------------------------|----------|
| (Dollars in thousands, except per share data)                 | 2017                               | 2016     |
| Interest income                                               |                                    |          |
| Interest and fees on loans and leases:                        |                                    |          |
| Taxable                                                       | \$33,700                           | \$21,850 |
| Exempt from federal income taxes                              | 2,035                              | 1,716    |
| Total interest and fees on loans and leases                   | 35,735                             | 23,566   |
| Interest and dividends on investment securities:              |                                    |          |
| Taxable                                                       | 1,688                              | 1,274    |
| Exempt from federal income taxes                              | 599                                | 734      |
| Interest on deposits with other banks                         | 17                                 | 28       |
| Interest and dividends on other earning assets                | 357                                | 132      |
| Total interest income                                         | 38,396                             | 25,734   |
| Interest expense                                              |                                    |          |
| Interest on deposits                                          | 2,191                              | 1,533    |
| Interest on short-term borrowings                             | 262                                | 3        |
| Interest on long-term debt and subordinated notes             | 1,660                              | 675      |
| Total interest expense                                        | 4,113                              | 2,211    |
| Net interest income                                           | 34,283                             | 23,523   |
| Provision for loan and lease losses                           | 2,445                              | 326      |
| Net interest income after provision for loan and lease losses | 31,838                             | 23,197   |
| Noninterest income                                            |                                    |          |
| Trust fee income                                              | 1,907                              | 1,865    |
| Service charges on deposit accounts                           | 1,243                              | 998      |
| Investment advisory commission and fee income                 | 3,181                              | 2,671    |
| Insurance commission and fee income                           | 4,410                              | 4,558    |
| Other service fee income                                      | 1,987                              | 1,831    |
| Bank owned life insurance income                              | 783                                | 470      |
| Net gain on sales of investment securities                    | 15                                 | 44       |
| Net gain on mortgage banking activities                       | 1,113                              | 1,218    |
| Other income                                                  | 331                                | 176      |
| Total noninterest income                                      | 14,970                             | 13,831   |
| Noninterest expense                                           |                                    |          |
| Salaries and benefits                                         | 16,657                             | 14,182   |
| Commissions                                                   | 2,050                              | 1,895    |
| Net occupancy                                                 | 2,665                              | 2,100    |
| Equipment                                                     | 993                                | 776      |
| Data processing                                               | 2,058                              | 1,281    |
| Professional fees                                             | 1,239                              | 1,020    |
| Marketing and advertising                                     | 379                                | 538      |
| Deposit insurance premiums                                    | 402                                | 447      |
| Intangible expenses                                           | 759                                | 766      |
| Acquisition-related costs                                     | —                                  | 214      |
| Integration costs                                             | —                                  | 6        |

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|                            |          |         |
|----------------------------|----------|---------|
| Other expense              | 4,828    | 3,714   |
| Total noninterest expense  | 32,030   | 26,939  |
| Income before income taxes | 14,778   | 10,089  |
| Income taxes               | 3,922    | 2,800   |
| Net income                 | \$10,856 | \$7,289 |
| Net income per share:      |          |         |
| Basic                      | \$0.41   | \$0.37  |
| Diluted                    | 0.41     | 0.37    |
| Dividends declared         | 0.20     | 0.20    |

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

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

| (Dollars in thousands)                                                              | Three Months Ended March 31, |                       |                   |                   |                       |                   |
|-------------------------------------------------------------------------------------|------------------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
|                                                                                     | 2017                         |                       |                   | 2016              |                       |                   |
|                                                                                     | Before Tax Amount            | Tax Expense (Benefit) | Net of Tax Amount | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount |
| Income                                                                              | \$14,778                     | \$3,922               | \$10,856          | \$10,089          | \$2,800               | \$7,289           |
| Other comprehensive income:                                                         |                              |                       |                   |                   |                       |                   |
| Net unrealized gains on available-for-sale investment securities:                   |                              |                       |                   |                   |                       |                   |
| Net unrealized holding gains arising during the period                              | 420                          | 147                   | 273               | 2,218             | 776                   | 1,442             |
| Less: reclassification adjustment for net gains on sales realized in net income (1) | (15)                         | (5)                   | (10)              | (44)              | (15)                  | (29)              |
| Total net unrealized gains on available-for-sale investment securities              | 405                          | 142                   | 263               | 2,174             | 761                   | 1,413             |
| Net unrealized gains (losses) on interest rate swaps used in cash flow hedges:      |                              |                       |                   |                   |                       |                   |
| Net unrealized holding gains (losses) arising during the period                     | 7                            | 2                     | 5                 | (626)             | (219)                 | (407)             |
| Less: reclassification adjustment for net losses realized in net income (2)         | 71                           | 25                    | 46                | 81                | 28                    | 53                |
| Total net unrealized gains (losses) on interest rate swaps used in cash flow hedges | 78                           | 27                    | 51                | (545)             | (191)                 | (354)             |
| Defined benefit pension plans:                                                      |                              |                       |                   |                   |                       |                   |
| Amortization of net actuarial loss included in net periodic pension costs (3)       | 299                          | 105                   | 194               | 329               | 115                   | 214               |
| Accretion of prior service cost included in net periodic pension costs (3)          | (70)                         | (24)                  | (46)              | (71)              | (25)                  | (46)              |
| Total defined benefit pension plans                                                 | 229                          | 81                    | 148               | 258               | 90                    | 168               |
| Other comprehensive income                                                          | 712                          | 250                   | 462               | 1,887             | 660                   | 1,227             |
| Total comprehensive income                                                          | \$15,490                     | \$4,172               | \$11,318          | \$11,976          | \$3,460               | \$8,516           |

(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 6—Retirement Plans and Other Postretirement Benefits for additional details.

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

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## UNIVEST CORPORATION OF PENNSYLVANIA

## 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) Income | Treasury Stock | Total      |
|----------------------------------------------------------------------------|---------------------------|--------------|----------------------------|-------------------|-----------------------------------------------|----------------|------------|
| Three Months Ended March 31, 2017                                          |                           |              |                            |                   |                                               |                |            |
| Balance at December 31, 2016                                               | 26,589,353                | \$ 144,559   | \$ 230,494                 | \$ 194,516        | \$ (19,454 )                                  | \$ (44,906)    | \$ 505,209 |
| Net income                                                                 | —                         | —            | —                          | 10,856            | —                                             | —              | 10,856     |
| Other comprehensive income, net of income tax                              | —                         | —            | —                          | —                 | 462                                           | —              | 462        |
| Cash dividends declared (\$0.20 per share)                                 | —                         | —            | —                          | (5,322 )          | —                                             | —              | (5,322 )   |
| Stock issued under dividend reinvestment and employee stock purchase plans | 20,944                    | —            | 16                         | —                 | —                                             | 601            | 617        |
| Exercise of stock options                                                  | 47,704                    | —            | (62 )                      | —                 | —                                             | 923            | 861        |
| Repurchase of cancelled restricted stock awards                            | (13,125 )                 | —            | 246                        | —                 | —                                             | (246 )         | —          |
| Stock-based compensation                                                   | —                         | —            | 831                        | —                 | —                                             | —              | 831        |
| Purchases of treasury stock                                                | (57,804 )                 | —            | —                          | —                 | —                                             | (1,634 )       | (1,634 )   |
| Restricted stock awards granted                                            | 58,448                    | —            | (1,134 )                   | —                 | —                                             | 1,134          | —          |
| Balance at March 31, 2017                                                  | 26,645,520                | \$ 144,559   | \$ 230,391                 | \$ 200,050        | \$ (18,992 )                                  | \$ (44,128)    | \$ 511,880 |
| Three Months Ended March 31, 2016                                          |                           |              |                            |                   |                                               |                |            |
| Balance at December 31, 2015                                               | 19,530,930                | \$ 110,271   | \$ 121,280                 | \$ 193,446        | \$ (16,708 )                                  | \$ (46,715)    | \$ 361,574 |
| Net income                                                                 | —                         | —            | —                          | 7,289             | —                                             | —              | 7,289      |
| Other comprehensive income, net of income tax                              | —                         | —            | —                          | —                 | 1,227                                         | —              | 1,227      |
| Cash dividends declared (\$0.20 per share)                                 | —                         | —            | —                          | (3,908 )          | —                                             | —              | (3,908 )   |
| Stock issued under dividend reinvestment and employee stock purchase plans | 30,121                    | —            | 8                          | —                 | —                                             | 609            | 617        |
| Exercise of stock options                                                  | 14,167                    | —            | 9                          | —                 | —                                             | 265            | 274        |
| Repurchase of cancelled restricted stock awards                            | (14,250 )                 | —            | 241                        | —                 | —                                             | (241 )         | —          |
| Stock-based compensation                                                   | —                         | —            | 451                        | —                 | —                                             | —              | 451        |
| Purchases of treasury stock                                                | (26,750 )                 | —            | —                          | —                 | —                                             | (521 )         | (521 )     |
| Restricted stock awards granted                                            | 58,580                    | —            | (1,083 )                   | —                 | —                                             | 1,083          | —          |
| Balance at March 31, 2016                                                  | 19,592,798                | \$ 110,271   | \$ 120,906                 | \$ 196,827        | \$ (15,481 )                                  | \$ (45,520)    | \$ 367,003 |

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

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

|                                                                                    | Three Months<br>Ended March 31, |           |
|------------------------------------------------------------------------------------|---------------------------------|-----------|
| (Dollars in thousands)                                                             | 2017                            | 2016      |
| Cash flows from operating activities:                                              |                                 |           |
| Net income                                                                         | \$10,856                        | \$7,289   |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                 |           |
| Provision for loan and lease losses                                                | 2,445                           | 326       |
| Depreciation of premises and equipment                                             | 1,192                           | 946       |
| Net amortization of investment securities premiums and discounts                   | 515                             | 320       |
| Net gain on sales of investment securities                                         | (15 )                           | (44 )     |
| Net gain on mortgage banking activities                                            | (1,113 )                        | (1,218 )  |
| Bank owned life insurance income                                                   | (783 )                          | (470 )    |
| Net accretion of acquisition accounting fair value adjustments                     | (764 )                          | (100 )    |
| Stock-based compensation                                                           | 831                             | 451       |
| Intangible expenses                                                                | 759                             | 766       |
| Other adjustments to reconcile net income to cash provided by operating activities | (130 )                          | 5         |
| Deferred tax expense                                                               | 1,087                           | 905       |
| Originations of loans held for sale                                                | (24,828 )                       | (44,414 ) |
| Proceeds from the sale of loans held for sale                                      | 30,568                          | 46,003    |
| Contributions to pension and other postretirement benefit plans                    | (69 )                           | (60 )     |
| Decrease (increase) in accrued interest receivable and other assets                | 851                             | (2,503 )  |
| Increase in accrued interest payable and other liabilities                         | (3,715 )                        | (1,469 )  |
| Net cash provided by operating activities                                          | 17,687                          | 6,733     |
| Cash flows from investing activities:                                              |                                 |           |
| Net capital expenditures                                                           | (2,299 )                        | (2,177 )  |
| Proceeds from maturities and calls of securities held-to-maturity                  | 10,026                          | 4,000     |
| Proceeds from maturities and calls of securities available-for-sale                | 18,782                          | 18,693    |
| Proceeds from sales of securities available-for-sale                               | 1,762                           | 53,181    |
| Purchases of investment securities held-to-maturity                                | (18,209 )                       | —         |
| Purchases of investment securities available-for-sale                              | (9,009 )                        | (32,573 ) |
| Net (increase) decrease in other investments                                       | (453 )                          | 118       |
| Net increase in loans and leases                                                   | (56,550 )                       | (7,507 )  |
| Net (increase) decrease in interest-earning deposits                               | (3,987 )                        | 21,156    |
| Proceeds from sales of other real estate owned                                     | 2,039                           | —         |
| Proceeds from bank owned life insurance                                            | 211                             | —         |
| Net cash (used in) provided by investing activities                                | (57,687 )                       | 54,891    |
| Cash flows from financing activities:                                              |                                 |           |
| Net increase (decrease) in deposits                                                | 108,543                         | (59,934 ) |
| Net (decrease) increase in short-term borrowings                                   | (116,805)                       | 1,640     |
| Proceeds from issuance of long-term debt                                           | 55,000                          | —         |
| Payment of contingent consideration on acquisitions                                | (5,284 )                        | (900 )    |
| Purchases of treasury stock                                                        | (1,634 )                        | (521 )    |
| Stock issued under dividend reinvestment and employee stock purchase plans         | 617                             | 617       |
| Proceeds from exercise of stock options                                            | 861                             | 274       |
| Cash dividends paid                                                                | (5,310 )                        | (3,896 )  |
| Net cash provided by (used in) financing activities                                | 35,988                          | (62,720 ) |

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|                                                                                  |          |          |
|----------------------------------------------------------------------------------|----------|----------|
| Net decrease in cash and due from banks                                          | (4,012 ) | (1,096 ) |
| Cash and due from banks at beginning of year                                     | 48,757   | 32,356   |
| Cash and due from banks at end of period                                         | \$44,745 | \$31,260 |
| Supplemental disclosures of cash flow information:                               |          |          |
| Cash paid for interest                                                           | \$4,729  | \$3,113  |
| Cash paid for income taxes, net of refunds                                       | 157      | 685      |
| Non cash transactions:                                                           |          |          |
| Transfer of loans to other real estate owned                                     | \$653    | \$1,797  |
| Note: See accompanying notes to the unaudited consolidated financial statements. |          |          |

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the 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 primary 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 three-month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017. 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, 2016, which was filed with the SEC on March 4, 2016.

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 and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.

Recent Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 amendments also allow only the service cost component to be eligible for capitalization, when applicable. This ASU is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods, or January 1, 2018 for the Corporation. This ASU should be applied retrospectively for the presentation requirements and prospectively for the capitalization of the service cost component requirements. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required. 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

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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 January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business – inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output, and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, or January 1, 2018 for the Corporation. The amendments in this ASU should be applied prospectively on or after the effective date. The Corporation does not anticipate 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 allowance will increase upon adoption of CECL and that the increased allowance level will decrease regulatory capital and ratios.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" to revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. 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. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP.

The ASU is effective for the first interim period within annual periods beginning after December 15, 2018, or January 1, 2019, with early adoption permitted. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, the adoption of this ASU will impact the balance sheet for the recording of assets and liabilities for operating leases; any initial or continued impact of the recording of assets will have an impact on risk-based capital ratios under current regulatory guidance and possibly equity ratios. 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 will require equity investments to be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment's observable price. The ASU will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment

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to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. A valuation allowance on a deferred tax asset related to available-for-sale securities will need to be included. For financial liabilities that are measured at fair value, the ASU requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The amendments in this ASU are effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017 or January 1, 2018 for the Corporation. At March 31, 2017, the Corporation's equity portfolio had a carrying value of \$941 thousand which included an unrealized net gain of \$532 thousand. This unrealized net gain, net of income taxes, amounted to \$345 thousand and was recorded in accumulated other comprehensive income. Upon implementation using the prospective approach, the balance in accumulated other comprehensive income will be reclassified to retained earnings. The carrying value of the equity securities, upon implementation, will not change; however, any future increases or decreases in fair value will be recorded as an increase or decrease to the carrying value and recognized in non-interest income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that would require an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)," which instructs the participants in the sale to determine whether they control the good or service and are entitled to the gross amount of the transaction or are acting as an agent and should collect only a fee or commission for arranging the sale. In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" to provide clarification on these areas. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients" providing some limited improvements and practical expedients. The original effective date of the guidance relating to revenue from contracts with customers was deferred by one year as a result of the issuance of ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which was issued by the FASB in August 2015. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, or January 1, 2018 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 the impact will be only related to timing.

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## Note 2. 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 March 31, 2017 and December 31, 2016, by contractual maturity within each type:

| (Dollars in thousands)                     | At March 31, 2017 |                              |                               |               | At December 31, 2016 |                              |                               |               |
|--------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|----------------------|------------------------------|-------------------------------|---------------|
|                                            | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Securities Held-to-Maturity</b>         |                   |                              |                               |               |                      |                              |                               |               |
| U.S. government corporations and agencies: |                   |                              |                               |               |                      |                              |                               |               |
| After 1 year to 5 years                    | \$5,000           | \$ —                         | \$ (8                         | ) \$4,992     | \$—                  | \$ —                         | \$—                           | \$—           |
|                                            | 5,000             | —                            | (8                            | ) 4,992       | —                    | —                            | —                             | —             |
| Residential mortgage-backed securities:    |                   |                              |                               |               |                      |                              |                               |               |
| After 5 years to 10 years                  | 4,959             | 2                            | —                             | 4,961         | —                    | —                            | —                             | —             |
| Over 10 years                              | 13,066            | 16                           | (9                            | ) 13,073      | 5,071                | —                            | (3                            | ) 5,068       |
|                                            | 18,025            | 18                           | (9                            | ) 18,034      | 5,071                | —                            | (3                            | ) 5,068       |
| Corporate bonds:                           |                   |                              |                               |               |                      |                              |                               |               |
| Within 1 year                              | 10,002            | —                            | (6                            | ) 9,996       | 19,810               | 2                            | (9                            | ) 19,803      |
|                                            | 10,002            | —                            | (6                            | ) 9,996       | 19,810               | 2                            | (9                            | ) 19,803      |
| Total                                      | \$33,027          | \$ 18                        | \$ (23                        | ) \$33,022    | \$24,881             | \$ 2                         | \$ (12                        | ) \$24,871    |
| <b>Securities Available-for-Sale</b>       |                   |                              |                               |               |                      |                              |                               |               |
| U.S. government corporations and agencies: |                   |                              |                               |               |                      |                              |                               |               |
| Within 1 year                              | \$15,000          | \$ 6                         | \$—                           | \$15,006      | \$15,000             | \$ 20                        | \$—                           | \$15,020      |
| After 1 year to 5 years                    | 17,220            | 2                            | (24                           | ) 17,198      | 17,265               | —                            | (19                           | ) 17,246      |
|                                            | 32,220            | 8                            | (24                           | ) 32,204      | 32,265               | 20                           | (19                           | ) 32,266      |
| State and political subdivisions:          |                   |                              |                               |               |                      |                              |                               |               |
| Within 1 year                              | 2,105             | —                            | —                             | 2,105         | 964                  | —                            | (1                            | ) 963         |
| After 1 year to 5 years                    | 18,122            | 67                           | (24                           | ) 18,165      | 18,705               | 38                           | (75                           | ) 18,668      |
| After 5 years to 10 years                  | 54,737            | 955                          | (250                          | ) 55,442      | 55,541               | 829                          | (426                          | ) 55,944      |
| Over 10 years                              | 8,855             | 138                          | (79                           | ) 8,914       | 12,663               | 226                          | (114                          | ) 12,775      |
|                                            | 83,819            | 1,160                        | (353                          | ) 84,626      | 87,873               | 1,093                        | (616                          | ) 88,350      |
| Residential mortgage-backed securities:    |                   |                              |                               |               |                      |                              |                               |               |
| After 1 year to 5 years                    | 5,628             | 6                            | (46                           | ) 5,588       | 6,086                | —                            | (66                           | ) 6,020       |
| After 5 years to 10 years                  | 31,927            | 1                            | (771                          | ) 31,157      | 23,479               | —                            | (622                          | ) 22,857      |
| Over 10 years                              | 157,202           | 95                           | (3,663                        | ) 153,634     | 174,388              | 99                           | (4,794                        | ) 169,693     |
|                                            | 194,757           | 102                          | (4,480                        | ) 190,379     | 203,953              | 99                           | (5,482                        | ) 198,570     |
| Collateralized mortgage obligations:       |                   |                              |                               |               |                      |                              |                               |               |
| Over 10 years                              | 4,390             | —                            | (89                           | ) 4,301       | 4,659                | —                            | (105                          | ) 4,554       |
|                                            | 4,390             | —                            | (89                           | ) 4,301       | 4,659                | —                            | (105                          | ) 4,554       |
| Corporate bonds:                           |                   |                              |                               |               |                      |                              |                               |               |
| Within 1 year                              | 7,032             | —                            | (24                           | ) 7,008       | 250                  | —                            | —                             | 250           |
| After 1 year to 5 years                    | 29,773            | 61                           | (154                          | ) 29,680      | 35,923               | 34                           | (241                          | ) 35,716      |
| After 5 years to 10 years                  | 15,187            | —                            | (396                          | ) 14,791      | 15,193               | —                            | (516                          | ) 14,677      |
| Over 10 years                              | 60,000            | —                            | (3,612                        | ) 56,388      | 60,000               | 27                           | (2,472                        | ) 57,555      |
|                                            | 111,992           | 61                           | (4,186                        | ) 107,867     | 111,366              | 61                           | (3,229                        | ) 108,198     |

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Money market mutual funds:

|                    |           |          |             |           |           |          |             |           |
|--------------------|-----------|----------|-------------|-----------|-----------|----------|-------------|-----------|
| No stated maturity | 11,294    | —        | —           | 11,294    | 10,784    | —        | —           | 10,784    |
|                    | 11,294    | —        | —           | 11,294    | 10,784    | —        | —           | 10,784    |
| Equity securities: |           |          |             |           |           |          |             |           |
| No stated maturity | 409       | 533      | (1 )        | 941       | 411       | 504      | —           | 915       |
|                    | 409       | 533      | (1 )        | 941       | 411       | 504      | —           | 915       |
| Total              | \$438,881 | \$ 1,864 | \$ (9,133 ) | \$431,612 | \$451,311 | \$ 1,777 | \$ (9,451 ) | \$443,637 |

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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. Unrealized losses in investment securities at March 31, 2017 and December 31, 2016 do not represent other-than-temporary impairments in management's judgment.

Securities with a carrying value of \$355.3 million and \$356.7 million at March 31, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and other contractual obligations. In addition, securities of \$1.4 million were pledged to secure credit derivatives and interest rate swaps at March 31, 2017 and December 31, 2016. See Note 10, "Derivative Instruments and Hedging Activities" for additional information.

The following table presents information related to sales of securities available-for-sale during the three months ended March 31, 2017 and 2016:

|                                                    | Three Months<br>Ended March<br>31, |          |
|----------------------------------------------------|------------------------------------|----------|
| (Dollars in thousands)                             | 2017                               | 2016     |
| Securities available-for-sale:                     |                                    |          |
| Proceeds from sales                                | \$1,762                            | \$53,181 |
| Gross realized gains on sales                      | 15                                 | 106      |
| Gross realized losses on sales                     | —                                  | 62       |
| Tax expense related to net realized gains on sales | 5                                  | 15       |

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the credit rating of each security. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the three months ended March 31, 2017 and 2016.

At March 31, 2017 and December 31, 2016, there were no investments in any single non-federal issuer representing more than 10% of shareholders' equity.

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The following table shows the fair value of securities that were in an unrealized loss position at March 31, 2017 and December 31, 2016 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 investment before a recovery of carrying value.

| (Dollars in thousands)                    | Less than<br>Twelve Months |                      | Twelve Months<br>or Longer |                      | Total         |                      |
|-------------------------------------------|----------------------------|----------------------|----------------------------|----------------------|---------------|----------------------|
|                                           | Fair<br>Value              | Unrealized<br>Losses | Fair<br>Value              | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| At March 31, 2017                         |                            |                      |                            |                      |               |                      |
| Securities Held-to-Maturity               |                            |                      |                            |                      |               |                      |
| U.S. government corporations and agencies | \$4,992                    | \$ (8 )              | \$ —                       | \$ —                 | \$4,992       | \$ (8 )              |
| Residential mortgage-backed securities    | 5,000                      | (9 )                 | —                          | —                    | 5,000         | (9 )                 |
| Corporate bonds                           | 4,995                      | (6 )                 | —                          | —                    | 4,995         | (6 )                 |
| Total                                     | \$14,987                   | \$ (23 )             | \$ —                       | \$ —                 | \$14,987      | \$ (23 )             |
| Securities Available-for-Sale             |                            |                      |                            |                      |               |                      |
| U.S. government corporations and agencies | \$11,837                   | \$ (24 )             | \$ —                       | \$ —                 | \$11,837      | \$ (24 )             |
| State and political subdivisions          | 22,082                     | (344 )               | 1,706                      | (9 )                 | 23,788        | (353 )               |
| Residential mortgage-backed securities    | 180,647                    | (4,480 )             | —                          | —                    | 180,647       | (4,480 )             |
| Collateralized mortgage obligations       | 1,885                      | (14 )                | 2,416                      | (75 )                | 4,301         | (89 )                |
| Corporate bonds                           | 66,728                     | (2,025 )             | 32,839                     | (2,161 )             | 99,567        | (4,186 )             |
| Equity securities                         | 3                          | (1 )                 | —                          | —                    | 3             | (1 )                 |
| Total                                     | \$283,182                  | \$ (6,888 )          | \$36,961                   | \$ (2,245 )          | \$320,143     | \$ (9,133 )          |
| At December 31, 2016                      |                            |                      |                            |                      |               |                      |
| Securities Held-to-Maturity               |                            |                      |                            |                      |               |                      |
| Residential mortgage-backed securities    | \$5,068                    | \$ (3 )              | \$ —                       | \$ —                 | \$5,068       | \$ (3 )              |
| Corporate bonds                           | 9,779                      | (9 )                 | —                          | —                    | 9,779         | (9 )                 |
| Total                                     | \$14,847                   | \$ (12 )             | \$ —                       | \$ —                 | \$14,847      | \$ (12 )             |
| Securities Available-for-Sale             |                            |                      |                            |                      |               |                      |
| U.S. government corporations and agencies | \$11,850                   | \$ (19 )             | \$ —                       | \$ —                 | \$11,850      | \$ (19 )             |
| State and political subdivisions          | 40,771                     | (610 )               | 423                        | (6 )                 | 41,194        | (616 )               |
| Residential mortgage-backed securities    | 192,782                    | (5,482 )             | —                          | —                    | 192,782       | (5,482 )             |
| Collateralized mortgage obligations       | 2,012                      | (26 )                | 2,542                      | (79 )                | 4,554         | (105 )               |
| Corporate bonds                           | 58,535                     | (1,333 )             | 33,104                     | (1,896 )             | 91,639        | (3,229 )             |
| Total                                     | \$305,950                  | \$ (7,470 )          | \$36,069                   | \$ (1,981 )          | \$342,019     | \$ (9,451 )          |

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## Note 3. Loans and Leases

## Summary of Major Loan and Lease Categories

|                                                                    | At March 31, 2017 |           |             |
|--------------------------------------------------------------------|-------------------|-----------|-------------|
| (Dollars in thousands)                                             | Originated        | Acquired  | Total       |
| Commercial, financial and agricultural                             | \$750,342         | \$90,629  | \$840,971   |
| Real estate-commercial                                             | 1,013,978         | 389,690   | 1,403,668   |
| Real estate-construction                                           | 170,178           | 11,409    | 181,587     |
| Real estate-residential secured for business purpose               | 180,830           | 111,402   | 292,232     |
| Real estate-residential secured for personal purpose               | 220,543           | 74,889    | 295,432     |
| Real estate-home equity secured for personal purpose               | 154,363           | 12,736    | 167,099     |
| Loans to individuals                                               | 27,915            | 148       | 28,063      |
| Lease financings                                                   | 132,864           | —         | 132,864     |
| Total loans and leases held for investment, net of deferred income | \$2,651,013       | \$690,903 | \$3,341,916 |
| Unearned lease income, included in the above table                 | \$(15,524)        | \$—       | \$(15,524)  |
| Net deferred costs, included in the above table                    | 4,418             | —         | 4,418       |
| Overdraft deposits included in the above table                     | 73                | —         | 73          |

|                                                                    | At December 31, 2016 |           |             |
|--------------------------------------------------------------------|----------------------|-----------|-------------|
| (Dollars in thousands)                                             | Originated           | Acquired  | Total       |
| Commercial, financial and agricultural                             | \$663,221            | \$160,045 | \$823,266   |
| Real estate-commercial                                             | 909,581              | 465,368   | 1,374,949   |
| Real estate-construction                                           | 142,891              | 31,953    | 174,844     |
| Real estate-residential secured for business purpose               | 151,931              | 142,137   | 294,068     |
| Real estate-residential secured for personal purpose               | 210,377              | 80,431    | 290,808     |
| Real estate-home equity secured for personal purpose               | 147,982              | 14,857    | 162,839     |
| Loans to individuals                                               | 30,110               | 263       | 30,373      |
| Lease financings                                                   | 134,739              | —         | 134,739     |
| Total loans and leases held for investment, net of deferred income | \$2,390,832          | \$895,054 | \$3,285,886 |
| Unearned lease income, included in the above table                 | \$(15,970)           | \$—       | \$(15,970)  |
| Net deferred costs, included in the above table                    | 4,503                | —         | 4,503       |
| Overdraft deposits included in the above table                     | 84                   | —         | 84          |

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

The carrying amount of acquired loans at March 31, 2017 totaled \$690.9 million, including \$535.7 million of loans from the Fox Chase acquisition and \$155.2 million from the Valley Green Bank acquisition. At March 31, 2017, loans acquired with deteriorated credit quality, or acquired credit impaired loans, were \$5.8 million from the Fox Chase acquisition and \$788 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 March 31, 2017 and December 31, 2016 were as follows:

| (Dollars in thousands)        | At<br>March<br>31,<br>2017 | At<br>December<br>31, 2016 |
|-------------------------------|----------------------------|----------------------------|
| Outstanding principal balance | \$8,007                    | \$ 8,993                   |
| Carrying amount               | 6,616                      | 7,352                      |
| Allowance for loan losses     | —                          | —                          |

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

|                                                  |                                       |       |
|--------------------------------------------------|---------------------------------------|-------|
|                                                  | Three<br>Months<br>Ended<br>March 31, |       |
| (Dollars in thousands)                           | 2017                                  | 2016  |
| Beginning of period                              | \$50                                  | \$144 |
| Reclassification from nonaccretable discount     | 107                                   | 46    |
| Accretable discount amortized to interest income | (116)                                 | (74 ) |
| Disposals                                        | (4 )                                  | —     |
| End of period                                    | \$37                                  | \$116 |

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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 March 31, 2017 and December 31, 2016:

| (Dollars in thousands)                               | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>or more<br>Past<br>Due | Total<br>Past Due | Current      | Acquired<br>Credit<br>Impaired | Total<br>Loans<br>and Leases<br>Held for<br>Investment | Recorded<br>Investment 90<br>Days<br>or more<br>Past Due<br>and<br>Accruing<br>Interest |
|------------------------------------------------------|---------------------------|---------------------------|-----------------------------------|-------------------|--------------|--------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------|
| At March 31, 2017                                    |                           |                           |                                   |                   |              |                                |                                                        |                                                                                         |
| Commercial, financial and agricultural               | \$ 1,466                  | \$ —                      | \$ 1,548                          | \$ 3,014          | \$ 837,397   | \$ 560                         | \$ 840,971                                             | \$ —                                                                                    |
| Real estate—commercial real estate and construction: |                           |                           |                                   |                   |              |                                |                                                        |                                                                                         |
| Commercial real estate                               | 4,606                     | 47                        | 1,466                             | 6,119             | 1,392,288    | 5,261                          | 1,403,668                                              | —                                                                                       |
| Construction                                         | —                         | 365                       | —                                 | 365               | 181,222      | —                              | 181,587                                                | —                                                                                       |
| Real estate—residential and home equity:             |                           |                           |                                   |                   |              |                                |                                                        |                                                                                         |
| Residential secured for business purpose             | 1,700                     | 1,227                     | 1,328                             | 4,255             | 287,395      | 582                            | 292,232                                                | —                                                                                       |
| Residential secured for personal purpose             | 2,125                     | —                         | 767                               | 2,892             | 292,327      | 213                            | 295,432                                                | 508                                                                                     |
| Home equity secured for personal purpose             | 471                       | 343                       | 459                               | 1,273             | 165,826      | —                              | 167,099                                                | 109                                                                                     |
| Loans to individuals                                 | 266                       | 38                        | 142                               | 446               | 27,617       | —                              | 28,063                                                 | 142                                                                                     |
| Lease financings                                     | 5,948                     | 822                       | 5,721                             | 12,491            | 120,373      | —                              | 132,864                                                | 160                                                                                     |
| Total                                                | \$ 16,582                 | \$ 2,842                  | \$ 11,431                         | \$ 30,855         | \$ 3,304,445 | \$ 6,616                       | \$ 3,341,916                                           | \$ 919                                                                                  |
| At December 31, 2016                                 |                           |                           |                                   |                   |              |                                |                                                        |                                                                                         |
| Commercial, financial and agricultural               | \$ 1,536                  | \$ 256                    | \$ 1,335                          | \$ 3,127          | \$ 819,550   | \$ 589                         | \$ 823,266                                             | \$ —                                                                                    |
| Real estate—commercial real estate and construction: |                           |                           |                                   |                   |              |                                |                                                        |                                                                                         |
| Commercial real estate                               | 1,482                     | 1,560                     | 2,591                             | 5,633             | 1,363,606    | 5,710                          | 1,374,949                                              | —                                                                                       |
| Construction                                         | 202                       | —                         | —                                 | 202               | 174,642      | —                              | 174,844                                                | —                                                                                       |
| Real estate—residential and home equity:             |                           |                           |                                   |                   |              |                                |                                                        |                                                                                         |
| Residential secured for business purpose             | 1,390                     | 428                       | 1,539                             | 3,357             | 289,927      | 784                            | 294,068                                                | —                                                                                       |
| Residential secured for personal purpose             | 3,243                     | 905                       | 879                               | 5,027             | 285,512      | 269                            | 290,808                                                | 481                                                                                     |
| Home equity secured for personal purpose             | 717                       | 142                       | 521                               | 1,380             | 161,459      | —                              | 162,839                                                | 171                                                                                     |
| Loans to individuals                                 | 324                       | 95                        | 142                               | 561               | 29,812       | —                              | 30,373                                                 | 142                                                                                     |
| Lease financings                                     | 1,731                     | 1,418                     | 729                               | 3,878             | 130,861      | —                              | 134,739                                                | 193                                                                                     |
| Total                                                | \$ 10,625                 | \$ 4,804                  | \$ 7,736                          | \$ 23,165         | \$ 3,255,369 | \$ 7,352                       | \$ 3,285,886                                           | \$ 987                                                                                  |



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## Non-Performing Loans and Leases

The following presents, by class of loans and leases, non-performing loans and leases at March 31, 2017 and December 31, 2016:

| (Dollars in thousands)                               | At March 31, 2017                     |                                                                                     |                                                                                         |                                                       | At December 31, 2016                  |                                                                                     |                                                                                         |                                                       |
|------------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------|
|                                                      | Nonaccrual<br>Loans<br>and<br>Leases* | Accruing<br>Troubled<br>Debt<br>Restructured<br>Loans and<br>Lease<br>Modifications | Loans and<br>Leases<br>90 Days<br>or more<br>Past<br>Due<br>and<br>Accruing<br>Interest | Total<br>Non-<br>Performing<br>Loans<br>and<br>Leases | Nonaccrual<br>Loans<br>and<br>Leases* | Accruing<br>Troubled<br>Debt<br>Restructured<br>Loans and<br>Lease<br>Modifications | Loans and<br>Leases<br>90 Days<br>or more<br>Past<br>Due<br>and<br>Accruing<br>Interest | Total<br>Non-<br>Performing<br>Loans<br>and<br>Leases |
| Commercial, financial and agricultural               | \$5,305                               | \$ 954                                                                              | \$ —                                                                                    | \$ 6,259                                              | \$5,746                               | \$ 967                                                                              | \$ —                                                                                    | \$ 6,713                                              |
| Real estate—commercial real estate and construction: |                                       |                                                                                     |                                                                                         |                                                       |                                       |                                                                                     |                                                                                         |                                                       |
| Commercial real estate                               | 4,133                                 | 1,506                                                                               | —                                                                                       | 5,639                                                 | 5,651                                 | 1,519                                                                               | —                                                                                       | 7,170                                                 |
| Real estate—residential and home equity:             |                                       |                                                                                     |                                                                                         |                                                       |                                       |                                                                                     |                                                                                         |                                                       |
| Residential secured for business purpose             | 3,845                                 | 316                                                                                 | —                                                                                       | 4,161                                                 | 4,898                                 | 766                                                                                 | —                                                                                       | 5,664                                                 |
| Residential secured for personal purpose             | 514                                   | 42                                                                                  | 508                                                                                     | 1,064                                                 | 560                                   | —                                                                                   | 481                                                                                     | 1,041                                                 |
| Home equity secured for personal purpose             | 498                                   | —                                                                                   | 109                                                                                     | 607                                                   | 525                                   | —                                                                                   | 171                                                                                     | 696                                                   |
| Loans to individuals                                 | —                                     | —                                                                                   | 142                                                                                     | 142                                                   | —                                     | —                                                                                   | 142                                                                                     | 142                                                   |
| Lease financings                                     | 5,561                                 | —                                                                                   | 160                                                                                     | 5,721                                                 | 536                                   | —                                                                                   | 193                                                                                     | 729                                                   |
| Total                                                | \$19,856                              | \$ 2,818                                                                            | \$ 919                                                                                  | \$ 23,593                                             | \$17,916                              | \$ 3,252                                                                            | \$ 987                                                                                  | \$ 22,155                                             |

\* Includes nonaccrual troubled debt restructured loans and lease modifications of \$1.7 million and \$1.8 million at March 31, 2017 and December 31, 2016, respectively.

The increase in nonaccrual lease financings represents software leases totaling \$5.0 million under a vendor referral program. These leases are personally guaranteed by high net worth individuals. During the first quarter of 2017, the lessees stopped making payments due to disputes with the vendor, and Univest Capital, Inc., a subsidiary of the Corporation, filed legal complaints to pursue collection of all amounts owed. A complaint was subsequently filed against Univest Capital Inc. and certain other defendants on March 28, 2017 by one of the lessees in federal court in Texas seeking, among other things, class action certification and a declaration that the contracts and related guarantees are null and void. Univest Capital, Inc. has not been served with the complaint, and the plaintiff has been directed to file an amended complaint on or before May 5, 2017. As of the filing date, the outcome of the matter is neither probable nor estimable.

## Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at March 31, 2017 and December 31, 2016.

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.

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,<br>Financial and<br>Agricultural | Real Estate—<br>Commercial | Real Estate—<br>Construction | Real Estate—<br>Residential Secured<br>for Business Purpose | Total       |
|-----------------------------------|----------------------------------------------|----------------------------|------------------------------|-------------------------------------------------------------|-------------|
| At March 31, 2017                 |                                              |                            |                              |                                                             |             |
| Grade:                            |                                              |                            |                              |                                                             |             |
| 1. Cash secured/ 2. Fully secured | \$ 1,579                                     | \$ —                       | \$ 16,754                    | \$ —                                                        | \$18,333    |
| 3. Strong                         | 11,641                                       | 2,001                      | —                            | —                                                           | 13,642      |
| 4. Satisfactory                   | 16,479                                       | 39,513                     | —                            | 361                                                         | 56,353      |
| 5. Acceptable                     | 552,555                                      | 767,428                    | 116,973                      | 156,111                                                     | 1,593,067   |
| 6. Pre-watch                      | 135,055                                      | 145,103                    | 35,726                       | 15,955                                                      | 331,839     |
| 7. Special Mention                | 6,454                                        | 22,757                     | 360                          | 2,172                                                       | 31,743      |
| 8. Substandard                    | 26,579                                       | 37,176                     | 365                          | 6,231                                                       | 70,351      |
| 9. Doubtful                       | —                                            | —                          | —                            | —                                                           | —           |
| 10. Loss                          | —                                            | —                          | —                            | —                                                           | —           |
| Total                             | \$ 750,342                                   | \$ 1,013,978               | \$ 170,178                   | \$ 180,830                                                  | \$2,115,328 |
| At December 31, 2016              |                                              |                            |                              |                                                             |             |
| Grade:                            |                                              |                            |                              |                                                             |             |
| 1. Cash secured/ 2. Fully secured | \$ 272                                       | \$ —                       | \$ 13,714                    | \$ 162                                                      | \$14,148    |
| 3. Strong                         | 14,980                                       | 2,045                      | —                            | —                                                           | 17,025      |
| 4. Satisfactory                   | 35,529                                       | 38,861                     | —                            | 367                                                         | 74,757      |
| 5. Acceptable                     | 465,675                                      | 676,212                    | 110,650                      | 133,716                                                     | 1,386,253   |
| 6. Pre-watch                      | 113,499                                      | 128,646                    | 18,213                       | 12,025                                                      | 272,383     |
| 7. Special Mention                | 8,820                                        | 22,439                     | 314                          | 1,199                                                       | 32,772      |
| 8. Substandard                    | 24,446                                       | 41,378                     | —                            | 4,462                                                       | 70,286      |
| 9. Doubtful                       | —                                            | —                          | —                            | —                                                           | —           |
| 10. Loss                          | —                                            | —                          | —                            | —                                                           | —           |
| Total                             | \$ 663,221                                   | \$ 909,581                 | \$ 142,891                   | \$ 151,931                                                  | \$1,867,624 |

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The following table presents classifications for acquired loans:

| (Dollars in thousands)            | Commercial,<br>Financial and<br>Agricultural | Real Estate—<br>Commercial | Real Estate—<br>Construction | Real Estate—<br>Residential Secured<br>for Business Purpose | Total      |
|-----------------------------------|----------------------------------------------|----------------------------|------------------------------|-------------------------------------------------------------|------------|
| At March 31, 2017                 |                                              |                            |                              |                                                             |            |
| Grade:                            |                                              |                            |                              |                                                             |            |
| 1. Cash secured/ 2. Fully secured | \$ —                                         | \$ —                       | \$ —                         | \$ —                                                        | \$ —       |
| 3. Strong                         | —                                            | —                          | —                            | —                                                           | —          |
| 4. Satisfactory                   | 4,385                                        | 825                        | —                            | —                                                           | 5,210      |
| 5. Acceptable                     | 66,009                                       | 242,512                    | 3,616                        | 90,179                                                      | 402,316    |
| 6. Pre-watch                      | 13,129                                       | 128,832                    | 7,793                        | 15,701                                                      | 165,455    |
| 7. Special Mention                | 1,774                                        | 6,715                      | —                            | 2,229                                                       | 10,718     |
| 8. Substandard                    | 5,332                                        | 10,806                     | —                            | 3,293                                                       | 19,431     |
| 9. Doubtful                       | —                                            | —                          | —                            | —                                                           | —          |
| 10. Loss                          | —                                            | —                          | —                            | —                                                           | —          |
| Total                             | \$ 90,629                                    | \$ 389,690                 | \$ 11,409                    | \$ 111,402                                                  | \$ 603,130 |

December 31, 2016

|                                   |            |            |           |            |            |
|-----------------------------------|------------|------------|-----------|------------|------------|
| Grade:                            |            |            |           |            |            |
| 1. Cash secured/ 2. Fully secured | \$ 583     | \$ —       | \$ —      | \$ —       | \$ 583     |
| 3. Strong                         | —          | —          | —         | —          | —          |
| 4. Satisfactory                   | 4,399      | 1,018      | —         | —          | 5,417      |
| 5. Acceptable                     | 113,512    | 282,199    | 20,565    | 117,322    | 533,598    |
| 6. Pre-watch                      | 31,697     | 163,623    | 11,388    | 14,405     | 221,113    |
| 7. Special Mention                | 73         | 7,705      | —         | 6,245      | 14,023     |
| 8. Substandard                    | 9,781      | 10,823     | —         | 4,165      | 24,769     |
| 9. Doubtful                       | —          | —          | —         | —          | —          |
| 10. Loss                          | —          | —          | —         | —          | —          |
| Total                             | \$ 160,045 | \$ 465,368 | \$ 31,953 | \$ 142,137 | \$ 799,503 |

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—<br>Residential<br>Secured for<br>Personal Purpose | Real Estate—<br>Home Equity<br>Secured for<br>Personal Purpose | Loans to<br>Individuals | Lease<br>Financing | Total      |
|------------------------|----------------------------------------------------------------|----------------------------------------------------------------|-------------------------|--------------------|------------|
| At March 31, 2017      |                                                                |                                                                |                         |                    |            |
| Performing             | \$ 220,036                                                     | \$ 153,756                                                     | \$ 27,773               | \$ 127,143         | \$ 528,708 |
| Nonperforming          | 507                                                            | 607                                                            | 142                     | 5,721              | 6,977      |
| Total                  | \$ 220,543                                                     | \$ 154,363                                                     | \$ 27,915               | \$ 132,864         | \$ 535,685 |
| At December 31, 2016   |                                                                |                                                                |                         |                    |            |
| Performing             | \$ 210,208                                                     | \$ 147,286                                                     | \$ 29,968               | \$ 134,010         | \$ 521,472 |
| Nonperforming          | 169                                                            | 696                                                            | 142                     | 729                | 1,736      |
| Total                  | \$ 210,377                                                     | \$ 147,982                                                     | \$ 30,110               | \$ 134,739         | \$ 523,208 |



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The following table presents classifications for acquired loans:

| (Dollars in thousands) | Real Estate—<br>Residential<br>Secured for<br>Personal Purpose | Real Estate—<br>Home Equity<br>Secured for<br>Personal Purpose | Loans to<br>Individuals | Lease<br>Financing | Total    |
|------------------------|----------------------------------------------------------------|----------------------------------------------------------------|-------------------------|--------------------|----------|
| At March 31, 2017      |                                                                |                                                                |                         |                    |          |
| Performing             | \$ 74,332                                                      | \$ 12,736                                                      | \$ 148                  | \$ —               | \$87,216 |
| Nonperforming          | 557                                                            | —                                                              | —                       | —                  | 557      |
| Total                  | \$ 74,889                                                      | \$ 12,736                                                      | \$ 148                  | \$ —               | \$87,773 |
| At December 31, 2016   |                                                                |                                                                |                         |                    |          |
| Performing             | \$ 79,559                                                      | \$ 14,857                                                      | \$ 263                  | \$ —               | \$94,679 |
| Nonperforming          | 872                                                            | —                                                              | —                       | —                  | 872      |
| Total                  | \$ 80,431                                                      | \$ 14,857                                                      | \$ 263                  | \$ —               | \$95,551 |

## 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, 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 for the three months ended March 31, 2017 and 2016:

| (Dollars in thousands)                                      | Commercial<br>Financial<br>and<br>Agricultural | Real Estate<br>Commercial<br>and<br>Construction | Real Estate—<br>Residential<br>Secured<br>for<br>Business<br>Purpose | Real Estate—<br>Residential<br>and Home<br>Equity<br>Secured for<br>Personal<br>Purpose | Loans to<br>Individuals | Lease<br>Financings | Unallocated | Total    |
|-------------------------------------------------------------|------------------------------------------------|--------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------|---------------------|-------------|----------|
| Three Months Ended March<br>31, 2017                        |                                                |                                                  |                                                                      |                                                                                         |                         |                     |             |          |
| Reserve for loan and lease<br>losses:                       |                                                |                                                  |                                                                      |                                                                                         |                         |                     |             |          |
| Beginning balance                                           | \$ 7,037                                       | \$ 7,505                                         | \$ 774                                                               | \$ 993                                                                                  | \$ 364                  | \$ 788              | \$ 38       | \$17,499 |
| Charge-offs                                                 | (178 )                                         | —                                                | (42 )                                                                | (94 )                                                                                   | (126 )                  | (257 )              | N/A         | (697 )   |
| Recoveries                                                  | 187                                            | 3                                                | 10                                                                   | 17                                                                                      | 35                      | 29                  | N/A         | 281      |
| Provision (recovery of<br>provision)                        | 844                                            | 116                                              | 603                                                                  | 82                                                                                      | 62                      | 769                 | (34 )       | 2,442    |
| Provision for acquired credit<br>impaired loans             | —                                              | —                                                | —                                                                    | 3                                                                                       | —                       | —                   | —           | 3        |
| Ending balance                                              | \$ 7,890                                       | \$ 7,624                                         | \$ 1,345                                                             | \$ 1,001                                                                                | \$ 335                  | \$ 1,329            | \$ 4        | \$19,528 |
| Three Months Ended March<br>31, 2016                        |                                                |                                                  |                                                                      |                                                                                         |                         |                     |             |          |
| Reserve for loan and lease<br>losses:                       |                                                |                                                  |                                                                      |                                                                                         |                         |                     |             |          |
| Beginning balance                                           | \$ 6,418                                       | \$ 6,572                                         | \$ 763                                                               | \$ 1,575                                                                                | \$ 346                  | \$ 1,042            | \$ 912      | \$17,628 |
| Charge-offs                                                 | (1,481 )                                       | (26 )                                            | (238 )                                                               | (46 )                                                                                   | (76 )                   | (205 )              | N/A         | (2,072 ) |
| Recoveries                                                  | 450                                            | 7                                                | 19                                                                   | 17                                                                                      | 33                      | 44                  | N/A         | 570      |
| Provision (recovery of<br>provision)                        | 243                                            | (82 )                                            | 203                                                                  | (233 )                                                                                  | 53                      | 41                  | 102         | 327      |
| Recovery of provision for<br>acquired credit impaired loans | —                                              | —                                                | —                                                                    | (1 )                                                                                    | —                       | —                   | —           | (1 )     |
| Ending balance                                              | \$ 5,630                                       | \$ 6,471                                         | \$ 747                                                               | \$ 1,312                                                                                | \$ 356                  | \$ 922              | \$ 1,014    | \$16,452 |

N/A – Not applicable

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| (Dollars in thousands)                         | Commercial<br>Financial<br>and<br>Agricultural | Real Estate—<br>Commercial<br>and<br>Construction | Real Estate—<br>Residential<br>Secured<br>for<br>Business<br>Purpose | Real Estate—<br>Residential<br>and Home<br>Equity<br>Secured for<br>Personal<br>Purpose | Loans to<br>Individuals | Lease<br>Financings | Unallocated | Total        |
|------------------------------------------------|------------------------------------------------|---------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------|---------------------|-------------|--------------|
| At March 31, 2017                              |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Reserve for loan and lease losses:             |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Ending balance:                                |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| individually evaluated for impairment          | \$ 8                                           | \$ 26                                             | \$ 364                                                               | \$ 1                                                                                    | \$ —                    | \$ 580              | N/A         | \$ 979       |
| Ending balance:                                |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| collectively evaluated for impairment          | 7,882                                          | 7,598                                             | 981                                                                  | 1,000                                                                                   | 335                     | 749                 | 4           | 18,549       |
| Total ending balance                           | \$ 7,890                                       | \$ 7,624                                          | \$ 1,345                                                             | \$ 1,001                                                                                | \$ 335                  | \$ 1,329            | \$ 4        | \$ 19,528    |
| Loans and leases held for investment:          |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Ending balance:                                |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| individually evaluated for impairment          | \$ 9,524                                       | \$ 21,658                                         | \$ 5,178                                                             | \$ 1,054                                                                                | \$ —                    | \$ 5,021            |             | \$ 42,435    |
| Ending balance:                                |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| collectively evaluated for impairment          | 740,818                                        | 1,160,406                                         | 175,652                                                              | 373,852                                                                                 | 27,915                  | 127,843             |             | 2,606,486    |
| Loans measured at fair value                   | —                                              | 2,092                                             | —                                                                    | —                                                                                       | —                       | —                   |             | 2,092        |
| Acquired non-credit impaired loans             | 90,069                                         | 395,838                                           | 110,820                                                              | 87,412                                                                                  | 148                     | —                   |             | 684,287      |
| Acquired credit impaired loans                 | 560                                            | 5,261                                             | 582                                                                  | 213                                                                                     | —                       | —                   |             | 6,616        |
| Total ending balance                           | \$ 840,971                                     | \$ 1,585,255                                      | \$ 292,232                                                           | \$ 462,531                                                                              | \$ 28,063               | \$ 132,864          |             | \$ 3,341,916 |
| At March 31, 2016                              |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Reserve for loan and lease losses:             |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Ending balance:                                |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| individually evaluated for impairment          | \$ 151                                         | \$ 140                                            | \$ 20                                                                | \$ 30                                                                                   | \$ —                    | \$ —                | N/A         | \$ 341       |
| Ending balance:                                |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| collectively evaluated for impairment          | 5,479                                          | 6,323                                             | 727                                                                  | 1,282                                                                                   | 356                     | 922                 | 1,014       | 16,103       |
| Ending balance: acquired credit impaired loans | —                                              | 8                                                 | —                                                                    | —                                                                                       | —                       | —                   | —           | 8            |
| evaluated for impairment                       |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Total ending balance                           | \$ 5,630                                       | \$ 6,471                                          | \$ 747                                                               | \$ 1,312                                                                                | \$ 356                  | \$ 922              | \$ 1,014    | \$ 16,452    |
| Loans and leases held for investment:          |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |
| Ending balance:                                | \$ 12,977                                      | \$ 29,375                                         | \$ 3,618                                                             | \$ 504                                                                                  | \$ —                    | \$ —                |             | \$ 46,474    |
| individually evaluated for                     |                                                |                                                   |                                                                      |                                                                                         |                         |                     |             |              |

impairment

Ending balance:

|                                       |            |            |            |            |           |            |              |
|---------------------------------------|------------|------------|------------|------------|-----------|------------|--------------|
| collectively evaluated for impairment | 473,135    | 821,684    | 99,973     | 314,885    | 28,140    | 125,814    | 1,863,631    |
| Acquired non-credit impaired loans    | 21,207     | 122,415    | 113,923    | 14,058     | 281       | —          | 271,884      |
| Acquired credit impaired loans        | —          | 517        | 750        | —          | —         | —          | 1,267        |
| Total ending balance                  | \$ 507,319 | \$ 973,991 | \$ 218,264 | \$ 329,447 | \$ 28,421 | \$ 125,814 | \$ 2,183,256 |

N/A – Not applicable

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.

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## Impaired Loans

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 March 31, 2017 and December 31, 2016. The impaired loans exclude acquired credit impaired loans.

|                                                       | At March 31, 2017   |                          |                 | At December 31, 2016 |                          |                 |
|-------------------------------------------------------|---------------------|--------------------------|-----------------|----------------------|--------------------------|-----------------|
| (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                | \$9,437             | \$10,960                 |                 | \$10,911             | \$12,561                 |                 |
| Real estate—commercial real estate                    | 21,062              | 21,906                   |                 | 24,469               | 25,342                   |                 |
| Real estate—residential secured for business purpose  | 3,937               | 4,338                    |                 | 5,704                | 6,253                    |                 |
| Real estate—residential secured for personal purpose  | 556                 | 596                      |                 | 560                  | 594                      |                 |
| Real estate—home equity secured for personal purpose  | 441                 | 445                      |                 | 525                  | 528                      |                 |
| Total impaired loans with no related reserve recorded | \$35,433            | \$38,245                 |                 | \$42,169             | \$45,278                 |                 |
| Impaired loans with a reserve recorded:               |                     |                          |                 |                      |                          |                 |
| Commercial, financial and agricultural                | \$87                | \$211                    | \$ 8            | \$166                | \$166                    | \$ 19           |
| Real estate—commercial real estate                    | 596                 | 596                      | 26              | 597                  | 597                      | 25              |
| Real estate—residential secured for business purpose  | 1,241               | 1,519                    | 364             | 983                  | 1,105                    | 191             |
| Real estate—home equity secured for personal purpose  | 57                  | 57                       | 1               | —                    | —                        | —               |
| Total impaired loans with a reserve recorded          | \$1,981             | \$2,383                  | \$ 399          | \$1,746              | \$1,868                  | \$ 235          |

|                                                      | At March 31, 2017   |                          |                 | At December 31, 2016 |                          |                 |
|------------------------------------------------------|---------------------|--------------------------|-----------------|----------------------|--------------------------|-----------------|
| (Dollars in thousands)                               | Recorded Investment | Unpaid Principal Balance | Related Reserve | Recorded Investment  | Unpaid Principal Balance | Related Reserve |
| Total impaired loans:                                |                     |                          |                 |                      |                          |                 |
| Commercial, financial and agricultural               | \$9,524             | \$11,171                 | \$ 8            | \$11,077             | \$12,727                 | \$ 19           |
| Real estate—commercial real estate                   | 21,658              | 22,502                   | 26              | 25,066               | 25,939                   | 25              |
| Real estate—residential secured for business purpose | 5,178               | 5,857                    | 364             | 6,687                | 7,358                    | 191             |
| Real estate—residential secured for personal purpose | 556                 | 596                      | —               | 560                  | 594                      | —               |
| Real estate—home equity secured for personal purpose | 498                 | 502                      | 1               | 525                  | 528                      | —               |
| Total impaired loans                                 | \$37,414            | \$40,628                 | \$ 399          | \$43,915             | \$47,146                 | \$ 235          |

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 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 \$20.3 million and \$23.3 million at March 31, 2017 and December 31, 2016, respectively. Specific reserves on other accruing impaired loans were \$650 thousand and \$84 thousand at March 31, 2017 and December 31, 2016, 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.

| (Dollars in thousands)                               | Three Months Ended March 31,<br>2017    |                                |                                                                                                      | Three Months Ended March 31,<br>2016    |                                |                                                                                                      |
|------------------------------------------------------|-----------------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------|
|                                                      | Average Interest<br>Recorded Investment | Interest Income<br>Recognized* | Additional<br>Interest Income<br>That Would<br>Have Been<br>Recognized<br>Under<br>Original<br>Terms | Average Interest<br>Recorded Investment | Interest Income<br>Recognized* | Additional<br>Interest Income<br>That Would<br>Have Been<br>Recognized<br>Under<br>Original<br>Terms |
| Commercial, financial and agricultural               | \$11,418                                | \$ 43                          | \$ 85                                                                                                | \$13,569                                | \$ 68                          | \$ 95                                                                                                |
| Real estate—commercial real estate                   | 23,949                                  | 233                            | 73                                                                                                   | 29,212                                  | 305                            | 70                                                                                                   |
| Real estate—residential secured for business purpose | 4,268                                   | 16                             | 44                                                                                                   | 4,273                                   | 27                             | 47                                                                                                   |
| Real estate—residential secured for personal purpose | 552                                     | —                              | 8                                                                                                    | 568                                     | 2                              | 4                                                                                                    |
| Real estate—home equity secured for personal purpose | 525                                     | —                              | 5                                                                                                    | 177                                     | —                              | 2                                                                                                    |
| Total                                                | \$40,712                                | \$ 292                         | \$ 215                                                                                               | \$47,799                                | \$ 402                         | \$ 218                                                                                               |

Includes interest income recognized on a cash basis for nonaccrual loans of \$1 thousand and \$7 thousand for the three months ended March 31, 2017 and 2016, respectively and interest income recognized on the accrual method for accruing impaired loans of \$291 thousand and \$395 thousand for the three months ended March 31, 2017 and 2016, respectively.

**Impaired Leases**

The Corporation had impaired leases of \$5.0 million with related reserves of \$580 thousand at March 31, 2017. The Corporation had no impaired leases at December 31, 2016. See discussion in Non-Performing Loans and Leases.

**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 March 31,<br>2017                           |                                                                 |                    | Three Months Ended March 31, 2016                              |                                                                 |                    |
|----------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------|--------------------|----------------------------------------------------------------|-----------------------------------------------------------------|--------------------|
|                                              | Pre-<br>Restructuring<br>Outstanding<br>Recorded<br>Investment | Post-<br>Restructuring<br>Outstanding<br>Recorded<br>Investment | Related<br>Reserve | Pre-<br>Restructuring<br>Outstanding<br>Recorded<br>Investment | Post-<br>Restructuring<br>Outstanding<br>Recorded<br>Investment | Related<br>Reserve |
| Accruing Troubled Debt Restructured Loans:   |                                                                |                                                                 |                    |                                                                |                                                                 |                    |
| Commercial, financial and agricultural       | —\$                                                            | —\$                                                             | —\$                | —\$ 1,545                                                      | \$ 1,545                                                        | \$ —               |
| Total                                        | —\$                                                            | —\$                                                             | —\$                | —\$ 1,545                                                      | \$ 1,545                                                        | \$ —               |
| Nonaccrual Troubled Debt Restructured Loans: |                                                                |                                                                 |                    |                                                                |                                                                 |                    |
| Total                                        | —\$                                                            | —\$                                                             | —\$                | —\$ —                                                          | \$ —                                                            | \$ —               |

The Corporation grants concessions primarily related to extensions of interest-only payment periods and an occasional payment modification. These modifications typically are for a short-term basis 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 months ended March 31, 2017 and 2016.

|                                              | Amortization<br>Period<br>Extension<br>No.<br>of Amount<br>Loans | Total Concessions<br>Granted<br>No.<br>of Amount<br>Loans |
|----------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------|
| (Dollars in thousands)                       |                                                                  |                                                           |
| Three Months Ended March 31, 2017            |                                                                  |                                                           |
| Accruing Troubled Debt Restructured Loans:   |                                                                  |                                                           |
| Total                                        | — \$ —                                                           | — \$ —                                                    |
| Nonaccrual Troubled Debt Restructured Loans: |                                                                  |                                                           |
| Total                                        | — \$ —                                                           | — \$ —                                                    |
| Three Months Ended March 31, 2016            |                                                                  |                                                           |
| Accruing Troubled Debt Restructured Loans:   |                                                                  |                                                           |
| Commercial, financial and agricultural       | 1 \$ 1,545                                                       | 1 \$ 1,545                                                |
| Total                                        | 1 \$ 1,545                                                       | 1 \$ 1,545                                                |
| Nonaccrual Troubled Debt Restructured Loans: |                                                                  |                                                           |
| Total                                        | — \$ —                                                           | — \$ —                                                    |

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:

|                                              | Three Months Ended<br>March 31, |                          |
|----------------------------------------------|---------------------------------|--------------------------|
|                                              | 2017                            | 2016                     |
| (Dollars in thousands)                       | Number<br>of Investments        | Number<br>of Investments |
| Accruing Troubled Debt Restructured Loans:   |                                 |                          |
| Commercial, financial and agricultural       | —1                              | \$ 50                    |
| Total                                        | —1                              | \$ 50                    |
| Nonaccrual Troubled Debt Restructured Loans: |                                 |                          |
| Total                                        | —                               | \$ —                     |

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 March 31, 2017 and December 31, 2016:

|                                                      | At<br>March<br>31,<br>2017 | At<br>December<br>31, 2016 |
|------------------------------------------------------|----------------------------|----------------------------|
| (Dollars in thousands)                               |                            |                            |
| Real estate-home equity secured for personal purpose | \$ 180                     | \$ 180                     |
| Total                                                | \$ 180                     | \$ 180                     |

The Corporation held no foreclosed consumer residential real estate property at March 31, 2017 and December 31, 2016.

#### Note 4. Goodwill and Other Intangible Assets

The Corporation has covenants not to compete, 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.

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Changes in the carrying amount of the Corporation's goodwill by business segment for the three months ended March 31, 2017 were as follows:

| (Dollars in thousands)                 | Banking   | Wealth<br>Management | Insurance | Consolidated |
|----------------------------------------|-----------|----------------------|-----------|--------------|
| Balance at December 31, 2016           | \$138,476 | \$ 15,434            | \$ 18,649 | \$ 172,559   |
| Addition to goodwill from acquisitions | —         | —                    | —         | —            |
| Balance at March 31, 2017              | \$138,476 | \$ 15,434            | \$ 18,649 | \$ 172,559   |

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

| (Dollars in thousands)            | At March 31, 2017 |              |           | At December 31, 2016 |              |           |
|-----------------------------------|-------------------|--------------|-----------|----------------------|--------------|-----------|
|                                   | Accumulated       |              | Net       | Accumulated          |              | Net       |
|                                   | Gross             | Amortization |           | Gross                | Amortization |           |
|                                   | Carrying          | and Fair     | Carrying  | Carrying             | and Fair     | Carrying  |
|                                   | Amount            | Value        | Amount    | Amount               | Value        | Amount    |
|                                   | Adjustments       |              |           | Adjustments          |              |           |
| Amortized intangible assets:      |                   |              |           |                      |              |           |
| Covenants not to compete          | \$710             | \$ 307       | \$ 403    | \$710                | \$ 205       | \$ 505    |
| Core deposit intangibles          | 6,788             | 1,299        | 5,489     | 6,788                | 1,004        | 5,784     |
| Customer related intangibles      | 12,381            | 8,852        | 3,529     | 12,381               | 8,504        | 3,877     |
| Servicing rights                  | 14,712            | 8,210        | 6,502     | 14,369               | 7,884        | 6,485     |
| Total amortized intangible assets | \$34,591          | \$ 18,668    | \$ 15,923 | \$34,248             | \$ 17,597    | \$ 16,651 |

The estimated aggregate amortization expense for covenants not to compete and core deposit and customer related intangibles for the remainder of 2017 and the succeeding fiscal years is as follows:

| Year              | (Dollars in thousands) Amount |
|-------------------|-------------------------------|
| Remainder of 2017 | \$ 2,085                      |
| 2018              | 2,114                         |
| 2019              | 1,565                         |
| 2020              | 1,200                         |
| 2021              | 923                           |
| Thereafter        | 1,534                         |

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 \$9.8 million and \$9.5 million at March 31, 2017 and December 31, 2016, respectively. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at March 31, 2017, and December 31, 2016. The Corporation also records servicing rights on small business administration (SBA) loans. The value of these servicing rights was \$15 thousand at March 31, 2017.

Changes in the servicing rights balance are summarized as follows:

| (Dollars in thousands)                                 | Three Months Ended |           |
|--------------------------------------------------------|--------------------|-----------|
|                                                        | March 31,          | March 31, |
|                                                        | 2017               | 2016      |
| Beginning of period                                    | \$6,485            | \$5,877   |
| Servicing rights capitalized                           | 343                | 311       |
| Amortization of servicing rights                       | (326)              | (349)     |
| Changes in valuation allowance                         | —                  | —         |
| End of period                                          | \$6,502            | \$5,839   |
| Residential mortgage and SBA loans serviced for others | \$972,617          | \$872,958 |

There was no activity in the valuation allowance for the three months ended March 31, 2017 and March 31, 2016.

The estimated amortization expense of servicing rights for the remainder of 2017 and the succeeding fiscal years is as follows:

| Year              | (Dollars in thousands) Amount |
|-------------------|-------------------------------|
| Remainder of 2017 | \$ 931                        |
| 2018              | 818                           |
| 2019              | 711                           |
| 2020              | 616                           |
| 2021              | 533                           |

Thereafter

2,893

24

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## Note 5. 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.

| (Dollars in thousands)         | At March 31, 2017        |                                                 | At December 31, 2016     |                                                 |
|--------------------------------|--------------------------|-------------------------------------------------|--------------------------|-------------------------------------------------|
|                                | 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                | \$9,715                  | 0.99 %                                          | \$91,300                 | 0.74 %                                          |
| Federal funds purchased        | 45,000                   | 1.05                                            | 80,000                   | 0.81                                            |
| Customer repurchase agreements | 24,651                   | 0.05                                            | 24,871                   | 0.05                                            |

## Long-term debt:

|                                |           |        |          |        |
|--------------------------------|-----------|--------|----------|--------|
| FHLB advances                  | \$150,912 | 1.28 % | \$96,248 | 0.94 % |
| Security repurchase agreements | 31,154    | 1.02   | 31,274   | 0.91   |

|                    |          |        |          |        |
|--------------------|----------|--------|----------|--------|
| Subordinated notes | \$94,148 | 5.36 % | \$94,087 | 5.36 % |
|--------------------|----------|--------|----------|--------|

The Corporation, through the Bank, has a credit facility with the FHLB with a maximum borrowing capacity of approximately \$1.3 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 March 31, 2017 and December 31, 2016, the Bank had outstanding short-term letters of credit with the FHLB totaling \$178.8 million and \$148.5 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 \$327.0 million and \$302.0 million at March 31, 2017 and December 31, 2016, respectively. 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, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At March 31, 2017 and December 31, 2016, the Corporation had no outstanding borrowings from this line.

The Corporation has a \$10.0 million line of credit with a correspondent bank. At March 31, 2017, the Corporation had no outstanding borrowings under this line.

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

| (Dollars in thousands) | As of March 31, 2017 | Weighted Average Rate |
|------------------------|----------------------|-----------------------|
| Remainder of 2017      | \$65,829             | 0.83 %                |
| 2018                   | 10,083               | 0.69                  |
| 2019                   | 10,000               | 1.35                  |
| 2020                   | 40,000               | 1.70                  |
| 2021                   | 25,000               | 1.97                  |
| Thereafter             | —                    | —                     |
| Total                  | \$150,912            | 1.28 %                |

FHLB borrowings totaling \$50.8 million that mature in 2017 have a "Call Date"; if the borrowing is called, the Corporation has the option to either pay off the borrowing without penalty or the fixed rate borrowing resets to a variable three-month LIBOR based rate. Subsequent to the call date, the borrowings are callable by the FHLB quarterly. Accordingly, the contractual maturities may differ from actual maturities.

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

| (Dollars in thousands) | As of<br>March<br>31,<br>2017 | Weighted<br>Average<br>Rate |
|------------------------|-------------------------------|-----------------------------|
| Remainder of 2017      | \$—                           | — %                         |
| 2018                   | 10,351                        | 0.83                        |
| 2019                   | 10,380                        | 1.11                        |
| 2020                   | 10,423                        | 1.12                        |
| 2021                   | —                             | —                           |
| Thereafter             | —                             | —                           |
| Total                  | \$31,154                      | 1.02 %                      |

Long-term debt under security repurchase agreements totaling \$26.0 million are variable based on the one-month LIBOR rate plus a spread; one borrowing for \$5.2 million has a fixed interest rate and may be called by the lender based on the underlying agreement.

On April 25, 2017, Kroll Bond Rating Agency ("KBRA") reaffirmed its credit rating for the Corporation and the Bank with a stable outlook. Specifically, KBRA reaffirmed the Corporation's senior unsecured debt rating of BBB+, subordinated debt rating of BBB and short-term rating of K2. With regard to the Bank, KBRA reaffirmed the Bank's deposit rating of A-, short-term debt rating of K2 and short-term deposit rating of K2 while also assigning the Bank a senior unsecured debt rating of A-. Additionally, on April 25, 2017, KBRA initiated the Bank's subordinated debt rating of BBB+.

#### Note 6. 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:

| (Dollars in thousands)             | Three Months Ended March 31, |        |                                |       |
|------------------------------------|------------------------------|--------|--------------------------------|-------|
|                                    | 2017                         | 2016   | 2017                           | 2016  |
|                                    | Retirement Plans             |        | Other Post Retirement Benefits |       |
| Service cost                       | \$ 151                       | \$ 171 | \$ 12                          | \$ 12 |
| Interest cost                      | 465                          | 518    | 29                             | 33    |
| Expected return on plan assets     | (753 )                       | (754 ) | —                              | —     |
| Amortization of net actuarial loss | 288                          | 323    | 11                             | 6     |
| Accretion of prior service cost    | (70 )                        | (71 )  | —                              | —     |
| Net periodic benefit cost          | \$81                         | \$187  | \$ 52                          | \$ 51 |

The Corporation previously disclosed in its financial statements for the year ended December 31, 2016, that it expected to make contributions of \$160 thousand to its non-qualified retirement plans and \$121 thousand to its other postretirement benefit plans in 2017. During the three months ended March 31, 2017, the Corporation contributed \$40 thousand to its non-qualified retirement plans and \$29 thousand to its other postretirement plans. During the three

months ended March 31, 2017, \$672 thousand was paid to participants from the retirement plans and \$29 thousand was paid to participants from the other postretirement plans.

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## Note 7. 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 options and share awards to employees and non-employee directors up to 3,355,786 shares of common stock, which includes 857,191 shares as a result of the completion of the acquisition of Fox Chase on July 1, 2016 and 473,483 shares as a result of the completion of the acquisition of Valley Green Bank on January 1, 2015.

The following is a summary of the Corporation's stock option activity and related information for the three months ended March 31, 2017:

| (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 March 31, 2017 |
|-----------------------------------------------|---------------------|-------------------------------------------|-----------------------------------------------------|---------------------------------------------|
| Outstanding at December 31, 2016              | 504,908             | \$ 19.06                                  |                                                     |                                             |
| Granted                                       | 191,297             | 28.15                                     |                                                     |                                             |
| Expired                                       | (65,500 )           | 22.98                                     |                                                     |                                             |
| Forfeited                                     | —                   | —                                         |                                                     |                                             |
| Exercised                                     | (47,704 )           | 18.04                                     |                                                     |                                             |
| Outstanding at March 31, 2017                 | 583,001             | 21.66                                     | 7.9                                                 | \$ 2,898                                    |
| Exercisable at March 31, 2017                 | 210,691             | 17.96                                     | 6.0                                                 | 1,672                                       |

The following is a summary of nonvested stock options at March 31, 2017 including changes during the three 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, 2016  | 308,940                 | \$ 6.15                                |
| Granted                                       | 191,297                 | 6.72                                   |
| Vested                                        | (127,927 )              | 6.08                                   |
| Forfeited                                     | —                       | —                                      |
| Nonvested stock options at March 31, 2017     | 372,310                 | 6.46                                   |

The following aggregated assumptions were used to estimate the fair value of options granted during the three months ended March 31, 2017 and 2016:

|                               | Three months ended March 31, |         |          |                  |  |
|-------------------------------|------------------------------|---------|----------|------------------|--|
|                               | 2017                         | 2016    |          | Weighted Average |  |
| Expected option life in years | 6.9                          | 7.9     | -8.2     | 7.9              |  |
| Risk free interest rate       | 2.30 %                       | 1.81 %  | -1.89 %  | 1.89 %           |  |
| Expected dividend yield       | 2.84 %                       | 4.07 %  | -4.19 %  | 4.07 %           |  |
| Expected volatility           | 29.75 %                      | 46.13 % | -46.22 % | 46.13 %          |  |
| Fair value of options         | \$6.72                       | \$5.98  | -\$6.27  | \$ 6.26          |  |



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The following is a summary of nonvested restricted stock awards at March 31, 2017 including changes during the three 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, 2016   | 285,158                | \$ 19.74                               |
| Granted                                       | 58,448                 | 28.15                                  |
| Vested                                        | (47,164 )              | 18.32                                  |
| Forfeited                                     | (13,125 )              | 18.78                                  |
| Nonvested share awards at March 31, 2017      | 283,317                | 21.76                                  |

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) | Three months ended March 31, |         |
|-----------------------------------------------|------------------------------|---------|
|                                               | 2017                         | 2016    |
| Shares granted                                | 58,448                       | 58,580  |
| Weighted average grant date fair value        | \$28.15                      | \$19.68 |
| Intrinsic value of awards vested              | \$1,333                      | \$971   |

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 March 31, 2017 is presented below:

| (Dollars in thousands)  | Unrecognized Compensation |                                           |
|-------------------------|---------------------------|-------------------------------------------|
|                         | Cost                      | Weighted-Average Period Remaining (Years) |
| Stock options           | \$ 2,082                  | 2.4                                       |
| Restricted stock awards | 4,189                     | 1.9                                       |
|                         | \$ 6,271                  | 2.1                                       |

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)                                                                                                              | Three months ended March 31, |       |
|-------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------|
|                                                                                                                                     | 2017                         | 2016  |
| Stock-based compensation expense:                                                                                                   |                              |       |
| Stock options                                                                                                                       | \$221                        | \$151 |
| Restricted stock awards                                                                                                             | 610                          | 300   |
| Employee stock purchase plan                                                                                                        | 15                           | 16    |
| Total                                                                                                                               | \$846                        | \$467 |
| Tax benefit on nonqualified stock option expense, restricted stock awards and disqualifying dispositions of incentive stock options | \$507                        | \$151 |

#### Note 8. 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.

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

|                                                                                                  | Three Months<br>Ended<br>March 31, |          |
|--------------------------------------------------------------------------------------------------|------------------------------------|----------|
|                                                                                                  | 2017                               | 2016     |
| (Dollars and shares in thousands, except per share data)                                         |                                    |          |
| Numerator:                                                                                       |                                    |          |
| Net income                                                                                       | \$ 10,856                          | \$ 7,289 |
| Net income allocated to unvested restricted stock                                                | (113 )                             | (59 )    |
| Net income allocated to common shares                                                            | \$ 10,743                          | \$ 7,230 |
| Denominator:                                                                                     |                                    |          |
| Denominator for basic earnings per share—weighted-average shares outstanding                     | 26,345                             | 19,402   |
| Effect of dilutive securities—employee stock options                                             | 103                                | 31       |
| Denominator for diluted earnings per share—adjusted weighted-average shares outstanding          | 26,448                             | 19,433   |
| Basic earnings per share                                                                         | \$0.41                             | \$0.37   |
| Diluted earnings per share                                                                       | \$0.41                             | \$0.37   |
| Average anti-dilutive options and awards excluded from computation of diluted earnings per share | 242                                | 588      |

#### Note 9. 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<br>(Losses) Gains on<br>Available-for-Sale<br>Investment<br>Securities | Net Change<br>Related to<br>Derivatives Used<br>for Cash Flow<br>Hedges | Net Change<br>Related to<br>Defined Benefit<br>Pension Plans | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
|----------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------|
| Balance, December 31, 2016 | \$ (4,988 )                                                                           | \$ (141 )                                                               | \$ (14,325 )                                                 | \$ (19,454 )                                           |
| Net Change                 | 263                                                                                   | 51                                                                      | 148                                                          | 462                                                    |
| Balance, March 31, 2017    | \$ (4,725 )                                                                           | \$ (90 )                                                                | \$ (14,177 )                                                 | \$ (18,992 )                                           |
| Balance, December 31, 2015 | \$ (592 )                                                                             | \$ (285 )                                                               | \$ (15,831 )                                                 | \$ (16,708 )                                           |
| Net Change                 | 1,413                                                                                 | (354 )                                                                  | 168                                                          | 1,227                                                  |
| Balance, March 31, 2016    | \$ 821                                                                                | \$ (639 )                                                               | \$ (15,663 )                                                 | \$ (15,481 )                                           |

#### Note 10. 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.

On October 24, 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 based on the 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. The Corporation expects that there will be no ineffectiveness over the life of the interest rate swap. At March 31, 2017, approximately \$151 thousand in net deferred losses, 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

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from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to March 31, 2017. At March 31, 2017, the notional amount of the interest rate swap was \$18.4 million, with a negative fair value of \$138 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 \$598 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 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 and foreign currency swap 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 and foreign currency swap 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 March 31, 2017, the Corporation has twelve variable-rate to fixed-rate interest rate swap transactions between the third-party financial institution and customers with a current notional amount of \$47.5 million, and remaining maturities ranging from two to 10 years. At March 31, 2017, the fair value of the swaps to the customers was a liability of \$57 thousand and all swaps were in paying positions to the third-party financial institution.

At March 31, 2017, there were no material foreign currency swap transactions between the third-party institution and loan customers.

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 exchange 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.

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## 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 March 31, 2017 and December 31, 2016. 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.

| (Dollars in thousands)                | Derivative Assets |                              |            | Derivative Liabilities       |            |
|---------------------------------------|-------------------|------------------------------|------------|------------------------------|------------|
|                                       | Notional Amount   | Balance Sheet Classification | Fair Value | Balance Sheet Classification | Fair Value |
| At March 31, 2017                     |                   |                              |            |                              |            |
| Interest rate swap - cash flow hedge  | \$ 18,386         |                              | \$ —       | Other liabilities            | \$ 138     |
| Interest rate swap - fair value hedge | 1,417             |                              | —          | Other liabilities            | 29         |
| Total                                 | \$ 19,803         |                              | \$ —       |                              | \$ 167     |
| At December 31, 2016                  |                   |                              |            |                              |            |
| Interest rate swap - cash flow hedge  | \$ 18,566         |                              | \$ —       | Other liabilities            | \$ 217     |
| Interest rate swap - fair value hedge | 1,427             |                              | —          | Other liabilities            | 37         |
| Total                                 | \$ 19,993         |                              | \$ —       |                              | \$ 254     |

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at March 31, 2017 and December 31, 2016:

| (Dollars in thousands)             | Derivative Assets |                              |            | Derivative Liabilities       |            |
|------------------------------------|-------------------|------------------------------|------------|------------------------------|------------|
|                                    | Notional Amount   | Balance Sheet Classification | Fair Value | Balance Sheet Classification | Fair Value |
| At March 31, 2017                  |                   |                              |            |                              |            |
| Interest rate swap                 | \$ 598            |                              | \$ —       | Other liabilities            | \$ 57      |
| Credit derivatives                 | 47,501            |                              | —          | Other liabilities            | 57         |
| Interest rate locks with customers | 35,255            | Other assets                 | 1,208      |                              | —          |
| Forward loan sale commitments      | 36,390            | Other assets                 | 3          |                              | —          |
| Total                              | \$ 119,744        |                              | \$ 1,211   |                              | \$ 114     |
| At December 31, 2016               |                   |                              |            |                              |            |
| Interest rate swap                 | \$ 622            |                              | \$ —       | Other liabilities            | \$ 65      |
| Credit derivatives                 | 27,919            |                              | —          | Other liabilities            | 9          |
| Interest rate locks with customers | 36,541            | Other assets                 | 801        |                              | —          |
| Forward loan sale commitments      | 42,366            | Other assets                 | 257        |                              | —          |
| Total                              | \$ 107,448        |                              | \$ 1,058   |                              | \$ 74      |

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

| (Dollars in thousands)                                   | Statement of Income Classification | Three Months Ended |        |
|----------------------------------------------------------|------------------------------------|--------------------|--------|
|                                                          |                                    | March 31, 2017     | 2016   |
| Interest rate swap—cash flow hedge—net interest payments | Interest expense                   | \$71               | \$81   |
| Interest rate swap—fair value hedge—ineffectiveness      | Other noninterest income           | 3                  | —      |
| Net loss                                                 |                                    | \$(68)             | \$(81) |



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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 March 31, |        |
|------------------------------------|-----------------------------------------|------------------------------|--------|
|                                    |                                         | 2017                         | 2016   |
| (Dollars in thousands)             |                                         |                              |        |
| Credit derivatives                 | Other noninterest income                | \$71                         | \$—    |
| Interest rate locks with customers | Net gain on mortgage banking activities | 407                          | 632    |
| Forward loan sale commitments      | Net loss on mortgage banking activities | (254 )                       | (141 ) |
| Total                              |                                         | \$224                        | \$491  |

The following table presents amounts included in accumulated other comprehensive (loss) income for derivatives designated as hedging instruments at March 31, 2017 and December 31, 2016:

| Accumulated Other Comprehensive (Loss) Income |                          | At March 31, 2017 | At December 31, 2016 |
|-----------------------------------------------|--------------------------|-------------------|----------------------|
| (Dollars in thousands)                        |                          |                   |                      |
| Interest rate swap—cash flow hedge            | Fair value, net of taxes | \$ (90 )          | \$ (141 )            |
| Total                                         |                          | \$ (90 )          | \$ (141 )            |

#### Note 11. 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. 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. Examples of instruments, which would generally be classified within Level 2 of the valuation hierarchy, include securities issued by U.S. Government sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, corporate and municipal bonds and certain equity securities. 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

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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 securities owned by the Corporation are classified as Level 3 as they are not traded in active markets. The fair value of each security 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 March 31, 2017.

### 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 \$85 thousand at March 31, 2017.

### 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. Changes in the original assumptions utilized at the time the acquisition closes and identified during the measurement period are recorded in accordance with ASC Topic 805 as an adjustment to goodwill. 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.

For the Sterner Insurance Associates acquisition, the potential remaining cash payment that could result from the contingent consideration arrangement ranges from \$0 to a maximum of \$2.6 million based on the results for the twelve-month period ending June 30 2017.



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The following table presents the assets and liabilities measured at fair value on a recurring basis at March 31, 2017 and December 31, 2016, classified using the fair value hierarchy:

At March 31, 2017

| (Dollars in thousands)                    | Level 1  | Level 2   | Level 3  | Assets/<br>Liabilities at<br>Fair Value |
|-------------------------------------------|----------|-----------|----------|-----------------------------------------|
| <b>Assets:</b>                            |          |           |          |                                         |
| Available-for-sale securities:            |          |           |          |                                         |
| U.S. government corporations and agencies | \$—      | \$32,204  | \$—      | \$ 32,204                               |
| State and political subdivisions          | —        | 84,626    | —        | 84,626                                  |
| Residential mortgage-backed securities    | —        | 190,379   | —        | 190,379                                 |
| Collateralized mortgage obligations       | —        | 4,301     | —        | 4,301                                   |
| Corporate bonds                           | —        | 79,673    | 28,194   | 107,867                                 |
| Money market mutual funds                 | 11,294   | —         | —        | 11,294                                  |
| Equity securities                         | 941      | —         | —        | 941                                     |
| Total available-for-sale securities       | 12,235   | 391,183   | 28,194   | 431,612                                 |
| Loans*                                    | —        | —         | 2,092    | 2,092                                   |
| Interest rate locks with customers*       | —        | 1,208     | —        | 1,208                                   |
| Forward loan sale commitments*            | —        | 3         | —        | 3                                       |
| Total assets                              | \$12,235 | \$392,394 | \$30,286 | \$ 434,915                              |
| <b>Liabilities:</b>                       |          |           |          |                                         |
| Contingent consideration liability        | \$—      | \$—       | \$729    | \$ 729                                  |
| Interest rate swaps*                      | —        | 224       | —        | 224                                     |
| Credit derivatives*                       | —        | —         | 57       | 57                                      |
| Total liabilities                         | \$—      | \$224     | \$786    | \$ 1,010                                |

At December 31, 2016

| (Dollars in thousands)                    | Level 1  | Level 2   | Level 3  | Assets/<br>Liabilities at<br>Fair Value |
|-------------------------------------------|----------|-----------|----------|-----------------------------------------|
| <b>Assets:</b>                            |          |           |          |                                         |
| Available-for-sale securities:            |          |           |          |                                         |
| U.S. government corporations and agencies | \$—      | \$32,266  | \$—      | \$ 32,266                               |
| State and political subdivisions          | —        | 88,350    | —        | 88,350                                  |
| Residential mortgage-backed securities    | —        | 198,570   | —        | 198,570                                 |
| Collateralized mortgage obligations       | —        | 4,554     | —        | 4,554                                   |
| Corporate bonds                           | —        | 79,420    | 28,778   | 108,198                                 |
| Money market mutual funds                 | 10,784   | —         | —        | 10,784                                  |
| Equity securities                         | 915      | —         | —        | 915                                     |
| Total available-for-sale securities       | 11,699   | 403,160   | 28,778   | 443,637                                 |
| Loans*                                    | —        | —         | 2,138    | 2,138                                   |
| Interest rate locks with customers*       | —        | 801       | —        | 801                                     |
| Forward loan sale commitments*            | —        | 257       | —        | 257                                     |
| Total assets                              | \$11,699 | \$404,218 | \$30,916 | \$ 446,833                              |
| <b>Liabilities:</b>                       |          |           |          |                                         |
| Contingent consideration liability        | \$—      | \$—       | \$5,999  | \$ 5,999                                |
| Interest rate swaps*                      | —        | 319       | —        | 319                                     |
| Credit derivatives*                       | —        | —         | 9        | 9                                       |
| Total liabilities                         | \$—      | \$319     | \$6,008  | \$ 6,327                                |

\* Such financial instruments are recorded at fair value as further described in Note 10 - Derivative Instruments.



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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 three months ended March 31, 2017.

| Three Months Ended March 31, 2017 |                              |                     |       |                   |                           |                              |                           |
|-----------------------------------|------------------------------|---------------------|-------|-------------------|---------------------------|------------------------------|---------------------------|
| (Dollars in thousands)            | Balance at December 31, 2016 | Purchases/additions | Sales | Payments received | Premium amortization, net | (Decrease) increase in value | Balance at March 31, 2017 |
| Corporate bonds                   | \$28,778                     | \$ —                | \$ —  | \$ —              | \$ —                      | \$(584)                      | \$28,194                  |
| Loans                             | 2,138                        | —                   | —     | (33)              | —                         | (13)                         | 2,092                     |
| Credit derivatives                | (9)                          | (120)               | —     | —                 | —                         | 72                           | (57)                      |
| Net total                         | \$30,907                     | \$ (120)            | \$ —  | \$ (33)           | \$ —                      | \$(525)                      | \$30,229                  |

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 three months ended March 31, 2017 and 2016:

| Three Months Ended March 31, 2017        |                              |                                               |                                     |                                        |                           |
|------------------------------------------|------------------------------|-----------------------------------------------|-------------------------------------|----------------------------------------|---------------------------|
| (Dollars in thousands)                   | Balance at December 31, 2016 | Contingent Consideration from New Acquisition | Payment of Contingent Consideration | Adjustment of Contingent Consideration | Balance at March 31, 2017 |
| Sterner Insurance Associates             | \$331                        | \$ —                                          | \$ —                                | \$ —                                   | \$ 331                    |
| Girard Partners                          | 5,668                        | —                                             | 5,284                               | 14                                     | 398                       |
| Total contingent consideration liability | \$5,999                      | \$ —                                          | \$ 5,284                            | \$ 14                                  | \$ 729                    |

  

| Three Months Ended March 31, 2016        |                              |                                                |                                     |                                        |                           |
|------------------------------------------|------------------------------|------------------------------------------------|-------------------------------------|----------------------------------------|---------------------------|
| (Dollars in thousands)                   | Balance at December 31, 2015 | Contingent Consideration from New Acquisition* | Payment of Contingent Consideration | Adjustment of Contingent Consideration | Balance at March 31, 2016 |
| Sterner Insurance Associates             | \$1,144                      | \$ —                                           | \$ —                                | \$ 154                                 | \$ 1,298                  |
| Girard Partners                          | 4,241                        | \$ —                                           | \$ 900                              | \$ 119                                 | 3,460                     |
| John T. Fretz Insurance Agency           | 192                          | —                                              | —                                   | 7                                      | 199                       |
| Total contingent consideration liability | \$5,577                      | \$ —                                           | \$ 900                              | \$ 280                                 | \$ 4,957                  |

\*Includes adjustments during the measurement period in accordance with ASC Topic 805.

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 March 31, 2017 and December 31, 2016:

| At March 31, 2017                   |         |         |          |                      |
|-------------------------------------|---------|---------|----------|----------------------|
| (Dollars in thousands)              | Level 1 | Level 2 | Level 3  | Assets at Fair Value |
| Impaired loans held for investment  | \$—     | —       | \$37,015 | \$37,015             |
| Impaired leases held for investment | —       | 4,441   | —        | 4,441                |
| Other real estate owned             | —       | 3,712   | —        | 3,712                |
| Total                               | \$—     | —       | \$45,168 | \$45,168             |

  

| At December 31, 2016   |         |         |         |                      |
|------------------------|---------|---------|---------|----------------------|
| (Dollars in thousands) | Level 1 | Level 2 | Level 3 | Assets at Fair Value |

|                                    |     |     | Value    |
|------------------------------------|-----|-----|----------|
| Impaired loans held for investment | \$— | \$— | \$43,680 |
| Other real estate owned            | —   | —   | 4,969    |
| Total                              | \$— | \$— | \$48,649 |

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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 March 31, 2017 and December 31, 2016. The disclosed fair values are classified using the fair value hierarchy.

| (Dollars in thousands)                                       | At March 31, 2017    |             |             | Fair Value  | Carrying Amount |
|--------------------------------------------------------------|----------------------|-------------|-------------|-------------|-----------------|
|                                                              | Level 1              | Level 2     | Level 3     |             |                 |
| Assets:                                                      |                      |             |             |             |                 |
| Cash and short-term interest-earning assets                  | \$57,800             | \$—         | \$—         | \$57,800    | \$57,800        |
| Held-to-maturity securities                                  | —                    | 33,022      | —           | 33,022      | 33,027          |
| Federal Home Loan Bank, Federal Reserve Bank and other stock | NA                   | NA          | NA          | NA          | 25,322          |
| Loans held for sale                                          | —                    | 1,121       | —           | 1,121       | 1,110           |
| Net loans and leases held for investment                     | —                    | —           | 3,271,524   | 3,271,524   | 3,278,840       |
| Servicing rights                                             | —                    | —           | 9,799       | 9,799       | 6,502           |
| Total assets                                                 | \$57,800             | \$34,143    | \$3,281,323 | \$3,373,266 | \$3,402,601     |
| Liabilities:                                                 |                      |             |             |             |                 |
| Deposits:                                                    |                      |             |             |             |                 |
| Demand and savings deposits, non-maturity                    | \$2,812,775          | \$—         | \$—         | \$2,812,775 | \$2,812,775     |
| Time deposits                                                | —                    | 555,841     | —           | 555,841     | 553,176         |
| Total deposits                                               | 2,812,775            | 555,841     | —           | 3,368,616   | 3,365,951       |
| Short-term borrowings                                        | —                    | 79,366      | —           | 79,366      | 79,366          |
| Long-term debt                                               | —                    | 183,962     | —           | 183,962     | 182,066         |
| Subordinated notes                                           | —                    | 95,000      | —           | 95,000      | 94,148          |
| Total liabilities                                            | \$2,812,775          | \$914,169   | \$—         | \$3,726,944 | \$3,721,531     |
| Off-Balance-Sheet:                                           |                      |             |             |             |                 |
| Commitments to extend credit                                 | \$—                  | \$(2,279)   | \$—         | \$(2,279)   | \$—             |
|                                                              | At December 31, 2016 |             |             |             |                 |
| (Dollars in thousands)                                       | Level 1              | Level 2     | Level 3     | Fair Value  | Carrying Amount |
| Assets:                                                      |                      |             |             |             |                 |
| Cash and short-term interest-earning assets                  | \$57,825             | \$—         | \$—         | \$57,825    | \$57,825        |
| Held-to-maturity securities                                  | —                    | 24,871      | —           | 24,871      | 24,881          |
| Federal Home Loan Bank, Federal Reserve Bank and other stock | NA                   | NA          | NA          | NA          | 24,869          |
| Loans held for sale                                          | —                    | 5,943       | —           | 5,943       | 5,890           |
| Net loans and leases held for investment                     | —                    | —           | 3,193,886   | 3,193,886   | 3,222,569       |
| Servicing rights                                             | —                    | —           | 9,548       | 9,548       | 6,485           |
| Total assets                                                 | \$57,825             | \$30,814    | \$3,203,434 | \$3,292,073 | \$3,342,519     |
| Liabilities:                                                 |                      |             |             |             |                 |
| Deposits:                                                    |                      |             |             |             |                 |
| Demand and savings deposits, non-maturity                    | \$2,631,378          | \$—         | \$—         | \$2,631,378 | \$2,631,378     |
| Time deposits                                                | —                    | 628,096     | —           | 628,096     | 626,189         |
| Total deposits                                               | 2,631,378            | 628,096     | —           | 3,259,474   | 3,257,567       |
| Short-term borrowings                                        | —                    | 195,572     | —           | 195,572     | 196,171         |
| Long-term debt                                               | —                    | 130,157     | —           | 130,157     | 127,522         |
| Subordinated notes                                           | —                    | 95,188      | —           | 95,188      | 94,087          |
| Total liabilities                                            | \$2,631,378          | \$1,049,013 | \$—         | \$3,680,391 | \$3,675,347     |
| Off-Balance-Sheet:                                           |                      |             |             |             |                 |

|                              |     |          |   |     |          |   |     |
|------------------------------|-----|----------|---|-----|----------|---|-----|
| Commitments to extend credit | \$— | \$(2,218 | ) | \$— | \$(2,218 | ) | \$— |
|------------------------------|-----|----------|---|-----|----------|---|-----|

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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 March 31, 2017 and December 31, 2016.

**Loans and leases held for investment:** 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 and include components for credit risk, operating expense and embedded prepayment options. An overall valuation adjustment is made for specific credit risks in addition to general portfolio risk and is significant to the valuation. As permitted, the fair value of the loans and leases are not based on the exit price concept as discussed in the first paragraph of this note. 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 March 31, 2017, impaired loans held for investment had a carrying amount of \$37.4 million with a valuation allowance of \$399 thousand. At December 31, 2016, impaired loans held for investment had a carrying amount of \$43.9 million with a valuation allowance of \$235 thousand. The Corporation had impaired leases of \$5.0 million with related reserves of \$580 thousand at March 31, 2017. The Corporation had no impaired leases at December 31, 2016.

**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 small business administration (SBA) loans. At March 31, 2017 and December 31, 2016, servicing rights had a carrying amount of \$6.5 million 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 three months ended March 31, 2017, 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 as the lower of the original cost and the current the 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. 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.

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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 12. Segment Reporting

At March 31, 2017, 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 and consumer banking. 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 consumers, businesses 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 accounting policies, used in the disclosure of the business segments, are the same as those described in Note 1, "Summary of Significant Accounting Policies".

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

| (Dollars in thousands) | At March<br>31, 2017 | At<br>December<br>31, 2016 | At March<br>31, 2016 |
|------------------------|----------------------|----------------------------|----------------------|
| Banking                | \$4,187,607          | \$4,137,873                | \$2,746,433          |
| Wealth Management      | 31,178               | 35,061                     | 30,134               |
| Insurance              | 24,412               | 24,472                     | 24,715               |
| Other                  | 30,734               | 33,122                     | 23,495               |
| Consolidated assets    | \$4,273,931          | \$4,230,528                | \$2,824,777          |

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The following tables provide reportable segment-specific information and reconciliations to consolidated financial information for the three months ended March 31, 2017 and 2016.

| Three Months Ended<br>March 31, 2017      |          |                      |           |         |              |
|-------------------------------------------|----------|----------------------|-----------|---------|--------------|
| (Dollars in thousands)                    | Banking  | Wealth<br>Management | Insurance | Other   | Consolidated |
| Interest income                           | \$38,392 | \$ 1                 | \$ —      | \$3     | \$ 38,396    |
| Interest expense                          | 4,113    | —                    | —         | —       | 4,113        |
| Net interest income                       | 34,279   | 1                    | —         | 3       | 34,283       |
| Provision for loan and lease losses       | 2,445    | —                    | —         | —       | 2,445        |
| Noninterest income                        | 5,162    | 5,138                | 4,547     | 123     | 14,970       |
| Intangible expenses                       | 396      | 170                  | 193       | —       | 759          |
| Other noninterest expense                 | 23,744   | 3,471                | 3,069     | 987     | 31,271       |
| Intersegment (revenue) expense*           | (567 )   | 237                  | 330       | —       | —            |
| Income (expense) before income taxes      | 13,423   | 1,261                | 955       | (861 )  | 14,778       |
| Income tax expense (benefit)              | 3,641    | 500                  | 404       | (623 )  | 3,922        |
| Net income (loss)                         | \$9,782  | \$ 761               | \$ 551    | \$(238) | \$ 10,856    |
| Capital expenditures                      | \$4,320  | \$ 11                | \$ 7      | \$50    | \$ 4,388     |
| Three Months Ended<br>March 31, 2016      |          |                      |           |         |              |
| (Dollars in thousands)                    | Banking  | Wealth<br>Management | Insurance | Other   | Consolidated |
| Interest income                           | \$25,725 | \$ 2                 | \$ —      | \$7     | \$ 25,734    |
| Interest expense                          | 2,211    | —                    | —         | —       | 2,211        |
| Net interest income                       | 23,514   | 2                    | —         | 7       | 23,523       |
| Provision for loan and lease losses       | 326      | —                    | —         | —       | 326          |
| Noninterest income                        | 4,548    | 4,572                | 4,720     | (9 )    | 13,831       |
| Intangible expenses                       | 63       | 303                  | 400       | —       | 766          |
| Acquisition-related and integration costs | 10       | —                    | —         | 210     | 220          |
| Other noninterest expense                 | 18,736   | 3,058                | 3,119     | 1,040   | 25,953       |
| Intersegment (revenue) expense*           | (511 )   | 219                  | 292       | —       | —            |
| Income (expense) before income taxes      | 9,438    | 994                  | 909       | (1,252) | 10,089       |
| Income tax expense (benefit)              | 2,357    | 383                  | 377       | (317 )  | 2,800        |
| Net income (loss)                         | \$7,081  | \$ 611               | \$ 532    | \$(935) | \$ 7,289     |
| Capital expenditures                      | \$1,839  | \$ 15                | \$ 10     | \$314   | \$ 2,178     |

\*Includes an allocation of general and administrative expenses from both the parent holding company and the Bank. Generally speaking, these expenses are allocated based upon number of employees and square footage utilized.

### Note 13. Restructuring Charges

During 2015 and 2016, the Corporation exited five financial centers, a lease for a new financial center and two administrative offices, and reduced staff due to rationalization; resulting in accrued expenses totaling \$3.4 million, primarily related to the Banking business segment.

A roll-forward of the remaining accrued restructuring expense for the three months ended March 31, 2017 is as follows:

| (Dollars in thousands) | Severance<br>expenses | Write-downs<br>and<br>retirements<br>of fixed | Lease<br>cancellations | Total |
|------------------------|-----------------------|-----------------------------------------------|------------------------|-------|
|------------------------|-----------------------|-----------------------------------------------|------------------------|-------|

|                            |        |        |       |         |
|----------------------------|--------|--------|-------|---------|
|                            |        | assets |       |         |
| Accrued at January 1, 2017 | \$ 901 | \$ 228 | \$ 81 | \$1,210 |
| Payments                   | (445 ) | —      | (25 ) | (470 )  |
| Accrued at March 31, 2017  | \$ 456 | \$ 228 | \$ 56 | \$740   |

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### Note 14. 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.

As discussed in Note 3, during the first quarter of 2017, certain lessees stopped making payments and Univest Capital, Inc., a subsidiary of the Corporation, filed legal complaints to pursue collection of all amounts owed. A complaint was subsequently filed against Univest Capital, Inc. and certain other defendants on March 28, 2017 by one of the lessees in federal court in Texas seeking, among other things, class action certification and a declaration that the contracts and related guarantees are null and void. Univest Capital, Inc. has not been served with the complaint, and the plaintiff has been directed to file an amended complaint on or before May 5, 2017. As of the filing date, the outcome of the matter is neither probable nor estimable.

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

(All dollar amounts presented within 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 applicable." 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 similar 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 those set forth below:

#### Operating, legal and regulatory risks

- Economic, political and competitive forces impacting various lines of business

• 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

#### Volatility in interest rates

#### Other risks and uncertainties, including those occurring in the U.S. and world financial systems

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 Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 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 and assessment for impairment of certain investment securities, reserve for loan and lease losses, purchase accounting, valuation of goodwill and other intangible assets, servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies. For more information on these critical accounting policies,

please refer to the Corporation's 2016 Annual Report on Form 10-K.

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## General

Univest Corporation of Pennsylvania (the Corporation), is a Bank Holding Company owning 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 (Girard), 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 revenues 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 is in intense competition with domestic and international banking organizations and other insurance and wealth management providers for the financial services business. 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<br>Ended<br>March 31, |         | Change  |         |
|-----------------------------------------------|------------------------------------|---------|---------|---------|
| (Dollars in thousands, except per share data) | 2017                               | 2016    | Amount  | Percent |
| Net income                                    | \$10,856                           | \$7,289 | \$3,567 | 48.9 %  |
| Net income per share:                         |                                    |         |         |         |
| Basic                                         | \$0.41                             | \$0.37  | \$0.04  | 10.8    |
| Diluted                                       | 0.41                               | 0.37    | 0.04    | 10.8    |
| Return on average assets                      | 1.04                               | % 1.03  | % 1 BP  | 1.0     |
| Return on average equity                      | 8.65                               | 8.05    | 60 BP   | 7.5     |

The Corporation reported net income of \$10.9 million or \$0.41 diluted earnings per share for the three months ended March 31, 2017, compared to net income of \$7.3 million or \$0.37 diluted earnings per share for the three months ended March 31, 2016. The financial results for the three months ended March 31, 2016 included \$220 thousand of acquisition and integration costs related to the Fox Chase Bancorp (Fox Chase) acquisition, or \$0.01 of diluted earnings per share, net of tax.

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### Results of Operations

On July 1, 2016, the Corporation acquired Fox Chase. The comparative results of operations for the three months ended March 31, 2017 include the impact of this acquisition.

### 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, 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 months ended March 31, 2017 and 2016. 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.

#### Three months ended March 31, 2017 versus 2016

Net interest income on a tax-equivalent basis for the three months ended March 31, 2017 was \$35.7 million, an increase of \$10.9 million or 43.8% compared to the same period in 2016. The net interest margin on a tax-equivalent basis for the first quarter of 2017 was 3.80%, compared to 3.91% for the first quarter of 2016. The increase in net interest income and decrease in net interest margin (tax-equivalent) was mainly due to the impact of the Fox Chase acquisition, which occurred on July 1, 2016. The favorable impact of acquisition accounting adjustments was eight basis points (\$764 thousand) for the three months ended March 31, 2017 compared to two basis points (\$100 thousand) for the same period in the prior year. The incremental subordinated debt issuance in July 2016 increased funding costs by six basis points for the three months ended March 31, 2017 compared to the same period in the prior year.

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

| (Dollars in thousands)                                                                    | Three Months Ended March 31, |                |              |                 |                |              |
|-------------------------------------------------------------------------------------------|------------------------------|----------------|--------------|-----------------|----------------|--------------|
|                                                                                           | 2017                         |                |              | 2016            |                |              |
|                                                                                           | Average Balance              | Income/Expense | Average Rate | Average Balance | Income/Expense | Average Rate |
| <b>Assets:</b>                                                                            |                              |                |              |                 |                |              |
| Interest-earning deposits with other banks                                                | \$8,592                      | \$16           | 0.76 %       | \$19,619        | \$28           | 0.57 %       |
| U.S. government obligations                                                               | 34,038                       | 106            | 1.25         | 82,488          | 250            | 1.22         |
| Obligations of states and political subdivisions                                          | 85,854                       | 922            | 4.36         | 101,061         | 1,129          | 4.49         |
| Other debt and equity securities                                                          | 350,408                      | 1,582          | 1.83         | 158,669         | 1,024          | 2.60         |
| Federal funds sold and other earning assets                                               | 25,909                       | 358            | 5.60         | 14,821          | 132            | 3.58         |
| Total interest-earning deposits, investments, federal funds sold and other earning assets | 504,801                      | 2,984          | 2.40         | 376,658         | 2,563          | 2.74         |
| Commercial, financial and agricultural loans                                              | 721,050                      | 7,841          | 4.41         | 411,999         | 4,014          | 3.92         |
| Real estate—commercial and construction loans                                             | 1,460,029                    | 15,740         | 4.37         | 887,118         | 9,919          | 4.50         |
| Real estate—residential loans                                                             | 738,211                      | 8,236          | 4.52         | 541,976         | 5,976          | 4.43         |
| Loans to individuals                                                                      | 29,575                       | 400            | 5.49         | 29,478          | 399            | 5.44         |
| Municipal loans and leases                                                                | 279,379                      | 3,120          | 4.53         | 231,498         | 2,625          | 4.56         |
| Lease financings                                                                          | 78,633                       | 1,483          | 7.65         | 75,022          | 1,542          | 8.27         |
| Gross loans and leases                                                                    | 3,306,877                    | 36,820         | 4.52         | 2,177,091       | 24,475         | 4.52         |
| Total interest-earning assets                                                             | 3,811,678                    | 39,804         | 4.24         | 2,553,749       | 27,038         | 4.26         |
| Cash and due from banks                                                                   | 41,942                       |                |              | 31,665          |                |              |
| Reserve for loan and lease losses                                                         | (18,200 )                    |                |              | (17,771 )       |                |              |
| Premises and equipment, net                                                               | 64,507                       |                |              | 42,873          |                |              |
| Other assets                                                                              | 330,501                      |                |              | 224,041         |                |              |
| Total assets                                                                              | \$4,230,428                  |                |              | \$2,834,557     |                |              |
| <b>Liabilities:</b>                                                                       |                              |                |              |                 |                |              |
| Interest-bearing checking deposits                                                        | \$426,373                    | 105            | 0.10         | \$402,160       | 84             | 0.08         |
| Money market savings                                                                      | 531,658                      | 563            | 0.43         | 361,788         | 340            | 0.38         |
| Regular savings                                                                           | 807,802                      | 349            | 0.18         | 626,894         | 174            | 0.11         |
| Time deposits                                                                             | 591,813                      | 1,174          | 0.80         | 418,547         | 935            | 0.90         |
| Total time and interest-bearing deposits                                                  | 2,357,646                    | 2,191          | 0.38         | 1,809,389       | 1,533          | 0.34         |
| Short-term borrowings                                                                     | 150,155                      | 262            | 0.71         | 27,388          | 3              | 0.04         |
| Long-term debt                                                                            | 148,031                      | 399            | 1.09         | —               | —              | —            |
| Subordinated notes (1)                                                                    | 94,116                       | 1,261          | 5.43         | 49,394          | 675            | 5.50         |
| Total borrowings                                                                          | 392,302                      | 1,922          | 1.99         | 76,782          | 678            | 3.55         |
| Total interest-bearing liabilities                                                        | 2,749,948                    | 4,113          | 0.61         | 1,886,171       | 2,211          | 0.47         |
| Noninterest-bearing deposits                                                              | 932,639                      |                |              | 542,427         |                |              |
| Accrued expenses and other liabilities                                                    | 38,786                       |                |              | 41,867          |                |              |
| Total liabilities                                                                         | 3,721,373                    |                |              | 2,470,465       |                |              |
| <b>Shareholders' Equity:</b>                                                              |                              |                |              |                 |                |              |
| Common stock                                                                              | 144,559                      |                |              | 110,271         |                |              |
| Additional paid-in capital                                                                | 230,104                      |                |              | 120,824         |                |              |
| Retained earnings and other equity                                                        | 134,392                      |                |              | 132,997         |                |              |
| Total shareholders' equity                                                                | 509,055                      |                |              | 364,092         |                |              |
| Total liabilities and shareholders' equity                                                | \$4,230,428                  |                |              | \$2,834,557     |                |              |
| Net interest income                                                                       |                              | \$35,691       |              |                 | \$24,827       |              |
| Net interest spread                                                                       |                              |                | 3.63         |                 |                | 3.79         |
| Effect of net interest-free funding sources                                               |                              |                | 0.17         |                 |                | 0.12         |

|                                                                                  |          |          |        |
|----------------------------------------------------------------------------------|----------|----------|--------|
| Net interest margin                                                              |          | 3.80 %   | 3.91 % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 138.61 % | 135.39 % |        |

(1) The interest rate on gross subordinated notes is calculated on a 30/360 day basis with a weighted average note rate of 5.05% and 5.10% for the three months ended March 31, 2017 and 2016, respectively. The balance is net of debt issuance costs which are amortized to interest expense.

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 March 31, 2017 and 2016 have been calculated using the Corporation's federal applicable rate of 35%.

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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.

| (Dollars in thousands)                                                         | Three Months Ended<br>March 31, 2017 Versus<br>2016 |                |          |
|--------------------------------------------------------------------------------|-----------------------------------------------------|----------------|----------|
|                                                                                | Volume<br>Change                                    | Rate<br>Change | Total    |
| Interest income:                                                               |                                                     |                |          |
| Interest-earning deposits with other banks                                     | \$(19 )                                             | \$7            | \$(12 )  |
| U.S. government obligations                                                    | (152 )                                              | 8              | (144 )   |
| Obligations of states and political subdivisions                               | (173 )                                              | (34 )          | (207 )   |
| Other debt and equity securities                                               | 935                                                 | (377 )         | 558      |
| Federal funds sold and other earning assets                                    | 129                                                 | 97             | 226      |
| Interest on deposits, investments, federal funds sold and other earning assets | 720                                                 | (299 )         | 421      |
| Commercial, financial and agricultural loans                                   | 3,276                                               | 551            | 3,827    |
| Real estate—commercial and construction loans                                  | 6,119                                               | (298 )         | 5,821    |
| Real estate—residential loans                                                  | 2,139                                               | 121            | 2,260    |
| Loans to individuals                                                           | —                                                   | 1              | 1        |
| Municipal loans and leases                                                     | 513                                                 | (18 )          | 495      |
| Lease financings                                                               | 67                                                  | (126 )         | (59 )    |
| Interest and fees on loans and leases                                          | 12,114                                              | 231            | 12,345   |
| Total interest income                                                          | 12,834                                              | (68 )          | 12,766   |
| Interest expense:                                                              |                                                     |                |          |
| Interest-bearing checking deposits                                             | 4                                                   | 17             | 21       |
| Money market savings                                                           | 174                                                 | 49             | 223      |
| Regular savings                                                                | 54                                                  | 121            | 175      |
| Time deposits                                                                  | 352                                                 | (113 )         | 239      |
| Interest on time and interest-bearing deposits                                 | 584                                                 | 74             | 658      |
| Short-term borrowings                                                          | 54                                                  | 205            | 259      |
| Long-term debt                                                                 | 399                                                 | —              | 399      |
| Subordinated notes                                                             | 595                                                 | (9 )           | 586      |
| Interest on borrowings                                                         | 1,048                                               | 196            | 1,244    |
| Total interest expense                                                         | 1,632                                               | 270            | 1,902    |
| Net interest income                                                            | \$11,202                                            | \$(338 )       | \$10,864 |

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## Interest Income

Three months ended March 31, 2017 versus 2016

Interest income on a tax-equivalent basis for the three months ended March 31, 2017 was \$39.8 million, an increase of \$12.8 million from the same period in 2016. The increase was mainly due to the impact of the Fox Chase acquisition and organic loan growth in commercial real estate, commercial business and residential real estate loans. The favorable impact of acquisition accounting fair value adjustments on interest-earnings assets was two basis points (\$149 thousand) for the three months ended March 31, 2017 compared to a favorable impact of one basis point (\$35 thousand) for the same period in the prior year.

## Interest Expense

Three months ended March 31, 2017 versus 2016

Interest expense for the three months ended March 31, 2017 was \$4.1 million, an increase of \$1.9 million from the same period in 2016. The increase was mainly due to the impact of the Fox Chase acquisition and increased borrowings. The favorable impact of acquisition accounting fair value adjustments on interest-bearing liabilities was nine basis points (\$615 thousand) for the three months ended March 31, 2017 compared to a favorable impact of one basis point (\$65 thousand) 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 March 31, 2017 was \$2.4 million compared to \$326 thousand for the same period in 2016. The increase in the provision for loan losses was primarily due to an increase in loans covered by the allowance for loan and lease losses during the three months ended March 31, 2017 and a \$580 thousand reserve for impaired leases.

## Noninterest Income

The following table presents noninterest income for the three months ended March 31, 2017 and 2016:

|                                               | Three Months |           | Change  |         |   |
|-----------------------------------------------|--------------|-----------|---------|---------|---|
|                                               | Ended        | March 31, | Amount  | Percent |   |
| (Dollars in thousands)                        | 2017         | 2016      |         |         |   |
| Trust fee income                              | \$1,907      | \$1,865   | \$42    | 2.3     | % |
| Service charges on deposit accounts           | 1,243        | 998       | 245     | 24.5    |   |
| Investment advisory commission and fee income | 3,181        | 2,671     | 510     | 19.1    |   |
| Insurance commission and fee income           | 4,410        | 4,558     | (148)   | (3.2)   | ) |
| Other service fee income                      | 1,987        | 1,831     | 156     | 8.5     |   |
| Bank owned life insurance income              | 783          | 470       | 313     | 66.6    |   |
| Net gain on sales of investment securities    | 15           | 44        | (29)    | (65.9)  | ) |
| Net gain on mortgage banking activities       | 1,113        | 1,218     | (105)   | (8.6)   | ) |
| Other income                                  | 331          | 176       | 155     | 88.1    |   |
| Total noninterest income                      | \$14,970     | \$13,831  | \$1,139 | 8.2     | % |

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## Three months ended March 31, 2017 versus 2016

Noninterest income for the three months ended March 31, 2017 was \$15.0 million, an increase of \$1.1 million or 8.2% from the same period in the prior year. Service charges on deposits increased \$245 thousand or 24.5% for the three months mostly due to fees on deposit accounts acquired from Fox Chase. Investment advisory commission and fee income increased \$510 thousand or 19.1% from the three months ended March 31, 2016 primarily due to a combination of both increased new customer relationships and favorable market performance during the second half of 2016 and the first quarter of 2017. Other service fee income increased \$156 thousand or 8.5% for the three months primarily due to interchange fee income related to Fox Chase customers. Bank owned life insurance (BOLI) income increased \$313 thousand or 66.6% for the three months primarily due to policies acquired from Fox Chase and increased income of \$105 thousand on non-qualified annuities. Other income increased \$155 thousand for the three months mainly due to net gains on sales of other real estate owned of \$114 thousand. These increases were partially offset by modest decreases in insurance and mortgage banking income. Insurance commission and fee income decreased \$148 thousand for the three months ended March 31, 2017, primarily due to a decrease in contingent commission income of \$340 thousand, which was \$1.0 million for the three months ended March 31, 2017 compared to \$1.3 million for the three months ended March 31, 2016. The net gain on mortgage banking decreased \$105 thousand for the three months ended March 31, 2017 primarily due to a decrease in mortgage volume.

## Noninterest Expense

The following table presents noninterest expense for the three months ended March 31, 2017 and 2016:

|                            | Three Months<br>Ended<br>March 31, |          | Change  |         |
|----------------------------|------------------------------------|----------|---------|---------|
| (Dollars in thousands)     | 2017                               | 2016     | Amount  | Percent |
| Salaries and benefits      | \$16,657                           | \$14,182 | \$2,475 | 17.5 %  |
| Commissions                | 2,050                              | 1,895    | 155     | 8.2     |
| Net occupancy              | 2,665                              | 2,100    | 565     | 26.9    |
| Equipment                  | 993                                | 776      | 217     | 28.0    |
| Data processing            | 2,058                              | 1,281    | 777     | 60.7    |
| Professional fees          | 1,239                              | 1,020    | 219     | 21.5    |
| Marketing and advertising  | 379                                | 538      | (159 )  | (29.6)  |
| Deposit insurance premiums | 402                                | 447      | (45 )   | (10.1)  |
| Intangible expenses        | 759                                | 766      | (7 )    | (0.9 )  |
| Acquisition-related costs  | —                                  | 214      | (214 )  | N/M     |
| Integration costs          | —                                  | 6        | (6 )    | N/M     |
| Other expense              | 4,828                              | 3,714    | 1,114   | 30.0    |
| Total noninterest expense  | \$32,030                           | \$26,939 | \$5,091 | 18.9 %  |

## Three months ended March 31, 2017 versus 2016

Noninterest expense for the three months ended March 31, 2017 was \$32.0 million, an increase of \$5.1 million or 18.9% from the same period in the prior year. Salaries and benefit expense increased \$2.5 million for the three months, primarily attributable to higher staffing levels resulting from the Fox Chase acquisition, additional staff hired to support revenue generation across all business lines and the expansion into Lancaster County. Occupancy and equipment expenses increased \$782 thousand for the three months, primarily due to higher premises expense related to Fox Chase locations and expansion into Philadelphia, Lancaster County and the Lehigh Valley. Data processing expense increased \$777 thousand for the three months due to increased investments in computer software and our outsourced data processing solution as well as the addition of Fox Chase processing expense. Other expense increased \$1.1 million for the three months primarily due to inclusion of Fox Chase related expenses and an increase of \$416 thousand related to bank shares tax as a result of a statutory rate increase in 2017 and the Corporation's growth primarily due to the Fox Chase acquisition.



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## Tax Provision

The provision for income taxes for the three months ended March 31, 2017 and 2016 was \$3.9 million and \$2.8 million, at effective rates of 26.5% and 27.8%, respectively. During the three months ended March 31, 2017, the Corporation recognized a \$288 thousand discrete tax benefit related to the vesting of restricted stock and exercise of stock options, which provided a tax deduction greater than previously recorded. This change was in accordance with ASU No. 2016-09, which was implemented by the Corporation in the fourth quarter of 2016 and requires the tax impact of such equity-based compensation activities to be recorded as an adjustment to the income tax provision in the period incurred, rather than an adjustment to equity. Excluding this tax benefit, the effective income tax rate for the three months ended March 31, 2017 was 28.5% which reflects the Corporation's level of tax-exempt income relative to the overall level of taxable income. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities, loans and bank-owned life insurance income.

## Financial Condition

## Assets

The following table presents assets at the dates indicated:

| (Dollars in thousands)                                                | At March<br>31,<br>2017 | At<br>December<br>31,<br>2016 | Change   |         |
|-----------------------------------------------------------------------|-------------------------|-------------------------------|----------|---------|
|                                                                       |                         |                               | Amount   | Percent |
| Cash and interest-earning deposits                                    | \$57,800                | \$57,825                      | \$(25 )  | N/M     |
| Investment securities                                                 | 464,639                 | 468,518                       | (3,879 ) | (0.8 )  |
| Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost | 25,322                  | 24,869                        | 453      | 1.8     |
| Loans held for sale                                                   | 1,110                   | 5,890                         | (4,780 ) | (81.2)  |
| Loans and leases held for investment                                  | 3,341,916               | 3,285,886                     | 56,030   | 1.7     |
| Reserve for loan and lease losses                                     | (19,528 )               | (17,499 )                     | (2,029 ) | (11.6)  |
| Premises and equipment, net                                           | 64,811                  | 63,638                        | 1,173    | 1.8     |
| Goodwill and other intangibles, net                                   | 188,482                 | 189,210                       | (728 )   | (0.4 )  |
| Bank owned life insurance                                             | 100,520                 | 99,948                        | 572      | 0.6     |
| Accrued interest receivable and other assets                          | 48,859                  | 52,243                        | (3,384 ) | (6.5 )  |
| Total assets                                                          | \$4,273,931             | \$4,230,528                   | \$43,403 | 1.0 %   |

## Investment Securities

Total investments at March 31, 2017 decreased \$3.9 million from December 31, 2016. Maturities and pay-downs of \$24.7 million, calls of \$4.1 million and sales of \$1.8 million were partially offset by purchases of \$27.2 million and increases in the fair value of available-for-sale investment securities of \$405 thousand. Long-term interest rates were slightly lower during the first quarter of 2017, resulting in increased fair value of available-for-sale investment securities.

## 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 \$10.6 million and \$10.1 million at March 31, 2017 and December 31, 2016, respectively. FHLB stock increased \$454 thousand mainly due to purchase requirements related to the increase in FHLB borrowings. Additionally, the FHLB may require its members to increase their capital stock investments. Changes in the credit ratings of the U.S. government and federal agencies, including the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on the FHLB operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation's investment in FHLB stock. The Corporation determined there was no other-than-temporary impairment of the investment in FHLB stock. Therefore, at March 31, 2017, the FHLB stock is recorded at cost.

The Bank held \$14.6 million in Federal Reserve Bank stock as required by the Federal Reserve Bank at March 31, 2017 and December 31, 2016.

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### Loans and Leases

Gross loans and leases held for investment grew \$56.0 million or 1.7% from December 31, 2016. 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 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 fees 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 March 31, 2017, the recorded investment in loans and leases held for investment that were considered to be impaired was \$42.4 million. The related reserve for loan and lease losses was \$979 thousand. At December 31, 2016, the recorded investment in loans and leases that were considered to be impaired was \$43.9 million. The related reserve for loan and lease losses was \$235 thousand. 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 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. Interest income recognized on impaired loans for the three months ended March 31, 2017 and 2016 was \$292 thousand and \$402 thousand, respectively. For the three months ended March 31, 2017 and 2016, additional interest income that would have been recognized under the original terms for impaired loans was \$215 thousand and \$218 thousand, respectively.

Other real estate owned was \$3.7 million at March 31, 2017, compared to \$5.0 million at December 31, 2016. During the first quarter of 2017, two commercial real estate properties with a total carrying value of \$874 thousand were sold for a gain of \$14 thousand, three units of a condominium complex with a carrying value of \$1.0 million were sold for a gain of \$100 thousand and one commercial real estate property with a total fair value of \$653 thousand was transferred to other real estate owned.

### 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 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.

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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 \$393 thousand and \$385 thousand at March 31, 2017 and December 31, 2016, respectively.

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 non-performing assets at the dates indicated. Non-performing loans and assets exclude acquired credit impaired loans for Fox Chase and Valley Green.

| (Dollars in thousands)                                                                                                                             | At March<br>31, 2017 | At<br>December<br>31, 2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------|
| Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:                                       |                      |                            |
| Loans held for investment:                                                                                                                         |                      |                            |
| Commercial, financial and agricultural                                                                                                             | \$5,305              | \$5,746                    |
| Real estate—commercial                                                                                                                             | 4,133                | 5,651                      |
| Real estate—residential                                                                                                                            | 4,857                | 5,983                      |
| Lease financings                                                                                                                                   | 5,561                | 536                        |
| Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*                                  | 19,856               | 17,916                     |
| Accruing troubled debt restructured loans and lease modifications not included in the above                                                        | 2,818                | 3,252                      |
| Accruing loans and leases 90 days or more past due:                                                                                                |                      |                            |
| Real estate—residential                                                                                                                            | 617                  | 652                        |
| Loans to individuals                                                                                                                               | 142                  | 142                        |
| Lease financings                                                                                                                                   | 160                  | 193                        |
| Total accruing loans and leases, 90 days or more past due                                                                                          | 919                  | 987                        |
| Total non-performing loans and leases                                                                                                              | 23,593               | 22,155                     |
| Other real estate owned                                                                                                                            | 3,712                | 4,969                      |
| Total nonperforming assets                                                                                                                         | \$27,305             | \$27,124                   |
| Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment | 0.59                 | % 0.55                     |
| Nonperforming loans and leases / loans and leases held for investment                                                                              | 0.71                 | 0.67                       |
| Nonperforming assets / total assets                                                                                                                | 0.64                 | 0.64                       |
| Allowance for loan and lease losses / loans and leases held for investment                                                                         | 0.58                 | 0.53                       |
| Allowance for loan and lease losses / loans and leases held for investment (excluding acquired loans at period-end)                                | 0.74                 | 0.73                       |
| Allowance for loan and lease losses / nonaccrual loans and leases held for investment                                                              | 98.35                | 97.67                      |
| Allowance for loan and lease losses / nonperforming loans and leases held for investment                                                           | 82.77                | 78.98                      |
| Allowance for loan and lease losses                                                                                                                | \$19,528             | \$17,499                   |
| Acquired credit impaired loans                                                                                                                     | 6,616                | 7,352                      |
| Nonperforming loans and leases and acquired credit impaired loans/loans and leases held for investment                                             | 0.90                 | % 0.90                     |
| Nonperforming assets and acquired credit impaired loans/ total assets                                                                              | 0.79                 | 0.81                       |
| * Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table                   | \$1,674              | \$1,753                    |



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

| (Dollars in thousands)                                                                                           | At March<br>31, 2017 | At<br>December<br>31, 2016 |   |
|------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------|---|
| Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications | \$19,856             | \$17,916                   |   |
| Nonaccrual loans and leases with partial charge-offs                                                             | 4,895                | 5,000                      |   |
| Life-to-date partial charge-offs on nonaccrual loans and leases                                                  | 2,851                | 2,857                      |   |
| Charge-off rate of nonaccrual loans and leases with partial charge-offs                                          | 36.8                 | % 36.4                     | % |
| Specific reserves on impaired loans                                                                              | \$399                | \$235                      |   |

**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 covenants not to compete, 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 \$1.1 million and \$834 thousand for the three months ended March 31, 2017 and 2016, respectively. See Note 4 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets" for a summary of intangible assets at March 31, 2017 and December 31, 2016. The Corporation also has goodwill with a net carrying value of \$172.6 million at March 31, 2017 and December 31, 2016, 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 three months ended March 31, 2017 and 2016. Since the last annual impairment analysis during 2016, 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 March<br>31, 2017 | At<br>December<br>31, 2016 | Change<br>Amount | Percent |
|------------------------------------------------|----------------------|----------------------------|------------------|---------|
| Deposits                                       | \$3,365,951          | \$3,257,567                | \$108,384        | 3.3 %   |
| Short-term borrowings                          | 79,366               | 196,171                    | (116,805 )       | (59.5)  |
| Long-term debt                                 | 182,066              | 127,522                    | 54,544           | 42.8    |
| Subordinated notes                             | 94,148               | 94,087                     | 61               | 0.1     |
| Accrued interest payable and other liabilities | 40,520               | 49,972                     | (9,452 )         | (18.9)  |
| Total liabilities                              | \$3,762,051          | \$3,725,319                | \$36,732         | 1.0 %   |

**Deposits**

Total deposits grew \$108.4 million or 3.3% from December 31, 2016, primarily due to increases in public funds and commercial customer deposits.

**Borrowings**

Total borrowings decreased \$62.2 million from December 31, 2016, primarily due to a decrease in short-term borrowings of \$116.8 million partially offset by an increase in long-term Federal Home Loan Bank borrowings of \$54.6 million.

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## Shareholders' Equity

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

| (Dollars in thousands)               | At March<br>31, 2017 | At<br>December<br>31, 2016 | Change  |         |     |
|--------------------------------------|----------------------|----------------------------|---------|---------|-----|
|                                      |                      |                            | Amount  | Percent |     |
| Common stock                         | \$144,559            | \$144,559                  | \$—     | —       | %   |
| Additional paid-in capital           | 230,391              | 230,494                    | (103)   |         | N/M |
| Retained earnings                    | 200,050              | 194,516                    | 5,534   | 2.8     |     |
| Accumulated other comprehensive loss | (18,992)             | (19,454)                   | 462     | 2.4     |     |
| Treasury stock                       | (44,128)             | (44,906)                   | 778     | 1.7     |     |
| Total shareholders' equity           | \$511,880            | \$505,209                  | \$6,671 | 1.3     | %   |

The increase in shareholder's equity at March 31, 2017 of \$6.7 million from December 31, 2016 was primarily related to a \$5.5 million increase to retained earnings. Retained earnings at March 31, 2017 were impacted by the three months of net income of \$10.9 million partially offset by cash dividends declared of \$5.3 million. Accumulated other comprehensive loss decreased by \$462 thousand mainly attributable to increases in the fair value of available-for-sale investment securities. Treasury stock decreased by \$778 thousand 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 and Tier 1 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 phase in over a four-year period beginning January 1, 2016.

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 three-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 2017, the Corporation and the Bank must hold a capital conservation buffer greater than 1.250% above its minimum risk-based capital requirements in order to avoid limitations on capital distributions.

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## Table 4—Regulatory Capital

The Corporation's and Bank's actual and required capital ratios as of March 31, 2017 and December 31, 2016 under BASEL III 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 March 31, 2017                                |           |         |                               |        |                                                                  |         |
| Total Capital (to Risk-Weighted Assets):         |           |         |                               |        |                                                                  |         |
| Corporation                                      | \$469,296 | 12.44 % | \$301,688                     | 8.00 % | \$ 377,111                                                       | 10.00 % |
| Bank                                             | 440,359   | 11.77   | 299,276                       | 8.00   | 374,095                                                          | 10.00   |
| Tier 1 Capital (to Risk-Weighted Assets):        |           |         |                               |        |                                                                  |         |
| Corporation                                      | 354,940   | 9.41    | 226,266                       | 6.00   | 301,688                                                          | 8.00    |
| Bank                                             | 420,151   | 11.23   | 224,457                       | 6.00   | 299,276                                                          | 8.00    |
| Tier 1 Common Capital (to Risk-Weighted Assets): |           |         |                               |        |                                                                  |         |
| Corporation                                      | 354,940   | 9.41    | 169,700                       | 4.50   | 245,122                                                          | 6.50    |
| Bank                                             | 420,151   | 11.23   | 168,343                       | 4.50   | 243,161                                                          | 6.50    |
| Tier 1 Capital (to Average Assets):              |           |         |                               |        |                                                                  |         |
| Corporation                                      | 354,940   | 8.75    | 162,180                       | 4.00   | 202,725                                                          | 5.00    |
| Bank                                             | 420,151   | 10.44   | 160,985                       | 4.00   | 201,232                                                          | 5.00    |
| At December 31, 2016                             |           |         |                               |        |                                                                  |         |
| Total Capital (to Risk-Weighted Assets):         |           |         |                               |        |                                                                  |         |
| Corporation                                      | \$462,198 | 12.44 % | \$297,284                     | 8.00 % | \$ 371,604                                                       | 10.00 % |
| Bank                                             | 436,435   | 11.85   | 294,679                       | 8.00   | 368,349                                                          | 10.00   |
| Tier 1 Capital (to Risk-Weighted Assets):        |           |         |                               |        |                                                                  |         |
| Corporation                                      | 349,942   | 9.42    | 222,963                       | 6.00   | 297,284                                                          | 8.00    |
| Bank                                             | 418,266   | 11.36   | 221,010                       | 6.00   | 294,679                                                          | 8.00    |
| Tier 1 Common Capital (to Risk-Weighted Assets): |           |         |                               |        |                                                                  |         |
| Corporation                                      | 349,942   | 9.42    | 167,222                       | 4.50   | 241,543                                                          | 6.50    |
| Bank                                             | 418,266   | 11.36   | 165,757                       | 4.50   | 239,427                                                          | 6.50    |
| Tier 1 Capital (to Average Assets):              |           |         |                               |        |                                                                  |         |
| Corporation                                      | 349,942   | 8.84    | 158,410                       | 4.00   | 198,013                                                          | 5.00    |
| Bank                                             | 418,266   | 10.64   | 157,254                       | 4.00   | 196,567                                                          | 5.00    |

At March 31, 2017 and December 31, 2016, 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 2017, 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 1.250% 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 March 31, 2017, 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 new rules as it grows and as the capital conservation buffer requirements are phased in.



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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 susceptibility 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 brokered 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 weekly 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 sources for the Corporation. These deposits are primarily generated from a base of consumer, business and public 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 \$1.3 billion. At March 31, 2017 and December 31, 2016, the carrying amount of overnight borrowings with the FHLB was \$9.7 million and \$91.3 million, respectively. At March 31, 2017 and December 31, 2016, the carrying amount of long-term borrowings with the FHLB was \$150.9 million and \$96.2 million, respectively. At March 31, 2017 and December 31, 2016, the Bank had outstanding short-term letters of credit with the FHLB totaling \$178.8 million and \$148.5 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 \$327.0 million and \$302.0 million at March 31, 2017 and December 31, 2016, respectively. At March 31, 2017 and December 31, 2016, the Corporation had \$45.0 million and \$80.0 million, respectively, 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, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At March 31, 2017 and December 31, 2016, the Corporation had no outstanding borrowings under this line.

The Corporation has a \$10.0 million line of credit with a correspondent bank. At March 31, 2017, the Corporation had no outstanding borrowings under this line.



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On April 25, 2017, Kroll Bond Rating Agency ("KBRA") reaffirmed its credit rating for the Corporation and the Bank with a stable outlook. Specifically, KBRA reaffirmed the Corporation's senior unsecured debt rating of BBB+, subordinated debt rating of BBB and short-term rating of K2. With regard to the Bank, KBRA reaffirmed the Bank's deposit rating of A-, short-term debt rating of K2 and short-term deposit rating of K2 while also assigning the Bank a senior unsecured debt rating of A-. Additionally, on April 25, 2017, KBRA initiated the Bank's subordinated debt rating of BBB+.

### 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."

### 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 period ended December 31, 2016.

### 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 March 31, 2017.

#### 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 March 31, 2017 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.

As discussed in Notes 3 and 14 to the financial statements included in Part I, Item I of this Form 10-Q, a complaint has been filed in federal court in Texas against Univest Capital, Inc.

## 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, 2016.

## 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 |
|-----------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| January 1 – 31, 2017  | —                                | \$                           | —                                                                                | 1,080,246                                                                      |
| February 1 – 28, 2017 | —                                | —                            | —                                                                                | 1,080,246                                                                      |
| March 1 – 31, 2017    | —                                | —                            | —                                                                                | 1,080,246                                                                      |
| Total                 | —                                | \$                           | —                                                                                |                                                                                |

## 1. Transactions are reported as of trade dates.

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 is net of 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     | <u>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.</u>                                                                                                 |
| Exhibit 3.2     | <u>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.</u>                                                                                                 |
| Exhibit 10.1    | <u>Form of Change in Control Agreement, dated February 22, 2017, entered into between Univest Corporation of Pennsylvania and Roger S. Deacon, is incorporated by reference to Exhibit 10.1 of Form 8-K, filed with the SEC on February 23, 2017.</u> |
| 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: May 3, 2017 /s/ Jeffrey M. Schweitzer  
Jeffrey M. Schweitzer  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 3, 2017 /s/ Roger S. Deacon  
Roger S. Deacon  
Senior Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)