UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2018.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .
Commission File Number: 0-7617

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

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

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Condensed Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation
The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation or Univest) and its wholly owned subsidiaries. The Corporation's direct subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018 or for any other period. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 1, 2018.
Use of Estimates
The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale, reserve for loan and lease losses and purchase accounting.
Accounting Pronouncements Adopted in 2018

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU clarifies the accounting treatment of the reclassification of certain income tax effects within accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act. The Corporation elected to early adopt this guidance effective January 1, 2018 for all stranded tax effects resulting from tax reform and reclassified stranded tax effects, totaling $3.9 million, from accumulated other comprehensive income to retained earnings. The Corporation's policy for releasing income tax effects from accumulated other comprehensive income is to release such effects on an individual basis as each item is liquidated, sold or extinguished. See Note 10, "Accumulated Other Comprehensive (Loss) Income" for additional detail.
In March 2017, the FASB issued ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this ASU require that an employer that sponsors defined benefit pension plans and other postretirement plans present the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The Corporation adopted this guidance effective January 1, 2018 with retrospective application for prior period presentation. Effective January 1, 2018, components of net benefit income other than the service cost component are presented in the Corporation's statement of income in other noninterest expense rather than in salaries, benefits and commission expense. Prior period components of net benefit income other than the service cost component were reclassed to other noninterest expense in the Corporation's statement of income.

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

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

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

Recent Accounting Pronouncements Yet to Be Adopted

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

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

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

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

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

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

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

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

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

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Note 2. Earnings per Share

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

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

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

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Note 3. Investment Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

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

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

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

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

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

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

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

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

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Age Analysis of Past Due Loans and Leases

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

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

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Nonperforming Loans and Leases

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

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

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

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

Credit Quality Indicators

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

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

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

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades

The following table presents classifications for originated loans:

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

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The following table presents classifications for acquired loans:

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

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

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

The following table presents classifications for originated loans:

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

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The following table presents classifications for acquired loans:

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

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

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

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

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

N/A – Not applicable

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

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

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

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

N/A – Not applicable

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

Impaired Loans (excludes Lease Financings)

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

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

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

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

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

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

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

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

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

Impaired Leases

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

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Troubled Debt Restructured Loans

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

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

(Dollars in thousands)	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017			
	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								