

BRYN MAWR BANK CORP
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter ended June 30, 2017

Commission File Number 1-35746

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2434506
(I.R.S.
Employer

**identification
No.)**

801 Lancaster Avenue, Bryn Mawr, Pennsylvania 19010
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (610) 525-1700

Not Applicable

Former name, former address and fiscal year, if changed since last report.

Indicate by checkmark whether the registrant (1) has filed all reports 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a 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 any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Classes	Outstanding at August 2, 2017
Common Stock, par value \$1	17,001,099

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED June 30, 2017

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets - Unaudited**

	(unaudited)	
	June 30,	December
	2017	31,
		2016
<i>(dollars in thousands)</i>		
Assets		
Cash and due from banks	\$19,352	\$16,559
Interest bearing deposits with banks	30,806	34,206
Cash and cash equivalents	50,158	50,765
Investment securities available for sale, at fair value (amortized cost of \$444,354 and \$568,890 as of June 30, 2017 and December 31, 2016 respectively)	443,687	566,996
Investment securities held to maturity, at amortized cost (fair value of \$5,102 and \$2,818 as of June 30, 2017 and December 31, 2016, respectively)	5,161	2,879
Investment securities, trading	4,021	3,888
Loans held for sale	8,590	9,621
Portfolio loans and leases, originated	2,409,964	2,240,987
Portfolio loans and leases, acquired	256,687	294,438
Total portfolio loans and leases	2,666,651	2,535,425
Less: Allowance for originated loan and lease losses	(16,374)	(17,458)
Less: Allowance for acquired loan and lease losses	(25)	(28)
Total allowance for loans and lease losses	(16,399)	(17,486)
Net portfolio loans and leases	2,650,252	2,517,939
Premises and equipment, net	44,446	41,778
Accrued interest receivable	8,717	8,533
Mortgage servicing rights	5,683	5,582
Bank owned life insurance	39,680	39,279
Federal Home Loan Bank stock	15,168	17,305
Goodwill	107,127	104,765
Intangible assets	22,084	20,405
Other investments	8,682	8,627

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Other assets	24,763	23,168
Total assets	\$3,438,219	\$3,421,530
Liabilities		
Deposits:		
Non-interest-bearing	\$818,475	\$736,180
Interest-bearing	1,863,288	1,843,495
Total deposits	2,681,763	2,579,675
Short-term borrowings	130,295	204,151
Long-term FHLB advances	164,681	189,742
Subordinated notes	29,559	29,532
Accrued interest payable	2,830	2,734
Other liabilities	34,114	34,569
Total liabilities	3,043,242	3,040,403
Shareholders' equity		
Common stock, par value \$1; authorized 100,000,000 shares; issued 21,162,457 and 21,110,968 shares as of June 30, 2017 and December 31, 2016, respectively, and outstanding of 16,989,849 and 16,939,715 as of June 30, 2017 and December 31, 2016, respectively	21,162	21,111
Paid-in capital in excess of par value	234,654	232,806
Less: Common stock in treasury at cost - 4,172,608 and 4,171,253 shares as of June 30, 2017 and December 31, 2016, respectively	(67,091)	(66,950)
Accumulated other comprehensive loss, net of tax	(1,564)	(2,409)
Retained earnings	207,816	196,569
Total shareholders' equity	394,977	381,127
Total liabilities and shareholders' equity	\$3,438,219	\$3,421,530

The accompanying notes are an integral part of the unaudited consolidated financial statements.

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Income - Unaudited**

	Three Months Ended		Six Months Ended June		
	June 30,		30,		
	2017	2016	2017	2016	
<i>(dollars in thousands, except per share data)</i>					
Interest income:					
Interest and fees on loans and leases	\$29,143	\$27,679	\$57,625	\$54,375	
Interest on cash and cash equivalents	35	42	101	88	
Interest on investment securities:					
Taxable	1,906	1,384	3,529	2,735	
Non-taxable	101	126	211	254	
Dividends	52	55	97	103	
Total interest income	31,237	29,286	61,563	57,555	
Interest expense:					
Interest on deposits	1,983	1,402	3,811	2,478	
Interest on short-term borrowings	237	20	264	37	
Interest on FHLB advances and other borrowings	682	867	1,380	1,775	
Interest on subordinated notes	370	370	740	736	
Total interest expense	3,272	2,659	6,195	5,026	
Net interest income	27,965	26,627	55,368	52,529	
Provision for loan and lease losses	(83	) 445	208	1,855
Net interest income after provision for loan and lease losses	28,048	26,182	55,160	50,674	
Non-interest income:					
Fees for wealth management services	9,807	9,431	19,110	18,263	
Insurance commissions	943	845	1,706	2,121	
Capital markets revenue	953	-	953	-	
Service charges on deposits	630	713	1,277	1,415	
Loan servicing and other fees	519	539	1,022	1,031	
Net gain on sale of loans	520	857	1,149	1,562	
Net (loss) gain on sale of investment securities available for sale	-	(43) 1	(58)
Net loss on sale of other real estate owned ("OREO")	(12) -	(12) (76)
Dividends on FHLB and FRB stock	218	263	432	477	
Other operating income	1,207	1,176	2,374	2,199	
Total non-interest income	14,785	13,781	28,012	26,934	
Non-interest expenses:					
Salaries and wages	13,580	12,197	26,030	23,935	
Employee benefits	2,475	2,436	5,034	4,921	
Occupancy and bank premises	2,247	2,367	4,773	4,855	
Furniture, fixtures, and equipment	1,869	1,895	3,843	3,814	
Advertising	405	372	791	656	

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Amortization of intangible assets	687	889	1,380	1,780
Impairment of mortgage servicing rights	43	599	46	682
Due diligence, merger-related and merger integration expenses	1,236	-	1,747	-
Professional fees	1,049	946	1,760	1,759
Pennsylvania bank shares tax	297	640	961	1,278
Information technology	821	875	1,695	1,923
Other operating expenses	3,786	3,004	7,095	5,613
Total non-interest expenses	28,495	26,220	55,155	51,216
Income before income taxes	14,338	13,743	28,017	26,392
Income tax expense	4,905	4,810	9,540	9,137
Net income	\$9,433	\$8,933	\$18,477	\$17,255
Basic earnings per common share	\$0.56	\$0.53	\$1.09	\$1.03
Diluted earnings per common share	\$0.55	\$0.52	\$1.07	\$1.02
Dividends declared per share	\$0.21	\$0.20	\$0.42	\$0.40
Weighted-average basic shares outstanding	16,984,563	16,812,219	16,969,431	16,830,211
Dilutive shares	248,204	215,200	238,381	123,905
Adjusted weighted-average diluted shares	17,232,767	17,027,419	17,207,812	16,954,116

The accompanying notes are an integral part of the unaudited consolidated financial statements.

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income - Unaudited**

<i>(dollars in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$9,433	\$8,933	\$18,477	\$17,255
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on investment securities available for sale:				
Net unrealized gains arising during the period, net of tax expense of \$221, \$537, \$430, and \$1,588, respectively	411	942	799	2,853
Less: reclassification adjustment for net losses (gains) on sales realized in net income, net of tax (benefit) expense of \$0, \$(15), \$0, and \$(20), respectively	-	28	(1)	38
Unrealized investment gains, net of tax expense of \$221, \$522, \$430 and \$1,568, respectively	411	970	798	2,891
Net change in unfunded pension liability:				
Change in unfunded pension liability related to unrealized loss, prior service cost and transition obligation, net of tax expense (benefit) of \$9, \$9, \$25 and \$5, respectively	15	16	47	9
Total other comprehensive income	426	986	845	2,900
Total comprehensive income	\$9,859	\$9,919	\$19,322	\$20,155

The accompanying notes are an integral part of the unaudited consolidated financial statements.

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows - Unaudited***(dollars in thousands)*

	Six Months Ended	
	June 30,	
	2017	2016
Operating activities:		
Net Income	\$18,477	\$17,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	208	1,855
Depreciation of fixed assets	2,792	2,818
Net amortization of investment premiums and discounts	1,352	1,589
Net (gain) loss on sale of investment securities available for sale	(1)	58
Net gain on sale of loans	(1,149)	(1,656)
Stock based compensation cost	915	789
Amortization and net impairment of mortgage servicing rights	387	998
Net accretion of fair value adjustments	(1,264)	(2,310)
Amortization of intangible assets	1,381	1,780
Impairment of other real estate owned ("OREO") and other repossessed assets	200	-
Net loss on sale of OREO	12	76
Net increase in cash surrender value of bank owned life insurance ("BOLI")	(401)	(465)
Other, net	(1,810)	(2,651)
Loans originated for resale	(57,248)	(63,480)
Proceeds from loans sold	58,940	61,739
Provision for deferred income taxes	614	225
Change in income taxes payable/receivable	(3,580)	1,278
Change in accrued interest receivable	(184)	(275)
Change in accrued interest payable	96	(5)
Net cash provided by operating activities	19,737	19,618
Investing activities:		
Purchases of investment securities available for sale	(115,841)	(75,999)
Purchases of investment securities held to maturity	(2,335)	(2,928)
Proceeds from maturity and paydowns of investment securities available for sale	234,043	28,358
Proceeds from maturity and paydowns of investment securities held to maturity	42	18
Proceeds from sale of investment securities available for sale	130	132
Net change in FHLB stock	2,137	2,324
Proceeds from calls of investment securities	4,864	33,801
Net change in other investments	(55)	738
Purchase of domain name	(152)	-
Net portfolio loan and lease originations	(131,702)	(153,480)
Purchases of premises and equipment	(3,731)	(1,152)
Acquisitions, net of cash acquired	(4,792)	-
Capitalize costs to OREO	-	(28)
Proceeds from sale of OREO	68	1,806
Net cash used in investing activities	(17,324)	(166,410)
Financing activities:		

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Change in deposits	102,125	157,137
Change in short-term borrowings	(73,856)	(75,037)
Dividends paid	(7,127)	(6,732)
Change in long-term FHLB advances and other borrowings	(25,000)	(30,000)
Cash payments to taxing authorities on employees' behalf from shares withheld from stock-based compensation	(98)	(63)
Net (purchase of) proceeds from sale of treasury stock for deferred compensation plans	(69)	(65)
Net purchase of treasury stock through publicly announced plans	-	(7,971)
Proceeds from exercise of stock options	1,005	647
Net cash (used in) provided by financing activities	(3,020)	37,916
Change in cash and cash equivalents	(607)	(108,876)
Cash and cash equivalents at beginning of period	50,765	143,067
Cash and cash equivalents at end of period	\$50,158	\$34,191
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$12,481	\$7,712
Interest	\$6,099	\$5,031
Non-cash information:		
Change in other comprehensive loss	\$845	\$2,900
Change in deferred tax due to change in comprehensive income	\$455	\$1,573
Transfer of loans to other real estate owned and repossessed assets	\$309	\$-
Acquisition of noncash assets and liabilities:		
Assets acquired	\$7,284	\$-
Liabilities assumed	\$2,492	\$-

The accompanying notes are an integral part of the unaudited consolidated financial statements.

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Changes In Shareholders' Equity - Unaudited***(dollars in thousands, except per share information)*

	For the Six Months Ended June 30, 2017						Total Shareholders' Equity
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	
Balance December 31, 2016	21,110,968	\$21,111	\$232,806	\$(66,950)	\$ (2,409)	\$196,569	\$ 381,127
Net income	-	-	-	-	-	18,477	18,477
Dividends declared, \$0.42 per share	-	-	-	-	-	(7,230)	(7,230)
Other comprehensive income, net of tax expense of \$455	-	-	-	-	845	-	845
Stock based compensation	-	-	915	-	-	-	915
Form S-4 stock issuance costs	-	-	(108)	-	-	-	(108)
Retirement of treasury stock	(2,628)	(3)	(23)	26	-	-	-
Net purchase of treasury stock from stock awards for statutory tax withholdings	-	-	-	(98)	-	-	(98)
Net purchase of treasury stock for deferred compensation trusts	-	-	-	(69)	-	-	(69)
Common stock issued through share-based awards and options exercises	54,117	54	1,064	-	-	-	1,118
Balance June 30, 2017	21,162,457	\$21,162	\$234,654	\$(67,091)	\$ (1,564)	\$207,816	\$ 394,977

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In the opinion of Bryn Mawr Bank Corporation’s (the “Corporation”) management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation’s Annual Report on Form 10-K for the twelve months ended December 31, 2016 (the “2016 Annual Report”).

The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year.

Note 2 - Earnings per Common Share

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock, as well as the effect of restricted and performance shares becoming unrestricted common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<i>(dollars in thousands except per share data)</i>				
Numerator:				

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Net income available to common shareholders	\$9,433	\$8,933	\$18,477	\$17,255
Denominator for basic earnings per share – weighted average shares outstanding	16,984,563	16,812,219	16,969,431	16,830,211
Effect of dilutive common shares	248,204	215,200	238,381	123,905
Denominator for diluted earnings per share – adjusted weighted average shares outstanding	17,232,767	17,027,419	17,207,812	16,954,116
Basic earnings per share	\$0.56	\$0.53	\$1.09	\$1.03
Diluted earnings per share	\$0.55	\$0.52	\$1.07	\$1.02
Antidilutive shares excluded from computation of average dilutive earnings per share	—	—	—	—

Table of Contents**Note 3 - Business Combinations****Harry R. Hirshorn & Company, Inc., d/b/a Hirshorn Boothby (“Hirshorn”)**

The acquisition of Hirshorn, an insurance agency headquartered in the Chestnut Hill section of Philadelphia, was completed on May 24, 2017. Immediately after the acquisition, Hirshorn was merged into the Bank’s existing insurance subsidiary, Powers Craft Parker and Beard, Inc. The consideration paid by the Bank was \$7.5 million, of which \$5.8 million was paid at closing, with three contingent cash payments, not to exceed \$575 thousand each, to be payable on each of May 24, 2018, May 24, 2019, and May 24, 2020, subject to the attainment of certain revenue targets during the related periods. The acquisition enhanced the Bank’s ability to offer comprehensive insurance solutions to both individual and business clients and continues the strategy of selectively establishing specialty offices in targeted areas.

In connection with the Hirshorn acquisition, the following table details the consideration paid, the initial estimated fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition and the resulting goodwill recorded:

(dollars in thousands)

Consideration paid:

Cash paid at closing	\$5,770
Contingent payment liability (present value)	1,690
Value of consideration	7,460

Assets acquired:

Cash operating accounts	978
Intangible assets – trade name	195
Intangible assets – customer relationships	2,672
Intangible assets – non-competition agreements	41
Premises and equipment	1,795
Accounts receivable	192
Other assets	27
Total assets	5,900

Liabilities assumed:

Accounts payable	800
Other liabilities	2
Total liabilities	802

Net assets acquired	5,098
Goodwill resulting from acquisition of Hirshorn	\$2,362

Pending Business Combination – Royal Bancshares of Pennsylvania, Inc.

On January 30, 2017, the Corporation entered into a definitive Agreement and Plan of Merger to acquire Royal Bancshares of Pennsylvania, Inc. (“RBPI”), parent company of Royal Bank America (“RBA”), in a transaction with an aggregate value of \$127.7 million (the “RBPI Acquisition”). In connection with the Acquisition, RBPI will merge with and into the Corporation and RBA will merge with and into the Bank. The RBPI Acquisition, which is expected to add approximately \$602 million in loans and \$630 million in deposits (based on December 31, 2016 financial information), strengthens the Corporation’s position as the largest community bank in Philadelphia’s western suburbs and, based on deposits, ranks it as the eighth largest community bank headquartered in Pennsylvania. The RBPI Acquisition, which will expand the Corporation's distribution network by providing entry into the new markets of New Jersey and Berks County, Pennsylvania, and an expanded physical presence in Philadelphia County, Pennsylvania, is expected to close during the third quarter of 2017.

Table of Contents**Due Diligence, Merger-Related and Merger Integration Expenses**

Due diligence, merger-related and merger integration expenses may include consultant costs, investment banker fees, contract breakage fees, retention bonuses for severed employees, and salary and wages for staffing involved in the integration of the institutions. The following table details the costs identified and classified as due diligence, merger-related and merger integration costs for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(dollars in thousands)</i>				
Salaries and wages	\$320	\$ —	\$400	\$ —
Employee benefits	5	—	5	—
Advertising	19	—	19	—
Professional fees	542	—	938	—
Information technology	259	—	259	—
Other	91	—	126	—
Total due diligence and merger-related expenses	\$1,236	\$ —	\$1,747	\$ —

Note 4 - Investment Securities

The amortized cost and fair value of investment securities *available for sale* are as follows:

As of June 30, 2017

	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
<i>(dollars in thousands)</i>				
U.S. Treasury securities	\$ 101	\$ —	\$ —	\$ 101
Obligations of the U.S. government and agencies	127,167	196	(895)	126,468
Obligations of state and political subdivisions	27,470	47	(35)	27,482

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Mortgage-backed securities	230,137	1,338	(858)	230,617
Collateralized mortgage obligations	43,211	68	(730)	42,549
Other investments	16,268	238	(36)	16,470
Total	\$ 444,354	\$ 1,887	\$ (2,554)	\$ 443,687

As of December 31, 2016

<i>(dollars in thousands)</i>	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
U.S. Treasury securities	\$ 200,094	\$ 3	\$ —	\$ 200,097
Obligations of the U.S. government and agencies	83,111	167	(1,080)	82,198
Obligations of state and political subdivisions	33,625	26	(121)	33,530
Mortgage-backed securities	185,997	1,260	(1,306)	185,951
Collateralized mortgage obligations	49,488	108	(902)	48,694
Other investments	16,575	105	(154)	16,526
Total	\$ 568,890	\$ 1,669	\$ (3,563)	\$ 566,996

The following tables detail the amount of investment securities *available for sale* that were in an unrealized loss position as of the dates indicated:

As of June 30, 2017

<i>(dollars in thousands)</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of the U.S. government and agencies	\$ 90,259	\$ (895)	\$ —	\$ —	\$ 90,259	\$ (895)
Obligations of state and political subdivisions	11,196	(22)	918	(13)	12,114	(35)
Mortgage-backed securities	116,531	(858)	—	—	116,531	(858)
Collateralized mortgage obligations	32,050	(730)	—	—	32,050	(730)
Other investments	1,807	(36)	—	—	1,807	(36)
Total	\$ 251,843	\$ (2,541)	\$ 918	\$ (13)	\$ 252,761	\$ (2,554)

Table of Contents**As of December 31, 2016**

<i>(dollars in thousands)</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of the U.S. government and agencies	\$62,211	\$ (1,080)	\$—	\$ —	\$62,211	\$ (1,080)
Obligations of state and political subdivisions	24,482	(121)	—	—	24,482	(121)
Mortgage-backed securities	101,433	(1,306)	—	—	101,433	(1,306)
Collateralized mortgage obligations	35,959	(902)	—	—	35,959	(902)
Other investments	2,203	(93)	11,895	(61)	14,098	(154)
Total	\$226,288	\$ (3,502)	\$11,895	\$ (61)	\$238,183	\$ (3,563)

Management evaluates the Corporation's investment securities available for sale that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. The available for sale investment portfolio includes debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state and local municipalities and other issuers. All fixed income investment securities in the Corporation's available for sale investment portfolio are rated as investment grade. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, interest rates and the bond rating of each security. The unrealized losses presented in the tables above are temporary in nature and are primarily related to market interest rates rather than the underlying credit quality of the issuers. The Corporation does not believe that these unrealized losses are other-than-temporary. The Corporation does not have the intent to sell these securities prior to their maturity or the recovery of their cost bases and believes that it is more likely than not that it will not have to sell these securities prior to their maturity or the recovery of their cost bases.

As of June 30, 2017 and December 31, 2016, securities having fair values of \$96.4 million and \$119.4 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the Federal Reserve Bank of Philadelphia discount window program, Federal Home Loan Bank of Pittsburgh ("FHLB") borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans as part of the Corporation's borrowing agreement with the FHLB.

The amortized cost and fair value of investment securities *available for sale* as of June 30, 2017 and December 31, 2016, by contractual maturity, are detailed below:

<i>(dollars in thousands)</i>	June 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities ¹ :				

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Due in one year or less	\$12,880	\$12,884	\$213,876	\$213,885
Due after one year through five years	84,120	83,799	40,335	40,270
Due after five years through ten years	42,097	41,654	45,840	44,914
Due after ten years	16,741	16,813	18,079	18,055
Subtotal	155,838	155,150	318,130	317,124
Mortgage-related securities ¹	273,348	273,166	235,485	234,644
Mutual funds with no stated maturity	15,168	15,371	15,275	15,228
Total	\$444,354	\$443,687	\$568,890	\$566,996

¹ *Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.*

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The amortized cost and fair value of investment securities *held to maturity* as of June 30, 2017 and December 31, 2016 are detailed below:

As of June 30, 2017

<i>(dollars in thousands)</i>	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Mortgage-backed securities	\$ 5,161	\$ 4	\$ (63	) \$5,102
Total	\$ 5,161	\$ 4	\$ (63	) \$5,102

As of December 31, 2016

<i>(dollars in thousands)</i>	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Mortgage-backed securities	\$ 2,879	\$ —	\$ (61	) \$2,818
Total	\$ 2,879	\$ —	\$ (61	) \$2,818

The following tables detail the amount of *held to maturity* securities that were in an unrealized loss position as of June 30, 2017 and December 31, 2016:

As of June 30, 2017

<i>(dollars in thousands)</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$3,858	\$ (63	) \$ —	\$ —	\$3,858	\$ (63
Total	\$3,858	\$ (63	) \$ —	\$ —	\$3,858	\$ (63

As of December 31, 2016

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(dollars in thousands)						
Mortgage-backed securities	\$2,818	\$ (61)	\$ —	\$ —	\$2,818	\$ (61)
Total	\$2,818	\$ (61)	\$ —	\$ —	\$2,818	\$ (61)

The amortized cost and fair value of investment securities *held to maturity* as of June 30, 2017 and December 31, 2016, by contractual maturity, are detailed below:

	June 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(dollars in thousands)				
Mortgage-related securities ¹	\$5,161	\$5,102	\$2,879	\$2,818
Total	\$5,161	\$5,102	\$2,879	\$2,818

¹ Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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As of June 30, 2017 and December 31, 2016, the Corporation's investment securities held in *trading* accounts totaled \$4.0 million and \$3.9 million, respectively, and consisted solely of deferred compensation trust accounts which were invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

Note 5 - Loans and Leases

The loan and lease portfolio consists of loans and leases originated by the Corporation, as well as loans acquired in mergers and acquisitions. These mergers and acquisitions include the January 2015 acquisition of CBH, the November 2012 transaction with First Bank of Delaware ("FBD") and the July 2010 acquisition of First Keystone Financial, Inc. ("FKF"). Many of the tables in this footnote are presented for all loans as well as supplemental tables for *originated* and *acquired* loans.

A. The table below details all portfolio loans and leases as of the dates indicated:

	June 30,	December
	2017	31,
		2016
Loans held for sale	\$8,590	\$9,621
Real estate loans:		
Commercial mortgage	\$1,197,936	\$1,110,898
Home equity lines and loans	208,480	207,999
Residential mortgage	416,488	413,540
Construction	156,581	141,964
Total real estate loans	1,979,485	1,874,401
Commercial and industrial	599,203	579,791
Consumer	28,485	25,341
Leases	59,478	55,892
Total portfolio loans and leases	2,666,651	2,535,425
Total loans and leases	\$2,675,241	\$2,545,046
Loans with fixed rates	\$1,158,959	\$1,130,172
Loans with adjustable or floating rates	1,516,282	1,414,874
Total loans and leases	\$2,675,241	\$2,545,046

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Net deferred loan origination fees included in the above loan table \$(888) \$(735)

The table below details the Corporation's *originated* portfolio loans and leases as of the dates indicated:

	June 30,	December
	2017	31,
		2016
Loans held for sale	\$8,590	\$9,621
Real estate loans:		
Commercial mortgage	\$1,057,797	\$946,879
Home equity lines and loans	182,531	178,450
Residential mortgage	352,335	342,268
Construction	156,581	141,964
Total real estate loans	1,749,244	1,609,561
Commercial and industrial	572,872	550,334
Consumer	28,370	25,200
Leases	59,478	55,892
Total portfolio loans and leases	2,409,964	2,240,987
Total loans and leases	\$2,418,554	\$2,250,608
Loans with fixed rates	\$1,039,144	\$992,917
Loans with adjustable or floating rates	1,379,410	1,257,691
Total originated loans and leases	\$2,418,554	\$2,250,608
Net deferred loan origination fees included in the above loan table	\$(888)	\$(735)

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The table below details the Corporation's *acquired* portfolio loans as of the dates indicated:

	June 30,	December
	2017	31,
		2016
Real estate loans:		
Commercial mortgage	\$140,139	\$164,019
Home equity lines and loans	25,949	29,549
Residential mortgage	64,153	71,272
Total real estate loans	230,241	264,840
Commercial and industrial	26,331	29,457
Consumer	115	141
Total portfolio loans and leases	256,687	294,438
Total loans and leases	\$256,687	\$294,438
Loans with fixed rates	\$119,815	\$137,255
Loans with adjustable or floating rates	136,872	157,183
Total acquired loans and leases	\$256,687	\$294,438

B. Components of the net investment in leases are detailed as follows:

	June	December
	30,	31,
	2017	2016
<i>(dollars in thousands)</i>		
Minimum lease payments receivable	\$66,140	\$62,379
Unearned lease income	(8,817)	(8,608)
Initial direct costs and deferred fees	2,155	2,121
Total	\$59,478	\$55,892

C. Non-Performing Loans and Leases⁽¹⁾

The following table details *all* non-performing portfolio loans and leases as of the dates indicated:

<i>(dollars in thousands)</i>	June 30,	December 31,
	2017	2016
Non-accrual loans and leases:		
Commercial mortgage	\$ 818	\$ 320
Home equity lines and loans	1,535	2,289
Residential mortgage	2,589	2,658
Commercial and industrial	2,112	2,957
Consumer	10	2
Leases	173	137
Total	\$ 7,237	\$ 8,363

Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of \$273 thousand and \$344 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition.

The following table details non-performing *originated* portfolio loans and leases as of the dates indicated:

<i>(dollars in thousands)</i>	June 30,	December 31,
	2017	2016
Non-accrual originated loans and leases:		
Commercial mortgage	\$768	\$ 265
Home equity lines and loans	1,184	2,169
Residential mortgage	1,297	1,654
Commercial and industrial	855	941
Consumer	10	2
Leases	173	137
Total	\$4,287	\$ 5,168

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The following table details non-performing *acquired* portfolio loans⁽¹⁾ as of the dates indicated:

<i>(dollars in thousands)</i>	June 30, 2017	December 31, 2016
Non-accrual acquired loans and leases:		
Commercial mortgage	\$50	\$ 55
Home equity lines and loans	351	120
Residential mortgage	1,292	1,004
Commercial and industrial	1,257	2,016
Total	\$2,950	\$ 3,195

⁽¹⁾ *Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of \$273 thousand and \$344 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition.*

D. Purchased Credit-Impaired Loans

The outstanding principal balance and related carrying amount of credit-impaired loans, for which the Corporation applies ASC 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*, to account for the interest earned, as of the dates indicated, are as follows:

<i>(dollars in thousands)</i>	June 30, 2017	December 31, 2016
Outstanding principal balance	\$17,044	\$ 18,091
Carrying amount ⁽¹⁾	\$11,738	\$ 12,432

(1) Includes \$284 thousand and \$368 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes \$273 thousand and \$344 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition, which are disclosed in

Note 5C, above, and which also have no accretable yield.

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the six months ended June 30, 2017:

<i>(dollars in thousands)</i>	Accretable Discount
Balance, December 31, 2016	\$ 3,233
Accretion	(779)
Reclassifications from nonaccretable difference	—
Additions/adjustments	666
Disposals	—
Balance, June 30, 2017	\$ 3,120

E. Age Analysis of Past Due Loans and Leases

The following tables present an aging of *all* portfolio loans and leases as of the dates indicated:

<i>(dollars in thousands)</i>	Accruing Loans and Leases				Total Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
	30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due				
As of June 30, 2017								
Commercial mortgage	\$68	\$1,009	\$ —	\$1,077	\$1,196,041	\$1,197,118	\$ 818	\$1,197,936
Home equity lines and loans	250	—	—	250	206,695	206,945	1,535	208,480
Residential mortgage	2,704	1,301	—	4,005	409,894	413,899	2,589	416,488
Construction	—	—	—	—	156,581	156,581	—	156,581
Commercial and industrial	350	83	—	433	596,658	597,091	2,112	599,203
Consumer	—	5	—	5	28,470	28,475	10	28,485
Leases	234	254	—	488	58,817	59,305	173	59,478
	\$3,606	\$2,652	\$ —	\$6,258	\$2,653,156	\$2,659,414	\$ 7,237	\$2,666,651

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Accruing Loans and Leases								Total
<i>(dollars in thousands)</i>	30 – 59	60 – 89	Over	Total	Current*	Total	Nonaccrual	Loans
As of December 31, 2016	Days	Days	89	Past		Accruing	Loans and	and
	Past	Past	Days	Due		Loans and	Leases	Leases
	Due	Due	Past			Leases		
	Due	Due	Due					
Commercial mortgage	\$666	\$722	\$ —	\$1,388	\$1,109,190	\$1,110,578	\$ 320	\$1,110,898
Home equity lines and loans	11	—	—	11	205,699	205,710	2,289	207,999
Residential mortgage	823	490	—	1,313	409,569	410,882	2,658	413,540
Construction	—	—	—	—	141,964	141,964	—	141,964
Commercial and industrial	36	—	—	36	576,798	576,834	2,957	579,791
Consumer	10	5	—	15	25,324	25,339	2	25,341
Leases	177	86	—	263	55,492	55,755	137	55,892
	\$1,723	\$1,303	\$ —	\$3,026	\$2,524,036	\$2,527,062	\$ 8,363	\$2,535,425

*included as "current" are \$2.4 million and \$15.3 million of loans and leases as of June 30, 2017 and December 31, 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.

The following tables present an aging of *originated* portfolio loans and leases as of the dates indicated:

Accruing Loans and Leases								Total
<i>(dollars in thousands)</i>	30 – 59	60 – 89	Over	Total	Current*	Accruing	Nonaccrual	Loans
As of June 30, 2017	Days	Days	89	Past		Loans and	Loans and	and
	Past	Past	Days	Due		Leases	Leases	Leases
	Due	Due	Past					
	Due	Due	Due					
Commercial mortgage	\$—	\$84	\$ —	\$84	\$1,056,945	\$1,057,029	\$ 768	\$1,057,797
Home equity lines and loans	250	—	—	250	181,097	181,347	1,184	182,531
Residential mortgage	620	1,080	—	1,700	349,338	351,038	1,297	352,335
Construction	—	—	—	—	156,581	156,581	—	156,581
Commercial and industrial	350	83	—	433	571,584	572,017	855	572,872
Consumer	—	5	—	5	28,355	28,360	10	28,370
Leases	234	254	—	488	58,817	59,305	173	59,478
	\$1,454	\$1,506	\$ —	\$2,960	\$2,402,717	\$2,405,677	\$ 4,287	\$2,409,964

Accruing Loans and Leases				Current*	Nonaccrual	Total
<i>(dollars in thousands)</i>						

As of December 31, 2016	30 – 59	60 – 89	Over 89	Total Past Due		Total Accruing Loans and Leases	Loans and Leases	Loans and Leases
	Days Past Due	Days Past Due	Days Past Due					
Commercial mortgage	\$—	\$722	\$	—\$722	\$945,892	\$946,614	\$ 265	\$946,879
Home equity lines and loans	11	—	—	11	176,270	176,281	2,169	178,450
Residential mortgage	773	64	—	837	339,778	340,615	1,653	342,268
Construction	—	—	—	—	141,964	141,964	—	141,964
Commercial and industrial	—	—	—	—	549,393	549,393	941	550,334
Consumer	10	5	—	15	25,183	25,198	2	25,200
Leases	177	86	—	263	55,492	55,755	137	55,892
	\$971	\$877	\$	—\$1,848	\$2,233,972	\$2,235,820	\$ 5,167	\$2,240,987

*included as “current” are \$2.4 million and \$13.5 million of loans and leases as of June 30, 2017 and December 31, 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.

The following tables present an aging of *acquired* portfolio loans and leases as of the dates indicated:

(dollars in thousands)	Accruing Loans and Leases				Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
	30 – 59	60 – 89	Over 89	Total Past Due				
As of June 30, 2017	Days Past Due	Days Past Due	Days Past Due	Total Past Due				
Commercial mortgage	\$68	\$925	\$	—\$993	\$139,096	\$140,089	\$ 50	\$140,139
Home equity lines and loans	—	—	—	—	25,598	25,598	351	25,949
Residential mortgage	2,084	221	—	2,305	60,556	62,861	1,292	64,153
Commercial and industrial	—	—	—	—	25,074	25,074	1,257	26,331
Consumer	—	—	—	—	115	115	—	115
	\$2,152	\$1,146	\$	—\$3,298	\$250,439	\$253,737	\$ 2,950	\$256,687

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(dollars in thousands)	Accruing Loans and Leases					Total		Total
	30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Accruing Loans and Leases	Nonaccrual Loans and Leases	Loans and Leases
As of December 31, 2016								
Commercial mortgage	\$666	\$—	\$—	\$666	\$163,298	\$163,964	\$55	\$164,019
Home equity lines and loans	—	—	—	—	29,429	29,429	120	29,549
Residential mortgage	50	426	—	476	69,791	70,267	1,005	71,272
Commercial and industrial	36	—	—	36	27,405	27,441	2,016	29,457
Consumer	—	—	—	—	141	141	—	141
	\$752	\$426	\$—	\$1,178	\$290,064	\$291,242	\$3,196	\$294,438

*included as “current” are \$0 and \$1.8 million of loans and leases as of June 30, 2017 and December 31, 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.

F. Allowance for Loan and Lease Losses (the “Allowance”)

The following tables detail the roll-forward of the Allowance for the three and six months ended June 30, 2017:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer Leases	Unallocated	Total	
Balance, March 31, 2017	\$ 6,410	\$ 1,243	\$ 1,798	\$ 2,195	\$ 4,747	\$ 135	\$ 579	\$ —	\$17,107
Charge-offs	—	(169)	(43)	—	(200)	(18)	(307)	—	(737)
Recoveries	3	—	—	1	15	2	91	—	112
Provision for loan and lease losses	195	140	21	(1,085)	251	58	337	—	(83)
Balance, June 30, 2017	\$ 6,608	\$ 1,214	\$ 1,776	\$ 1,111	\$ 4,813	\$ 177	\$ 700	\$ —	\$16,399

<i>(dollars in thousands)</i>	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2016	\$ 6,227	\$ 1,255	\$ 1,917	\$ 2,233	\$ 5,142	\$ 153	\$ 559	\$ —	\$17,486
Charge-offs	—	(606)	(70)	—	(259)	(59)	(513)	—	(1,507)
Recoveries	6	—	—	2	15	4	185	—	212
Provision for loan and lease losses	375	565	(71)	(1,124)	(85)	79	469	—	208
Balance, June 30, 2017	\$ 6,608	\$ 1,214	\$ 1,776	\$ 1,111	\$ 4,813	\$ 177	\$ 700	\$ —	\$16,399

The following table details the roll-forward of the Allowance for the three and six months ended June 30, 2016:

<i>(dollars in thousands)</i>	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, March 31, 2016	\$ 5,856	\$ 1,126	\$ 1,868	\$ 1,902	\$ 5,445	\$ 120	\$ 528	\$ —	\$16,845
Charge-offs	—	(11)	(267)	—	(4)	(32)	(111)	—	(425)
Recoveries	3	—	5	62	48	2	51	—	171
Provision for loan and lease losses	162	70	343	180	(444)	37	97	—	445
Balance, June 30, 2016	\$ 6,021	\$ 1,185	\$ 1,949	\$ 2,144	\$ 5,045	\$ 127	\$ 565	\$ —	\$17,036

<i>(dollars in thousands)</i>	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2015	\$ 5,199	\$ 1,307	\$ 1,740	\$ 1,324	\$ 5,609	\$ 142	\$ 518	\$ 18	\$15,857
Charge-offs	(110)	(85)	(271)	—	(33)	(66)	(411)	—	(976)
Recoveries	6	4	44	63	51	16	116	—	300
Provision for loan and lease losses	926	(41)	436	757	(582)	35	342	(18)	—