

UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2015.
or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.
Commission File Number: 0-7617

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

Pennsylvania 23-1886144
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)
14 North Main Street, Souderton, Pennsylvania 18964
(Address of principal executive offices)(Zip Code)
Registrant's telephone number, including area code: (215) 721-2400
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark 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.

Common Stock, \$5 par value 19,525,644
(Title of Class) (Number of shares outstanding at October 30, 2015)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

	(UNAUDITED)	
(Dollars in thousands, except share data)	At September 30, 2015	At December 31, 2014
ASSETS		
Cash and due from banks	\$32,058	\$31,995
Interest-earning deposits with other banks	76,486	6,570
Investment securities held-to-maturity (fair value \$41,323 and \$54,765 at September 30, 2015 and December 31, 2014, respectively)	41,058	54,347
Investment securities available-for-sale	333,500	314,283
Loans held for sale	9,151	3,302
Loans and leases held for investment	2,097,807	1,626,625
Less: Reserve for loan and lease losses	(18,620)	(20,662)
Net loans and leases held for investment	2,079,187	1,605,963
Premises and equipment, net	41,110	37,009
Goodwill	112,657	67,717
Other intangibles, net of accumulated amortization and fair value adjustments of \$14,484 and \$11,776 at September 30, 2015 and December 31, 2014, respectively	13,068	12,180
Bank owned life insurance	71,135	62,265
Accrued interest receivable and other assets	42,158	39,690
Total assets	\$2,851,568	\$2,235,321
LIABILITIES		
Noninterest-bearing deposits	\$519,767	\$449,339
Interest-bearing deposits:		
Demand deposits	773,508	640,095
Savings deposits	588,319	519,314
Time deposits	491,271	252,593
Total deposits	2,372,865	1,861,341
Customer repurchase agreements	21,191	41,974
Subordinated notes	49,340	—
Accrued interest payable and other liabilities	49,063	47,452
Total liabilities	2,492,459	1,950,767
SHAREHOLDERS' EQUITY		
Common stock, \$5 par value: 48,000,000 shares authorized at September 30, 2015 and December 31, 2014; 22,054,270 and 18,266,404 shares issued at September 30, 2015 and December 31, 2014, respectively; 19,502,613 and 16,221,607 shares outstanding at September 30, 2015 and December 31, 2014, respectively	110,271	91,332
Additional paid-in capital	120,895	62,980
Retained earnings	190,159	181,851
Accumulated other comprehensive loss, net of tax benefit	(14,979)	(14,462)
Treasury stock, at cost; 2,551,657 and 2,044,797 shares at September 30, 2015 and December 31, 2014, respectively	(47,237)	(37,147)
Total shareholders' equity	359,109	284,554

Total liabilities and shareholders' equity	\$2,851,568	\$2,235,321
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Note: See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Interest income				
Interest and fees on loans and leases:				
Taxable	\$21,890	\$15,921	\$65,083	\$46,916
Exempt from federal income taxes	1,602	1,433	4,765	4,177
Total interest and fees on loans and leases	23,492	17,354	69,848	51,093
Interest and dividends on investment securities:				
Taxable	1,204	963	3,342	3,025
Exempt from federal income taxes	868	884	2,607	2,723
Interest on federal funds sold	—	—	2	—
Other interest income	21	18	37	49
Total interest income	25,585	19,219	75,836	56,890
Interest expense				
Interest on deposits	1,543	971	4,405	2,932
Interest on short-term borrowings	10	7	33	25
Interest on long-term borrowings	667	—	1,349	—
Total interest expense	2,220	978	5,787	2,957
Net interest income	23,365	18,241	70,049	53,933
Provision for loan and lease losses	670	233	2,885	2,959
Net interest income after provision for loan and lease losses	22,695	18,008	67,164	50,974
Noninterest income				
Trust fee income	1,904	1,862	5,878	5,692
Service charges on deposit accounts	1,069	1,073	3,171	3,134
Investment advisory commission and fee income	2,687	3,086	8,190	9,144
Insurance commission and fee income	3,232	2,881	10,812	8,647
Other service fee income	1,956	1,767	5,387	5,471
Bank owned life insurance income	306	346	870	1,167
Net gain on sales of investment securities	296	—	568	557
Net gain on mortgage banking activities	1,123	616	3,748	1,484
Net gain on sales of other real estate owned	14	195	14	195
Other income	268	684	999	1,084
Total noninterest income	12,855	12,510	39,637	36,575
Noninterest expense				
Salaries and benefits	11,970	11,035	37,241	31,948
Commissions	2,174	2,200	6,143	5,585
Net occupancy	2,093	1,689	6,486	5,130
Equipment	1,831	1,426	5,228	4,170
Professional fees	1,096	744	2,969	2,399
Marketing and advertising	583	391	1,494	1,333
Deposit insurance premiums	433	386	1,267	1,162
Intangible expenses	710	352	2,389	1,762
Acquisition-related costs	—	180	507	739
Integration costs	—	8	1,484	8

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Restructuring charges	—	—	1,642	—
Other expense	4,353	3,608	12,636	10,456
Total noninterest expense	25,243	22,019	79,486	64,692
Income before income taxes	10,307	8,499	27,315	22,857
Income taxes	2,779	2,264	7,205	5,816
Net income	\$7,528	\$6,235	\$20,110	\$17,041
Net income per share:				
Basic	\$0.39	\$0.38	\$1.02	\$1.05
Diluted	0.39	0.38	1.02	1.05
Dividends declared	0.20	0.20	0.60	0.60

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

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

(Dollars in thousands)	Three Months Ended September 30,					
	2015			2014		
	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	\$10,307	\$2,779	\$7,528	\$8,499	\$2,264	\$6,235
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	797	279	518	(486)	(170)	(316)
Less: reclassification adjustment for net gains on sales realized in net income	(296)	(104)	(192)	—	—	—
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	5	2	3	—	—	—
Total net unrealized gains (losses) on available-for-sale investment securities	506	177	329	(486)	(170)	(316)
Net change in fair value of interest rate swaps used in cash flow hedges	(483)	(169)	(314)	—	—	—
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	341	119	222	168	59	109
Accretion of prior service cost included in net periodic pension costs	(70)	(24)	(46)	(72)	(26)	(46)
Total defined benefit pension plans	271	95	176	96	33	63
Other comprehensive income (loss)	294	103	191	(390)	(137)	(253)
Total comprehensive income	\$10,601	\$2,882	\$7,719	\$8,109	\$2,127	\$5,982
	Nine Months Ended September 30,					
	2015			2014		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	\$27,315	\$7,205	\$20,110	\$22,857	\$5,816	\$17,041
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(600)	(210)	(390)	4,972	1,741	3,231
Less: reclassification adjustment for net gains on sales realized in net income	(568)	(199)	(369)	(557)	(195)	(362)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	5	2	3	—	—	—
Total net unrealized (losses) gains on available-for-sale investment securities	(1,163)	(407)	(756)	4,415	1,546	2,869

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Net change in fair value of interest rate swaps used in cash flow hedges	(443)	(155)	(288)	—	—	—
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	1,022	358	664	499	175	324
Accretion of prior service cost included in net periodic pension costs	(210)	(73)	(137)	(216)	(77)	(139)
Total defined benefit pension plans	812	285	527	283	98	185
Other comprehensive (loss) income	(794)	(277)	(517)	4,698	1,644	3,054
Total comprehensive income	\$26,521	\$6,928	\$19,593	\$27,555	\$7,460	\$20,095

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

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

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Nine Months Ended September 30, 2015							
Balance at December 31, 2014	16,221,607	\$91,332	\$62,980	\$181,851	\$ (14,462)	\$(37,147)	\$284,554
Net income	—	—	—	20,110	—	—	20,110
Other comprehensive income, net of income tax	—	—	—	—	(517)	—	(517)
Cash dividends declared (\$0.60 per share)	—	—	—	(11,801)	—	—	(11,801)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	92,824	—	36	(1)	—	1,801	1,836
Issuance of common stock, acquisition	3,787,866	18,939	57,727	—	—	—	76,666
Exercise of stock options	18,666	—	(36)	—	—	342	306
Repurchase of cancelled restricted stock awards	(17,684)	—	277	—	—	(277)	—
Stock-based compensation	—	—	1,034	—	—	—	1,034
Net tax benefit on stock-based compensation	—	—	72	—	—	—	72
Purchases of treasury stock	(666,421)	—	—	—	—	(13,151)	(13,151)
Restricted stock awards granted	65,755	—	(1,195)	—	—	1,195	—
Balance at September 30, 2015	19,502,613	\$110,271	\$120,895	\$190,159	\$ (14,979)	\$(47,237)	\$359,109
Nine Months Ended September 30, 2014							
Balance at December 31, 2013	16,287,812	\$91,332	\$62,417	\$172,602	\$ (9,955)	\$(35,890)	\$280,506
Net income	—	—	—	17,041	—	—	17,041
Other comprehensive income, net of income tax benefit	—	—	—	—	3,054	—	3,054
Cash dividends declared (\$0.60 per share)	—	—	—	(9,740)	—	—	(9,740)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	96,129	—	30	—	—	1,892	1,922
Exercise of stock options	9,500	—	11	—	—	173	184

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Repurchase of cancelled restricted stock awards	(43,452)	—	735	—	—	(735)	—
Stock-based compensation	—	—	792	—	—	—	792
Net tax deficiency on stock-based compensation	—	—	(2)	—	—	—	(2)
Purchases of treasury stock	(204,044)	—	—	—	—	(3,943)	(3,943)
Restricted stock awards granted	74,304	—	(1,349)	—	—	1,349	—
Balance at September 30, 2014	16,220,249	\$91,332	\$62,634	\$179,903	\$ (6,901)	\$(37,154)	\$289,814

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

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

	Nine Months Ended September	
	30,	
(Dollars in thousands)	2015	2014
Cash flows from operating activities:		
Net income	\$20,110	\$17,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,885	2,959
Depreciation of premises and equipment	2,841	2,288
Net gain on sales of investment securities	(568	) (557
Net gain on mortgage banking activities	(3,748	) (1,484
Net gain on dispositions of fixed assets	(134	) (40
Net gain on sales of other real estate owned	(14	) (195
Bank owned life insurance income	(870	) (1,167
Stock-based compensation	1,034	792
Intangible expenses	2,389	1,762
Other adjustments to reconcile net income to cash provided by operating activities	2,474	859
Originations of loans held for sale	(154,149	) (86,457
Proceeds from the sale of loans held for sale	155,644	87,827
Contributions to pension and other postretirement benefit plans	(2,208	) (159
(Increase) decrease in accrued interest receivable and other assets	(790	) 1,359
Increase (decrease) in accrued interest payable and other liabilities	273	(1,911
Net cash provided by operating activities	25,169	22,917
Cash flows from investing activities:		
Net cash paid due to acquisitions	(2,967	) (9,260
Net capital expenditures	(3,848	) (3,158
Proceeds from maturities and calls of securities held-to-maturity	13,000	9,000
Proceeds from maturities and calls of securities available-for-sale	63,513	47,175
Proceeds from sales of securities available-for-sale	56,005	30,286
Purchases of investment securities available-for-sale	(127,271	) (41,320
Proceeds from sale of credit card portfolio	—	8,943
Net increase in loans and leases	(97,768	) (70,344
Net increase in interest-earning deposits	(64,997	) (2,101
Proceeds from sales of other real estate owned	14	891
Net decrease in federal funds sold	17,442	—
Purchases of bank owned life insurance	(8,000) —
Net cash used in by investing activities	(154,877	) (29,888
Cash flows from financing activities:		
Net increase in deposits	126,000	15,645
Net (decrease) increase in short-term borrowings	(20,783	) 248
Proceeds from issuance of subordinated notes	49,267	—
Payment of contingent consideration on acquisitions	(2,631	) (310
Purchases of treasury stock	(13,151	) (3,943
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	1,836	1,922
Proceeds from exercise of stock options, including excess tax benefits	378	184
Cash dividends paid	(11,145) (9,754

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Net cash provided by financing activities	129,771	3,992	
Net increase (decrease) in cash and due from banks	63	(2,979)
Cash and due from banks at beginning of year	31,995	32,646	
Cash and due from banks at end of period	\$32,058	\$29,667	
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$6,103	\$3,122	
Cash paid for income taxes, net of refunds	702	5,188	
Non cash transactions:			
Transfer of loans to loans held for sale	\$4,000	\$8,926	
Assets acquired through acquisitions	425,185	—	
Liabilities assumed through acquisitions	389,795	—	
Contingent consideration recorded as goodwill	1,525	6,105	

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation or Univest) and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. 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, 2014, which was filed with the SEC on March 9, 2015.

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) simplifying the accounting for measurement-period adjustments related to business combinations. The ASU eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Under this ASU, measurement-period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. The ASU requires additional disclosures about the impact on current period income statement line items of adjustments that would have been recognized in prior periods if prior period information had been revised. The amendments in this ASU are effective for financial statements of public businesses issued for fiscal years and interim periods within those years beginning after December 15, 2015, or January 1, 2016 for the Corporation. The adoption of this guidance is not anticipated to have a material impact on the Corporation's financial statements.

In April 2015, the FASB issued an ASU simplifying the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability shall be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. The ASU is effective for financial statements of public business issued for fiscal years beginning after December 15, 2015, or January 1, 2016 for the Corporation. The adoption of ASU will not impact the Corporation's balance sheet presentation as the Corporation currently follows this presentation consistent with the guidance in FASB Concepts Statement No. 6.

In May 2014, the FASB issued an ASU regarding revenue from contracts with customers which clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that would require an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the

transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued an ASU deferring the original effective date of this guidance by one year. This guidance is now effective for fiscal

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years and interim periods within those years beginning after December 15, 2017, or January 1, 2018 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated the impact will be only related to timing.

In January 2014, the FASB issued an ASU regarding reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The ASU clarifies that when an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The ASU was issued to eliminate diversity in practice on this topic. The amendment is effective for fiscal years and interim periods within those years beginning after December 15, 2014, or January 1, 2015 for the Corporation. The adoption of this guidance did not have a material impact on the Corporation's financial statements but resulted in expanded disclosures effective March 31, 2015, which are included in Note 4, "Loans and Leases."

Note 2. Acquisition

Valley Green Bank

On January 1, 2015, the Corporation completed the acquisition of Valley Green Bank. The merger of Valley Green Bank with and into the Bank was effected pursuant to the terms and conditions of the Agreement and Plan of Merger (Merger Agreement) dated June 17, 2014. Headquartered in the Mt. Airy neighborhood of Philadelphia, Pennsylvania, Valley Green operated three full-service banking offices and two administrative offices for loan production in the greater Philadelphia marketplace. With the assumption of Valley Green Bank's three branches and two administrative offices for loan production in the Philadelphia marketplace, the Corporation entered a new small business and consumer market and expanded its existing lending network within southeastern Pennsylvania.

The acquisition was an all-stock transaction with an aggregate value of approximately \$77 million. Pursuant to the Merger Agreement, each share of Valley Green Bank common stock was cancelled and converted into the right to receive 1.3541 shares of Univest common stock, \$5 par value, with any fractional share entitled to payment in cash. As a result, the Corporation delivered 3,787,866 shares of the Corporation's common stock to the former shareholders of Valley Green Bank. Valley Green Bank outstanding stock options of 122,377 were exchanged for cash and related payroll taxes of \$2.2 million. Approximately \$3 thousand in cash was paid for fractional shares.

The transaction is being accounted for using the acquisition method of accounting, which requires the Corporation to allocate the total consideration transferred to the assets acquired and liabilities assumed, based on their respective fair values at the merger date, with remaining excess consideration recorded as goodwill. The fair value of total assets acquired as a result of the merger totaled \$425.2 million, which included \$380.9 million in loans and \$385.9 million in deposits at January 1, 2015. The fair value estimates are subject to adjustment if additional information becomes available during the measurement period in accordance with Accounting Standards Codification (ASC) Topic 805. Such adjustments, may change the amount of the purchase price allocation to goodwill while changes to other assets and liabilities may impact the statement of income due to adjustments in the yield and/or amortization/accretion of the adjusted assets and liabilities. The results of Valley Green Bank's operations have been included in the Corporation consolidated financial statements prospectively from the date of the merger.

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The following table summarized the consideration paid for Valley Green Bank and the fair value of assets acquired and liabilities assumed at the acquisition date:

(Dollars in thousands, except share data)

Purchase price consideration in common stock:		
Valley Green common shares outstanding	2,797,454	
Exchange ratio	1.3541	
Univest shares issued	3,787,866	
Univest closing stock price at December 31, 2014	\$20.24	
Purchase price assigned to Valley Green common shares exchanged for Univest stock		\$76,667
Purchase price assigned to cash in lieu of fractional shares		3
Purchase price assigned to Valley Green options settled for cash		2,236
Total purchase price		\$78,906
Fair value of assets acquired:		
Cash and due from banks	\$4,919	
Federal funds sold	17,442	
Investment securities available-for-sale	12,766	
Loans held for investment	380,924	
Premises and equipment, net	2,973	
Core deposit intangible *	1,520	
Accrued interest receivable and other assets	4,641	
Total identifiable assets		425,185
Fair value of liabilities assumed:		
Deposits - noninterest bearing	\$49,102	
Deposits - interest bearing	336,810	
Change in control accrued payments	2,070	
Accrued interest payable and other liabilities	1,813	
Total liabilities		389,795
Identifiable net assets		35,390
Goodwill resulting from merger *		\$43,516

* - Goodwill is not expected to be deductible for federal income tax purposes. The goodwill and core deposit intangible are allocated to the Banking business segment.

The following is a description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed. In many cases, determining the fair value of the acquired assets and assumed liabilities required the Corporation to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest, which required the utilization of significant estimates and judgment in accounting for the acquisition.

Cash and due from banks and federal funds sold: The estimated fair values of cash and due from banks and federal fund sold approximated their stated value.

Investment securities available-for-sale: The estimated fair values of the investment securities available for sale, comprised of U.S. government corporations and agencies, were determined using Level 2 inputs in the fair value hierarchy. The fair values were determined using independent pricing services and market-participating brokers. The Corporation's independent pricing service utilized evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the pricing service's evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector

groupings, and matrix pricing, to prepare evaluations. Management reviewed the data and assumptions used in pricing the securities.

Loans held for investment: The most significant fair value determination related to the valuation of acquired loans. The acquisition resulted in loans acquired with and without evidence of credit quality deterioration. There was no carryover related allowance for loan and lease losses.

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The acquired loan portfolio was valued based on current guidance which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 inputs were utilized to value the portfolio and included the use of present value techniques employing cash flow estimates and incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Corporation used assumptions in an effort to determine reasonable fair value. Specifically, management utilized three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment. The three separate fair valuation methodologies used were: 1) interest rate loan fair value analysis; 2) general credit fair value analysis; and 3) specific credit fair value analysis.

For loans acquired without evidence of credit quality deterioration, the Corporation prepared the interest rate loan fair value analysis. Loans were grouped by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment. Additionally a general credit fair value adjustment was calculated using a two part general credit fair value analysis: 1) expected lifetime losses; and 2) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using an average of historical losses of the Bank, Valley Green Bank and peer banks. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to a lack of specific familiarity with Valley Green Bank's underwriting process. Valley Green's loan portfolio without evidence of credit quality deterioration was recorded at a current fair value of \$379.2 million. A fair value premium of \$4.4 million was recognized to reflect the fair values of loans. A fair value discount of \$5.5 million was recognized to reflect the general credit risk of the loan portfolio. The adjustment will be substantially recognized as interest income over approximately 10 years on a level yield amortization method based upon the expected life of the loans.

For loans acquired with evidence of credit quality deterioration the Corporation prepared a specific credit fair value adjustment. Management reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan with deteriorated credit quality. Loans meeting this definition were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount. The accretable yield amount will be recognized over the life of the loans on a level yield basis as an adjustment to yield. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the derecognition of the loan at its carrying value with differences in actual results reflected in interest income. At the acquisition date, the Corporation recorded \$1.7 million of acquired impaired loans subject to a nonaccretable discount difference of \$5.3 million. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount of \$305 thousand, which will be recognized over the life of the loans on a level yield basis as an adjustment to yield.

The following is a summary of the acquired impaired loans at January 1, 2015 resulting from the acquisition with Valley Green:

(Dollars in thousands)

Contractually required principal and interest payments	\$7,377	
Contractual cash flows not expected to be collected (nonaccretable difference)	(5,344))
Cash flows expected to be collected	2,033	
Interest component of expected cash flows (accretable difference)	(305))
Fair value of loans acquired with a deterioration of credit quality	\$1,728	

Bank premises - leased: The Corporation assumed five facility lease contracts and no owned properties. The fair value of the lease contracts represents the present value of the pre-tax differential between the expected contractual payments and current market rate lease payments to the first lease termination date discounted by an assumed required rate of return.

Core deposit intangible: Core deposit intangible represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of the acquisition. The core deposit intangible fair value represents the

future economic benefit, including the present value of future tax benefits, of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources and was valued utilizing Level 3 inputs. The core deposit intangible of \$1.5 million will be amortized using the sum of the years digits method over an estimated life of 10 years.

Deposits: The fair values of demand and saving deposits, with no stated maturities, approximated the carrying value as these accounts are payable on demand. The fair values of time deposits with fixed maturities were estimated by discounting the final maturity using current market interest rate for similar instruments. A fair value premium of \$686 thousand was recognized and will be recognized as a reduction to interest expense using a level yield amortization method over the life of the time deposit. The fair value of time deposits were determined using Level 2 inputs in the fair value hierarchy.

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Deferred tax assets and liabilities: Deferred tax assets and liabilities were established for purchase accounting fair value adjustments as the future amortization/accretion of these adjustments represent temporary differences between book income and taxable income.

Direct costs related to the acquisition were expensed as incurred. For the nine months ended September 30, 2015, the Corporation incurred \$2.0 million of Valley Green Bank integration and acquisition-related costs, which have been separately stated in the Corporation's consolidated statements of income.

Supplemental Pro Forma Financial Information (unaudited)

The following unaudited pro forma combined consolidated financial information for the three and nine months ended September 30, 2015 and 2014 combine the historical consolidated results of the Corporation and Valley Green Bank and give effect to the merger as if the merger occurred on January 1, 2015 and January 1, 2014, respectively. The pro forma information has been prepared to include the estimated adjustments necessary to record the assets and liabilities of Valley Green Bank at their respective fair values and are subject to adjustment if additional information becomes available. Such adjustments, may change the amount of the purchase price allocation to goodwill while changes to other assets and liabilities may impact the statement of income due to adjustments in the yield and/or amortization/accretion of the adjusted assets and liabilities. Furthermore, the unaudited proforma information does not reflect management's estimate of any revenue-enhancing opportunities or anticipated cost savings

The pro forma data is not necessarily indicative of the operating results that the Corporation would have achieved had it completed the merger as of the beginning of the period presented and should not be considered as representative of future operations.

The unaudited pro forma data presented below is based on, and should be read together with, the historical financial information of the Corporation included in this Form 10-Q for the indicated periods and the historical information of Valley Green Bank included in the Corporation's Current Report on Form 8-K filed with the SEC on January 7, 2015.

	Pro Forma		Pro Forma	
	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
(Dollars in thousands, except share data)	2015	2014	2015	2014
Net interest income	\$23,365	\$23,360	\$70,049	\$69,005
Noninterest income	12,855	12,671	39,637	37,036
Noninterest expense	25,243	25,002	79,486	72,563
Net income	7,528	7,605	20,110	21,508
Earnings per share				
Basic	0.39	0.38	1.02	1.07
Diluted	0.39	0.38	1.02	1.07

* The nine months ended September 30, 2015 included integration and acquisition-related costs associated with Valley Green Bank incurred during the first and second quarters of \$2.0 million (\$1.3 million, net of tax), or \$0.07 diluted earnings per share on a tax affected basis. The nine months ended September 30, 2015 also included restructuring charges of \$1.6 million (\$1.1 million, net of tax), incurred in the second quarter, related to the consolidation of six financial centers in September of 2015 under the Bank's optimization plan or \$0.05 diluted earnings per share on a tax affected basis.

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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, 2015 and December 31, 2014, by contractual maturity within each type:

(Dollars in thousands)	At September 30, 2015				At December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities								
Held-to-Maturity								
Corporate bonds:								
Within 1 year	\$17,066	\$176	\$—	\$17,242	\$13,088	\$82	\$—	\$13,170
After 1 year to 5 years	23,992	111	(22)	24,081	41,259	388	(52)	41,595
	41,058	287	(22)	41,323	54,347	470	(52)	54,765
Total	\$41,058	\$287	\$(22)	\$41,323	\$54,347	\$470	\$(52)	\$54,765
Securities								
Available-for-Sale								
U.S. treasuries:								
After 1 year to 5 years	\$4,977	\$—	\$(32)	\$4,945	\$4,972	\$—	\$(127)	\$4,845
	4,977	—	(32)	4,945	4,972	—	(127)	4,845
U.S. government corporations and agencies:								
After 1 year to 5 years	104,893	491	(13)	105,371	122,328	48	(532)	121,844
	104,893	491	(13)	105,371	122,328	48	(532)	121,844
State and political subdivisions:								
Within 1 year	—	—	—	—	600	2	—	602
After 1 year to 5 years	15,664	91	(15)	15,740	12,326	17	(59)	12,284
After 5 years to 10 years	51,605	1,446	(34)	53,017	49,554	1,616	(77)	51,093
Over 10 years	38,428	1,285	(50)	39,663	37,004	1,792	(1)	38,795
	105,697	2,822	(99)	108,420	99,484	3,427	(137)	102,774
Residential mortgage-backed securities:								
After 1 year to 5 years	9,767	110	—	9,877	5,066	17	—	5,083
After 5 years to 10 years	—	—	—	—	4,856	—	(32)	4,824
Over 10 years	3,598	69	—	3,667	3,661	75	—	3,736
	13,365	179	—	13,544	13,583	92	(32)	13,643
Collateralized mortgage obligations:								
Over 10 years	3,352	—	(49)	3,303	3,810	—	(85)	3,725
	3,352	—	(49)	3,303	3,810	—	(85)	3,725
Corporate bonds:								
Within 1 year	—	—	—	—	4,998	22	—	5,020
After 1 year to 5 years	19,768	80	(165)	19,683	29,505	88	(244)	29,349
After 5 years to 10 years	10,403	1	(157)	10,247	20,442	—	(371)	20,071
Over 10 years	60,000	88	(2,105)	57,983	—	—	—	—
	90,171	169	(2,427)	87,913	54,945	110	(615)	54,440
Money market mutual funds:								

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No stated maturity	9,020	—	—	9,020	11,675	—	—	11,675
	9,020	—	—	9,020	11,675	—	—	11,675
Equity securities:								
No stated maturity	556	428	—	984	854	483	—	1,337
	556	428	—	984	854	483	—	1,337
Total	\$332,031	\$4,089	\$(2,620)	\$333,500	\$311,651	\$4,160	\$(1,528)	\$314,283

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties. Unrealized losses in investment securities at September 30, 2015 and December 31, 2014 do not represent other-than-temporary impairments.

Securities with a carrying value of \$204.5 million and \$230.9 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes as required by law.

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The following table presents information related to sales of securities available-for-sale during the nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Nine Months Ended September 30,	
	2015	2014
Securities available-for-sale:		
Proceeds from sales	\$56,005	\$30,286
Gross realized gains on sales	591	557
Gross realized losses on sales	23	—
Tax expense related to net realized gains on sales	199	195

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation's investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2015 and 2014.

The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that the fair value of certain equity securities will not recover to the Corporation's cost basis in the individual securities within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the intent and ability to hold these securities until recovery of the Corporation's cost basis occurs. The Corporation realized other-than-temporary impairment charges to noninterest income of \$5 thousand on its equity portfolio during the three and nine months ended September 30, 2015.

At September 30, 2015 and December 31, 2014, there were no investments in any single non-federal issuer representing more than 10% of shareholders' equity.

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The following table shows the fair value of securities that were in an unrealized loss position at September 30, 2015 and December 31, 2014 by the length of time those securities were in a continuous loss position:

(Dollars in thousands)	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At September 30, 2015						
Securities Held-to-Maturity						
Corporate bonds	\$—	\$—	\$4,987	\$(22)	\$4,987	\$(22)
Total	\$—	\$—	\$4,987	\$(22)	\$4,987	\$(22)
Securities Available-for-Sale						
U.S. treasuries	\$—	\$—	\$4,945	\$(32)	\$4,945	\$(32)
U.S. government corporations and agencies	3,004	(8)	4,995	(5)	7,999	(13)
State and political subdivisions	11,924	(90)	1,340	(9)	13,264	(99)
Collateralized mortgage obligations	—	—	3,304	(49)	3,304	(49)
Corporate bonds	49,961	(2,228)	10,799	(199)	60,760	(2,427)
Total	\$64,889	\$(2,326)	\$25,383	\$(294)	\$90,272	\$(2,620)
At December 31, 2014						
Securities Held-to-Maturity						
Corporate bonds	\$15,036	\$(27)	\$4,987	\$(25)	\$20,023	\$(52)
Total	\$15,036	\$(27)	\$4,987	\$(25)	\$20,023	\$(52)
Securities Available-for-Sale						
U.S. treasuries	\$—	\$—	\$4,845	\$(127)	\$4,845	\$(127)
U.S. government corporations and agencies	39,607	(80)	62,140	(452)	101,747	(532)
State and political subdivisions	10,246	(31)	9,303	(106)	19,549	(137)
Residential mortgage-backed securities	4,824	(32)	—	—	4,824	(32)
Collateralized mortgage obligations	—	—	3,725	(85)	3,725	(85)
Corporate bonds	21,949	(328)	15,805	(287)	37,754	(615)
Total	\$76,626	\$(471)	\$95,818	\$(1,057)	\$172,444	\$(1,528)

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At September 30, 2015			At December 31, 2014
	Originated	Acquired	Total	Total
Commercial, financial and agricultural	\$455,469	\$27,873	\$483,342	\$457,827
Real estate-commercial	692,284	131,019	823,303	628,478
Real estate-construction	89,856	27,359	117,215	79,887
Real estate-residential secured for business purpose	65,371	138,593	203,964	36,932
Real estate-residential secured for personal purpose	178,387	4,199	182,586	166,850
Real estate-home equity secured for personal purpose	120,677	11,919	132,596	108,250
Loans to individuals	29,575	342	29,917	29,941
Lease financings	124,884	—	124,884	118,460
Total loans and leases held for investment, net of deferred income	\$1,756,503	\$341,304	\$2,097,807	\$1,626,625

Unearned lease income, included in the above table	\$(13,822)	\$—	\$(13,822)	\$(14,131)
Net deferred costs, included in the above table	3,700	—	3,700	3,218
Overdraft deposits included in the above table	76	—	76	50

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

The carrying amount of acquired loans at September 30, 2015 totaled \$341.3 million, including \$1.4 million of loans acquired with deteriorated credit quality, or acquired credit impaired loans from the Valley Green Bank acquisition.

Acquired credit impaired loans are accounted for in accordance with ASC Topic 310-30. See Note 2, "Acquisition" for additional information.

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The outstanding principal balance and carrying amount for acquired credit impaired loans at September 30, 2015 were as follows:

(Dollars in thousands)	At September 30, 2015
Outstanding principal balance	\$3,949
Carrying amount	1,379
Allowance for loan losses	21

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

(Dollars in thousands)	Nine Months Ended September 30, 2015
Beginning of period	\$—
Acquisition of credit impaired loans	305
Reclassification from nonaccretable difference	476
Accretable yield amortized to interest income	(595)
Disposals	(1)
End of period	\$185

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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, 2015 and December 31, 2014:

(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, 2015								
Commercial, financial and agricultural	\$914	\$351	\$6,731	\$7,996	\$475,035	\$311	\$483,342	\$—
Real estate—commercial real estate and construction:								
Commercial real estate	1,798	228	857	2,883	819,908	512	823,303	—
Construction	20	—	363	383	116,832	—	117,215	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,740	84	1,787	3,611	199,860	493	203,964	—
Residential secured for personal purpose	991	—	386	1,377	181,209	—	182,586	41
Home equity secured for personal purpose	445	201	95	741	131,792	63	132,596	35
Loans to individuals	203	203	237	643	29,274	—	29,917	237
Lease financings	1,406	2,032	536	3,974	120,910	—	124,884	115
Total	\$7,517	\$3,099	\$10,992	\$21,608	\$2,074,820	\$1,379	\$2,097,807	\$428
At December 31, 2014								
Commercial, financial and agricultural	\$145	\$747	\$2,567	\$3,459	\$454,368	\$—	\$457,827	\$—
Real estate—commercial real estate and construction:								
Commercial real estate	361	913	1,163	2,437	626,041	—	628,478	—
Construction	—	405	5,525	5,930	73,957	—	79,887	—
Real estate—residential and home equity:								
Residential secured for business purpose	167	56	713	936	35,996	—	36,932	—
Residential secured for personal purpose	409	604	60	1,073	165,777	—	166,850	—
Home equity secured for personal purpose	348	—	215	563	107,687	—	108,250	31
Loans to individuals	365	65	365	795	29,146	—	29,941	365
Lease financings	1,610	406	435	2,451	116,009	—	118,460	55

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Total	\$3,405	\$3,196	\$11,043	\$17,644	\$1,608,981	\$—	\$1,626,625	\$ 451
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Non-Performing Loans and Leases

The following presents, by class of loans and leases, non-performing loans and leases at September 30, 2015 and December 31, 2014:

(Dollars in thousands)	At September 30, 2015				At December 31, 2014			
	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 Non-Performing 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 Non-Performing Loans and Leases
Loans held for sale **	\$4,000	\$—	\$—	\$4,000	\$—	\$—	\$—	\$—
Loans and leases held for investment:								
Commercial, financial and agricultural Real estate—commercial real estate and construction:								
Commercial, financial and agricultural Real estate—commercial real estate and construction:								
Commercial real estate	8,593	1,959	—	10,552	5,002	2,851	—	7,853
Construction	4,223	2,474	—	6,697	4,413	2,618	—	7,031
Real estate—residential and home equity:								
Residential secured for business purpose	363	—	—	363	5,931	—	—	5,931
Residential secured for personal purpose	2,301	343	—	2,644	915	—	—	915
Home equity secured for personal purpose	776	—	41	817	512	—	—	512
Loans to individuals	160	—	35	195	184	—	31	215
Lease financings	—	—	237	237	—	—	365	365
Total	422	13	115	550	380	—	55	435
	\$20,838	\$4,789	\$428	\$26,055	\$17,337	\$5,469	\$451	\$23,257

* Includes nonaccrual troubled debt restructured loans and lease modifications of \$742 thousand and \$3.1 million at September 30, 2015 and December 31, 2014, respectively.

** Includes two real estate construction loans for one borrower of \$4.0 million at September 30, 2015.

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, 2015 and December 31, 2014.

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 risk ratings of one through five are reviewed based on the relationship dollar amount with the borrower: loans with a relationship total of \$2.5 million or greater are reviewed quarterly; loans with a relationship

balance of less than \$2.5 million but greater than \$500 thousand are reviewed annually based on the borrower's fiscal year; loans with a relationship balance of less than \$500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with risk ratings of six are also reviewed based on the relationship dollar amount with the borrower: loans with a relationship balance of \$2.0 million or greater are reviewed quarterly; loans with a relationship balance of less than \$2.0 million but greater than \$500 thousand are reviewed annually; loans with a relationship balance of less than \$500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with risk ratings of seven are reviewed at least quarterly, and as often as monthly, at management's discretion. Loans with risk ratings of eight through ten are reviewed monthly.

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

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8. Substandard—Well-defined weakness
 9. Doubtful—Collection in-full improbable
 10. Loss—Considered uncollectible

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, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	\$664	\$—	\$3,103	\$ —	\$3,767
3. Strong	16,985	11,217	—	—	28,202
4. Satisfactory	25,761	20,487	8,980	11	55,239
5. Acceptable	299,950	467,266	66,203	54,479	887,898
6. Pre-watch	65,733	159,961	11,207	3,777	240,678
7. Special Mention	11,724	6,674	—	2,676	21,074
8. Substandard	34,652	26,679	363	4,428	66,122
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	\$455,469	\$692,284	\$89,856	\$ 65,371	\$1,302,980
At December 31, 2014					
Grade:					
1. Cash secured/ 2. Fully secured	\$4,248	\$—	\$1,262	\$ —	\$5,510
3. Strong	14,013	8,504	3,897	—	26,414
4. Satisfactory	23,931	30,587	8,731	339	63,588
5. Acceptable	301,425	402,719	55,111	24,535	783,790
6. Pre-watch	65,993	123,129	4,956	5,384	199,462
7. Special Mention	7,166	17,505	—	1,304	25,975
8. Substandard	41,051	46,034	5,930	5,370	98,385
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	\$457,827	\$628,478	\$79,887	\$ 36,932	\$1,203,124

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, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	\$1,013	\$—	\$—	\$ —	\$1,013
3. Strong	—	—	—	—	—
4. Satisfactory	1,199	4,094	—	2,603	7,896
5. Acceptable	23,902	120,364	27,024	131,237	302,527
6. Pre-watch	212	4,252	—	2,218	6,682
7. Special Mention	442	1,466	—	257	2,165
8. Substandard	1,105	843	335	2,278	4,561
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	\$27,873	\$131,019	\$27,359	\$ 138,593	\$324,844

The Corporation did not have any acquired loans at December 31, 2014.

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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 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. Nonperforming loans and leases are loans or leases with a well-defined weakness and where collection in-full is unlikely.

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 Financing	Total
At September 30, 2015					
Performing	\$ 177,570	\$ 120,482	\$29,338	\$124,334	\$451,724
Nonperforming	817	195	237	550	1,799
Total	\$ 178,387	\$ 120,677	\$29,575	\$124,884	\$453,523
At December 31, 2014					
Performing	\$ 166,338	\$ 108,035	\$29,576	\$118,025	\$421,974
Nonperforming	512	215	365	435	1,527
Total	\$ 166,850	\$ 108,250	\$29,941	\$118,460	\$423,501

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 Financing	Total
At September 30, 2015					
Performing	\$ 4,199	\$ 11,919	\$342	\$—	\$16,460
Nonperforming	—	—	—	—	—
Total	\$ 4,199	\$ 11,919	\$342	\$—	\$16,460

The Corporation did not have any acquired loans at December 31, 2014.

Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans, and impact the value of the associated collateral.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans with a business purpose are generally perceived as having more risk of default than residential real estate loans with a personal purpose and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties and factors affecting residential real estate borrowers.

Commercial, financial and agricultural business loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business. In addition, the collateral securing the loans often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business. Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest). During the

construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral. Included in real estate-construction is track development financing. Risk factors related to track

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development financing include the demand for residential housing and the real estate valuation market. When projects move slower than anticipated, the properties may have significantly lower values than when the original underwriting was completed, resulting in lower collateral values to support the loan. Extended time frames also cause the interest carrying cost for a project to be higher than the builder projected, negatively impacting the builder's profit and cash flow and, therefore, their ability to make principal and interest payments.

Commercial real estate loans and residential real estate loans with a business purpose secured by owner-occupied properties are dependent upon the successful operation of the borrower's business. If the operating company suffers difficulties in terms of sales volume and/or profitability, the borrower's ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans secured for a business purpose are more susceptible to a risk of loss during a downturn in the business cycle. The Corporation has strict underwriting, review, and monitoring procedures in place, however, these procedures cannot eliminate all of the risks related to these loans.

The Corporation focuses on both assessing the borrower's capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower's assets and by personal guarantees. Commercial real estate and residential real estate loans secured for a business purpose are originated primarily within the Southeastern Pennsylvania market area at conservative loan-to-value ratios and often with a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

The Corporation originates fixed-rate and adjustable-rate real estate-residential mortgage loans that are secured by the underlying 1- to 4-family residential properties for personal purposes. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

In the real estate-home equity loan portfolio secured for a personal purpose, credit exposure is minimized by the evaluation of the creditworthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to the Corporation's underwriting policies. Combined loan-to-value ratios are generally limited to 80%, but increased to 85% for the Corporation's strongest profile borrower. Other credit considerations and compensating factors may support higher combined loan-to-value ratios.

Credit risk for direct consumer loans is controlled by strict adherence to underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. These loans are included within the portfolio of loans to individuals.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk primarily by using \$1.00 buyout leases, in which the entire cost of the leased equipment is included in the contractual payments, leaving no residual payment at the end of the lease term.

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

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three and nine months ended September 30, 2015 and 2014:

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(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, 2015								
Reserve for loan and lease losses:								
Beginning balance	\$ 6,847	\$ 7,801	\$ 616	\$ 1,188	\$ 389	\$ 1,125	\$ 1,636	\$ 19,602
Charge-offs	(1,917)	(138)	(90)	(10)	(144)	(172)	N/A	(2,471)
Recoveries	682	34	8	8	40	47	N/A	819
Provision (recovery of provision)	1,382	(795)	(41)	(3)	130	(1)	(24)	648
Provision for acquired credit impaired loans	—	9	13	—	—	—	—	22
Ending balance	\$ 6,994	\$ 6,911	\$ 506	\$ 1,183	\$ 415	\$ 999	\$ 1,612	\$ 18,620
Three Months Ended September 30, 2014								
Reserve for loan and lease losses:								
Beginning balance	\$ 9,714	\$ 9,263	\$ 1,025	\$ 1,248	\$ 405	\$ 1,101	\$ 1,338	\$ 24,094
Charge-offs	(968)	(1,570)	(26)	(18)	(169)	(106)	N/A	(2,857)
Recoveries	88	58	9	2	53	82	N/A	292
(Recovery of provision)	(1,219)	1,337	(48)	(54)	43	38	136	233
Ending balance	\$ 7,615	\$ 9,088	\$ 960	\$ 1,178	\$ 332	\$ 1,115	\$ 1,474	\$ 21,762
Nine Months Ended September 30, 2015								
Reserve for loan and lease losses:								
Beginning balance	\$ 6,920	\$ 8,943	\$ 763	\$ 1,124	\$ 360	\$ 985	\$ 1,567	\$ 20,662
Charge-offs*	(3,255)	(1,834)	(114)	(148)	(392)	(591)	N/A	(6,334)
Recoveries	907	190	21	9	129	151	N/A	1,407
Provision (recovery of provision)	2,422	(397)	(177)	198	318	454	45	2,863
	—	9	13	—	—	—	—	22

Provision for acquired credit impaired loans								
Ending balance	\$ 6,994	\$ 6,911	\$ 506	\$ 1,183	\$ 415	\$ 999	\$ 1,612	\$ 18,620
Nine Months Ended September 30, 2014								
Reserve for loan and lease losses:								
Beginning balance	\$ 9,789	\$ 8,780	\$ 1,062	\$ 1,284	\$ 694	\$ 1,285	\$ 1,600	\$ 24,494
Charge-offs	(2,657)	(2,878)	(140)	(108)	(659)	(396)	N/A	(6,838)
Recoveries	197	428	57	29	212	224	N/A	1,147
Provision (recovery of provision)	286	2,758	(19)	(27)	85	2	(126)	2,959
Ending balance	\$ 7,615	\$ 9,088	\$ 960	\$ 1,178	\$ 332	\$ 1,115	\$ 1,474	\$ 21,762
N/A – Not applicable								

* Includes charge-offs of \$1.3 million on two real estate construction loans for one borrower which were subsequently transferred to loans held for sale in the second quarter of 2015.

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(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, 2015								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	\$ 344	\$ —	\$ —	\$ 36	\$ —	\$ —	N/A	\$ 380
Ending balance: collectively evaluated for impairment	6,650	6,903	493	1,147	415	999	1,612	18,219
Ending balance: acquired credit impaired loans evaluated for impairment	—	8	13	—	—	—	—	21
Total ending balance Loans and leases held for investment:	\$ 6,994	\$ 6,911	\$ 506	\$ 1,183	\$ 415	\$ 999	\$ 1,612	\$ 18,620
Ending balance:								
individually evaluated for impairment	\$ 13,932	\$ 13,622	\$ 4,278	\$ 936	\$ —	\$ —		\$ 32,768
Ending balance: collectively evaluated for impairment	441,537	768,518	61,093	298,128	29,575	124,884		1,723,735
Acquired non-credit impaired loans	27,562	157,866	138,100	16,055	342	—		339,925
Acquired credit impaired loans	311	512	493	63	—	—		1,379
Total ending balance	\$ 483,342	\$ 940,518	\$ 203,964	\$ 315,182	\$ 29,917	\$ 124,884		\$ 2,097,807
At September 30, 2014								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	\$ 685	\$ 27	\$ 430	\$ —	\$ —	\$ —	N/A	\$ 1,142
Ending balance: collectively evaluated for impairment	6,930	9,061	530	1,178	332	1,115	1,474	20,620
Total ending balance Loans and leases held for investment:	\$ 7,615	\$ 9,088	\$ 960	\$ 1,178	\$ 332	\$ 1,115	\$ 1,474	\$ 21,762

Ending balance:							
individually evaluated	\$ 18,214	\$ 37,341	\$ 2,921	\$ 603	\$ —	\$ —	\$ 59,079
for impairment							
Ending balance:							
collectively evaluated	420,342	675,817	32,446	267,956	30,144	111,952	1,538,657
for impairment							
Total ending balance	\$ 438,556	\$ 713,158	\$ 35,367	\$ 268,559	\$ 30,144	\$ 111,952	\$ 1,597,736
N/A – Not applicable							

Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses for acquired non-impaired loans is similar to originated loans, however, the Corporation records a provision for loan loss only when the required allowance exceeds the remaining unamortized credit mark. The present value of any decreases in expected cash flows after the acquisition date of purchased impaired loans will generally result in an impairment charge recorded as a provision for loan loss, resulting in an increase to the allowance.

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Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at September 30, 2015 and December 31, 2014. The impaired loans exclude loans acquired with deteriorated credit quality.

(Dollars in thousands)	At September 30, 2015			At December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Loans held for sale	\$4,000	\$5,229		\$—	\$—	
Loans held for investment:						
Commercial, financial and agricultural	10,966	12,676		12,628	13,050	
Real estate—commercial real estate	13,259	14,167		29,779	30,810	
Real estate—construction	363	638		5,931	6,474	
Real estate—residential secured for business purpose	4,278	4,394		3,008	3,044	
Real estate—residential secured for personal purpose	524	578		512	547	
Real estate—home equity secured for personal purpose	101	101		184	184	
Total impaired loans with no allowance recorded	\$33,491	\$37,783		\$52,042	\$54,109	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	\$2,966	\$3,037	\$344	\$3,933	\$3,935	\$920
Real estate—commercial real estate	—	—	—	216	216	78
Real estate—residential secured for personal purpose	252	252	23	—	—	—
Real estate—home equity secured for personal purpose	59	60	13	—	—	—
Total impaired loans with an allowance recorded	\$3,277	\$3,349	\$380	\$4,149	\$4,151	\$998
(Dollars in thousands)	At September 30, 2015			At December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Total impaired loans:						
Loans held for sale	\$4,000	\$5,229	\$—	\$—	\$—	\$—
Loans held for investment:						
Commercial, financial and agricultural	13,932	15,713	344	16,561	16,985	920
Real estate—commercial real estate	13,259	14,167	—	29,995	31,026	78
Real estate—construction	363	638	—	5,931	6,474	—
Real estate—residential secured for business purpose	4,278	4,394	—	3,008	3,044	—
Real estate—residential secured for personal purpose	776	830	23	512	547	—

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Real estate—home equity secured for personal purpose	160	161	13	184	184	—
Total impaired loans	\$36,768	\$41,132	\$380	\$56,191	\$58,260	\$998

Impaired loans includes nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. These loans are individually measured to determine the amount of potential impairment.

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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 included other accruing impaired loans of \$11.6 million and \$33.8 million at September 30, 2015 and December 31, 2014, respectively. Specific reserves on other accruing impaired loans were \$215 thousand and \$476 thousand at September 30, 2015 and December 31, 2014, respectively.

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

(Dollars in thousands)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	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
Loans held for sale	\$4,000	\$—	\$ 56	\$—	\$—	\$ —
Loans held for investment:						
Commercial, financial and agricultural	15,099	88	185	16,577	150	72
Real estate—commercial real estate	15,430	152	92	26,531	281	82
Real estate—construction	607	—	6	9,982	20	116
Real estate—residential secured for business purpose	4,394	47	58	2,643	19	13
Real estate—residential secured for personal purpose	782	—	10	590	—	9
Real estate—home equity secured for personal purpose	160	—	2	84	—	1
Loans to individuals	—	—	—	1	—	—
Total	\$40,472	\$287	\$ 409	\$56,408	\$470	\$ 293

Includes interest income recognized on a cash basis for nonaccrual loans of \$15 thousand and \$0 thousand for the three months ended September 30, 2015 and 2014, respectively and interest income recognized on the accrual method for accruing impaired loans of \$272 thousand and \$470 thousand for the three months ended September 30, 2015 and 2014, respectively.

(Dollars in thousands)	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	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
Loans held for sale	\$1,233	\$—	\$ 57	\$—	\$—	\$ —
Loans held for investment:						
	15,691	346	371	14,806	401	188

Commercial, financial and
agricultural

Real estate—commercial real estate	23,577	778	257	25,734	816	248
Real estate—construction	4,041	—	159	11,499	103	363
Real estate—residential secured for business purpose	3,698	115	112	2,400	52	48
Real estate—residential secured for personal purpose	706	—	34	779	—	41
Real estate—home equity secured for personal purpose	174	—	8	82	—	3
Loans to individuals	—	—	—	5	—	—
Total	\$49,120	\$1,239	\$ 998	\$55,305	\$1,372	\$ 891

Includes interest income recognized on a cash basis for nonaccrual loans of \$37 thousand and \$23 thousand for the nine months ended September 30, 2015 and 2014, respectively and interest income recognized on the accrual method for accruing impaired loans of \$1.2 million and \$1.3 million for the nine months ended September 30, 2015 and 2014, respectively.

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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, 2015				Three Months Ended September 30, 2014			
	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:								
Commercial, financial and agricultural	1	\$ 50	\$ 50	\$ —	3	\$ 1,424	\$ 1,424	\$ 132
Real estate—commercial	—	—	—	—	1	1,000	1,000	—
Real estate	1	\$ 50	\$ 50	\$ —	4	\$ 2,424	\$ 2,424	\$ 132
Total	1	\$ 50	\$ 50	\$ —	4	\$ 2,424	\$ 2,424	\$ 132
Nonaccrual Troubled Debt Restructured Loans:								
Total	—	\$ —	\$ —	\$ —	—	\$ —	\$ —	\$ —
(Dollars in thousands)	Nine Months Ended September 30, 2015				Nine Months Ended September 30, 2014			
	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:								
Commercial, financial and agricultural	4	\$ 1,140	\$ 1,140	\$ 71	3	\$ 1,424	\$ 1,424	\$ 132
Real estate—commercial	1	405	405	—	1	1,000	1,000	—
Real estate—residential secured for business purpose	1	353	353	—	—	—	—	—
Total	6	\$ 1,898	\$ 1,898	\$ 71	4	\$ 2,424	\$ 2,424	\$ 132
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and	1	\$ 122	\$ 122	\$ 22	—	\$ —	\$ —	\$ —

agricultural Real estate—commercial—	—	—	—	1	50	50	—	
real estate Real estate—residential	—	—	—	2	688	688	—	
secured for business purpose								
Total	1	\$ 122	\$ 122	\$ 22	3	\$ 738	\$ 738	\$ —

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

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The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the three and nine months ended September 30, 2015 and 2014.

(Dollars in thousands)	Temporary Payment Reduction		Interest Rate Reduction		Maturity Date Extension		Payments Suspended		Amortization Period Extension		Total Concessions Granted	
	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Three Months Ended September 30, 2015												
Accruing Troubled Debt Restructured Loans:												
Commercial, financial and agricultural	—	\$ —	—	\$ —	—	\$ —	—	\$ —	1	\$ 50	1	\$ 50
Total	—	\$ —	—	\$ —	—	\$ —	—	\$ —	1	\$ 50	1	\$ 50
Nonaccrual Troubled Debt Restructured Loans:												
Total	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Three Months Ended September 30, 2014												
Accruing Troubled Debt Restructured Loans:												
Commercial, financial and agricultural	—	\$ —	—	\$ —	2	\$ 1,299	1	\$ 125	—	\$ —	3	\$ 1,424
Real estate—commercial real estate	—	—	—	—	1	1,000	—	—	—	—	1	1,000
Total	—	\$ —	—	\$ —	3	\$ 2,299	1	\$ 125	—	\$ —	4	\$ 2,424
Nonaccrual Troubled Debt Restructured Loans:												
Total	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Nine Months Ended September 30, 2015												
Accruing Troubled Debt Restructured Loans:												
Commercial, financial and agricultural	1	\$ 143	—	\$ —	1	\$ 500	—	\$ —	2	\$ 497	4	\$ 1,140
Real estate—commercial real estate	—	—	—	—	—	—	—	—	1	405	1	405
Real estate—residential secured for business purpose	1	353	—	—	—	—	—	—	—	—	1	353
Total	2	\$ 496	—	\$ —	1	\$ 500	—	\$ —	3	\$ 902	6	\$ 1,898
Nonaccrual Troubled Debt Restructured Loans:												
Commercial, financial and agricultural	1	\$ 122	—	\$ —	—	\$ —	—	\$ —	—	\$ —	1	\$ 122

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Total	1	\$ 122	—	\$—	—	\$—	—	\$—	—	\$—	1	\$ 122
Nine Months Ended September 30, 2014												
Accruing Troubled Debt Restructured Loans:												
Commercial, financial and agricultural	—	\$—	—	\$—	2	\$1,299	1	\$ 125	—	\$—	3	\$ 1,424
Real estate—commercial real estate	—	—	—	—	1	1,000	—	—	—	—	1	1,000
Total	—	\$—	—	\$—	3	\$2,299	1	\$ 125	—	\$—	4	\$ 2,424
Nonaccrual Troubled Debt Restructured Loans:												
Real estate—commercial real estate	—	\$—	1	\$ 50	—	\$—	—	\$—	—	\$—	1	\$ 50
Real estate—residential secured for business purpose	—	—	1	55	1	633	—	—	—	—	2	688
Total	—	\$—	2	\$ 105	1	\$633	—	\$—	—	\$—	3	\$ 738

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

(Dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	Recorded	2014	Recorded	2015	Recorded	2014	Recorded
	Number of Loans	Investment	Number of Loans	Investment	Number of Loans	Investment	Number of Loans	Investment
Accruing Troubled Debt Restructured Loans:								
Total	—	\$ —	—	\$ —	—	\$ —	—	\$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	2	\$ 219	—	\$ —	4	\$ 419	—	\$ —
Total	2	\$ 219	—	\$ —	4	\$ 419	—	\$ —

As a result of payment defaults during the first quarter of 2015, commercial accruing troubled debt restructured loans totaling \$200 thousand were placed on nonaccrual of interest status and subsequently charged-off. As a result of payment defaults during the third quarter of 2015, commercial nonaccruing troubled debt restructured loans totaling \$219 thousand incurred \$98 thousand in charge-offs.

The following presents, by class of loans, information regarding consumer mortgages collateralized by residential real estate property that are in the process of foreclosure at September 30, 2015 and December 31, 2014:

(Dollars in thousands)	At September 30, 2015	At December 31, 2014
Real estate-residential secured for personal purpose	\$313	\$62
Real estate-home equity secured for personal purpose	60	—
Total	\$373	\$62

The Corporation held no foreclosed consumer residential real estate property at September 30, 2015 and December 31, 2014.

Note 5. Goodwill and Other Intangible Assets

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

Changes in the carrying amount of the Corporation's goodwill by business segment for the nine months ended September 30, 2015 were as follows:

(Dollars in thousands)	Banking	Wealth Management	Insurance	Consolidated
Balance at December 31, 2014	\$35,058	\$15,434	\$17,225	\$67,717
Addition to goodwill from acquisitions	43,516	—	1,424	44,940
Balance at September 30, 2015	\$78,574	\$15,434	\$18,649	\$112,657

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

(Dollars in thousands)	At September 30, 2015			At December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount
Amortized intangible assets:						

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Core deposit intangibles	\$1,520	\$207	\$1,313	\$—	\$—	\$—
Customer related intangibles	14,227	8,244	5,983	13,397	6,726	6,671
Mortgage servicing rights	11,805	6,033	5,772	10,559	5,050	5,509
Total amortized intangible assets	\$27,552	\$14,484	\$13,068	\$23,956	\$11,776	\$12,180

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The estimated aggregate amortization expense for core deposit and customer related intangibles for the remainder of 2015 and the succeeding fiscal years is as follows:

Year	(Dollars in thousands)	Amount
Remainder of 2015		\$553
2016		1,871
2017		1,544
2018		1,170
2019		847
Thereafter		1,311

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method and an accelerated amortization method for loan payoffs. Mortgage servicing rights are subject to impairment testing on a quarterly basis. The aggregate fair value of these rights was \$7.6 million and \$6.9 million at September 30, 2015 and December 31, 2014, respectively. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at September 30, 2015, and December 31, 2014.

Changes in the mortgage servicing rights balance are summarized as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning of period	\$5,696	\$5,378	\$5,509	\$5,519
Servicing rights capitalized	365	365	1,246	724
Amortization of servicing rights	(289)	(561)	(983)	(1,068)
Changes in valuation allowance	—	243	—	250
End of period	\$5,772	\$5,425	\$5,772	\$5,425
Mortgage loans serviced for others	\$848,160	\$779,701	\$848,160	\$779,701

Activity in the valuation allowance for mortgage servicing rights was as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Valuation allowance, beginning of period	\$—	\$(243)	\$—	\$(250)
Additions	—	—	—	—
Reductions	—	243	—	250
Direct write-downs	—	—	—	—
Valuation allowance, end of period	\$—	\$—	\$—	\$—

The estimated amortization expense of mortgage servicing rights for the remainder of 2015 and the succeeding fiscal years is as follows:

Year	(Dollars in thousands)	Amount
Remainder of 2015		\$229
2016		885
2017		761
2018		649
2019		550
Thereafter		2,698

Note 6. Income Taxes

At September 30, 2015 and December 31, 2014, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in noninterest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in noninterest expense in the year it is assessed and is treated as a deductible expense for tax

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purposes. At September 30, 2015, the Corporation's tax years 2012 through 2014 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

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

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

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

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

(Dollars in thousands)	Three Months Ended September 30,		2015		2014	
	Retirement Plans		Other Post Retirement Benefits			
Service cost	\$ 193	\$ 137	\$ 15	\$ 19		
Interest cost	488	476	28	32		
Expected return on plan assets	(756	) (746) —	—		
Amortization of net actuarial loss	328	164	13	4		
Accretion of prior service cost	(70	) (71	) —	(1))
Net periodic benefit cost (income)	\$ 183	\$ (40	) \$ 56	\$ 54		
(Dollars in thousands)	Nine Months Ended September 30,		2015		2014	
	Retirement Plans		Other Post Retirement Benefits			
Service cost	\$ 579	\$ 410	\$ 44	\$ 56		
Interest cost	1,463	1,426	83	99		
Expected return on plan assets	(2,268	) (2,236) —	—		
Amortization of net actuarial loss	982	490	40	9		
Accretion of prior service cost	(210	) (212	) —	(4))
Net periodic benefit cost (income)	\$ 546	\$ (122	) \$ 167	\$ 160		

The Corporation contributed \$2.0 million to its qualified retirement plan during the nine months ended September 30, 2015. The Corporation previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to make contributions of \$166 thousand to its non-qualified retirement plans and \$113 thousand to its other postretirement benefit plans in 2015. During the nine months ended September 30, 2015, the Corporation contributed \$138 thousand to its non-qualified retirement plans and \$70 thousand to its other postretirement plans. During the nine months ended September 30, 2015, \$1.8 million was paid to participants from the retirement plans and \$70 thousand was paid to participants from the other postretirement plans.

Note 8. Subordinated Debt

On March 30, 2015, the Corporation completed the issuance of \$50 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") due 2025 in a private placement transaction to institutional accredited investors.

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The net proceeds of the offering, which approximated \$49 million, increased regulatory capital and will be used for general corporate purposes and to support both organic growth as well as acquisitions, should such opportunities arise. The debt issuance costs are included as a direct deduction from the debt liability and the costs are amortized to interest expense using the effective interest method.

The Notes bear interest at an annual fixed rate of 5.10% from the date of issuance until March 30, 2020, or any early redemption date, with the first interest payment on the Notes occurring on September 30, 2015 and semi-annually thereafter each March 30 and September 30 until March 30, 2020. Thereafter, the Notes will bear interest at an annual rate equal to the three-month LIBOR rate plus 3.544% until March 30, 2025, or any early redemption date, payable quarterly on each March 30, June 30, September 30 and December 30. Beginning with the interest payment date of March 30, 2020, the Corporation has the option, subject to approval of the Federal Reserve Board, to redeem the Notes in whole or in part at a redemption price equal to 100% of the principal amount of the redeemed Notes, plus accrued and unpaid interest to the date of the redemption.

In conjunction with the issuance, the Corporation requested that Kroll Bond Rating Agency (“KBRA”) assign a senior unsecured debt rating, a subordinated debt rating and a short-term rating to the Corporation and a deposit rating and short-term rating to the Bank. As such, KBRA assigned the Corporation a senior unsecured debt rating of BBB+, a subordinated debt rating of BBB and a short-term rating of K2. In addition, KBRA assigned a deposit rating of A- and a short-term rating of K2 to the Bank. The outlook on all ratings is stable.

Note 9. 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 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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$7,528	\$6,235	\$20,110	\$17,041
Net income allocated to unvested restricted stock	(66	) (64	) (177	) (193
Net income allocated to common shares	\$7,462	\$6,171	\$19,933	\$16,848
Denominator:				
Denominator for basic earnings per share—weighted-average shares outstanding	19,337	16,059	19,537	16,058
Effect of dilutive securities—employee stock options	31	23	28	22
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	19,368	16,082	19,565	16,080
Basic earnings per share	\$0.39	\$0.38	\$1.02	\$1.05
Diluted earnings per share	\$0.39	\$0.38	\$1.02	\$1.05
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	565	554	550	563

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Note 10. Accumulated Other Comprehensive (Loss) Income

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

(Dollars in thousands)	Net Unrealized Gains (Losses) on Available-for-Sale Investment Securities	Net Change Related to Derivatives Used for Cash Flow Hedges	Net Change Related to Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2014	\$ 1,711	\$(157)	\$(16,016)	\$(14,462)
Net Change	(756)	(288)	527	(517)
Balance, September 30, 2015	\$ 955	\$(445)	\$(15,489)	\$(14,979)
Balance, December 31, 2013	\$ (1,472)	\$—	\$(8,483)	\$(9,955)
Net Change	2,869	—	185	3,054
Balance, September 30, 2014	\$ 1,397	\$—	\$(8,298)	\$(6,901)

The following table illustrates the amounts reclassified out of each component of accumulated comprehensive (loss) income for the three and nine months ended September 30, 2015 and 2014:

Details about Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income				Affected Line Item in the Statement of Income
	Three Months Ended September 30,		Nine Months Ended September 30,		
(Dollars in thousands)	2015	2014	2015	2014	
Net unrealized holding gains (losses) on available-for-sale investment securities:	\$296	\$—	\$568	\$557	Net gain on sales of investment securities
	(5)	—	(5)	—	Other-than-temporary impairment on equity securities
	291	—	563	557	Total before tax
	(102)	—	(197)	(195)	) Tax expense
	\$189	\$—	\$366	\$362	) Net of tax
Defined benefit pension plans:					
Amortization of net loss included in net periodic pension costs*	\$(341)	\$(168)	\$(1,022)	\$(499))
Accretion of prior service cost included in net periodic pension costs*	70	72	210	216)
	(271)	(96)	(812)	(283)	) Total before tax
	95	33	285	98	) Tax benefit
	\$(176)	\$(63)	\$(527)	\$(185)	) Net of tax

* These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. (See Note 7—Retirement Plans and Other Postretirement Benefits for additional details.)

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Note 11. Derivative Instruments and Hedging Activities

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

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

On October 24, 2014, the Corporation entered into an amortizing interest rate swap classified as a cash flow hedge with a notional amount of \$20.0 million to hedge a portion of the debt financing of a pool of 10-year maturity fixed rate loans with balances totaling \$29.1 million, at time of the hedge, that were originated in 2013. A brokered money market demand account with a balance exceeding the amortizing interest rate swap balance is being used for the cash flow hedge. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.10% and receives a floating rate based on the one-month LIBOR with a maturity date of November 1, 2022. The Corporation performed an assessment of the hedge for effectiveness at the inception of the hedge and on a recurring basis to determine that the derivative has been and is expected to continue to be highly effective in offsetting changes in cash flows of the hedged item. The Corporation expects that there will be no ineffectiveness over the life of the interest rate swap, and therefore anticipates no portion of the net loss in accumulated other comprehensive loss will be reclassified into interest expense. To the extent there is ineffectiveness, the Corporation would record the ineffectiveness in interest expense. The Corporation pledges cash or securities to cover a portion of the negative fair value of the interest rate swap, as measured by the counterparty. At September 30, 2015, the notional amount of the cash flow hedge was \$19.4 million, with a negative fair value of \$685 thousand. The Corporation has pledged \$700 thousand to the counterparty as collateral for the negative fair value.

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2015 and December 31, 2014:

(Dollars in thousands)	Notional Amount	Derivative Assets		Derivative Liabilities	
		Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At September 30, 2015					
Interest rate locks with customers	\$38,965	Other Assets	\$1,264		\$—
Forward loan sale commitments	44,726		—	Other Liabilities	184
Total	\$83,691		\$1,264		\$184
At December 31, 2014					
Interest rate locks with customers	\$27,007	Other Assets	\$788		\$—
Forward loan sale commitments	30,537		—	Other Liabilities	112
Total	\$57,544		\$788		\$112

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The following table presents the notional amounts and fair values of derivatives designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2015 and December 31, 2014:

(Dollars in thousands)	Notional Amount	Derivative Assets		Derivative Liabilities	
		Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At September 30, 2015					
Interest rate swap - cash flow hedge	\$ 19,440		\$—	Other Liabilities	\$ 685
Total	\$ 19,440		\$—		\$ 685
At December 31, 2014					
Interest rate swap - cash flow hedge	\$ 19,945		\$—	Other Liabilities	\$ 241
Total	\$ 19,945		\$—		\$ 241

For the three and nine months ended September 30, 2015 and 2014, the amounts included in the consolidated statements of income for derivatives not designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Statement of Income Classification	Three Months Ended		Nine Months Ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest rate locks with customers	Net gain on mortgage banking activities	\$ 339	\$ (109)	\$ 476	\$ 339
Forward loan sale commitments	Net loss on mortgage banking activities	(321)	99	(72)	(114)
Total		\$ 18	\$ (10)	\$ 404	\$ 225

For the three and nine months ended September 30, 2015 and 2014, the amounts included in the consolidated statements of income for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Statement of Income Classification	Three Months Ended		Nine Months Ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest rate swap—cash flow hedge—interest payments	Interest expense	\$ 95	—	\$ 286	—
Net loss		\$ (95)	\$ —	\$ (286)	\$ —

At September 30, 2015 and December 31, 2014, the amounts included in accumulated other comprehensive (loss) income for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Accumulated Other Comprehensive (Loss) Income	At September 30,	At December 31,
		2015	2014
Interest rate swap—cash flow hedge	Fair value, net of taxes	\$ (445)	\$ (157)
Total		\$ (445)	\$ (157)

Note 12. Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Corporation determines the fair value of financial instruments based on the fair value hierarchy. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions that the

market participants would use in pricing the asset or liability based on the best information available in the circumstances, including assumptions about risk. Three levels of inputs are used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. Transfers between levels are recognized at the end of the reporting period.

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

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

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

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

Investment Securities

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

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

On a quarterly basis, the Corporation reviews changes, as submitted by the pricing service, in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Corporation has its security portfolio priced by a second pricing service to determine consistency with another market evaluator, except for municipal bonds which are priced by another service provider on a sample basis. If, upon the Corporation's review or in comparing with another service, a material difference between pricing evaluations were to exist, the Corporation may submit an inquiry to the current pricing service regarding the data used to make the valuation of a particular security. If the Corporation determines there is market information that would support a different valuation than from the current pricing service's evaluation, the Corporation can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted at September 30, 2015.

Derivative Financial Instruments

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Derivative financial instruments are classified within Level 2 of the valuation hierarchy.

Contingent Consideration Liability

The Corporation estimates the fair value of the contingent consideration liability by using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The estimated fair value of the contingent consideration liability is reviewed on a quarterly basis and any valuation adjustments resulting

from a change in the discount rate or change of estimated future contingent payments based on projected revenue of the acquired business affecting the contingent consideration liability will be recorded through noninterest expense, unless due to changes in the original assumptions utilized at the time the acquisition closes and identified during the measurement period in accordance with ASC Topic 805. Due to the significant unobservable input related to the projected revenue, the contingent consideration liability is classified within Level 3 of the valuation hierarchy. An increase in the projected revenue may result in a higher fair value of the contingent consideration liability. Alternatively, a decrease in the projected revenue may result in a lower estimated fair value of the contingent consideration liability.

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For the Sterner Insurance Associates acquisition, the potential cash payments that could result from the contingent consideration arrangement range from \$0 to a maximum of \$3.9 million over the two-year period ending June 30, 2017. Due to updates to the original assumptions utilized for determining the contingent consideration liability for the Sterner acquisition completed on July 1, 2014, the Corporation recorded a purchase accounting adjustment, in accordance with ASC Topic 805, in 2015 which resulted in an increase to the contingent consideration liability and an increase to goodwill of \$1.5 million.

For the Girard Partners acquisition, the remaining potential cash payments that could result from the contingent consideration arrangement range from \$0 to a maximum of \$13.8 million cumulative over the four-year period ending December 31, 2018.

For the John T. Fretz Insurance Agency acquisition, the remaining potential future cash payments that could result from the contingent consideration arrangement range from \$0 to a maximum of \$360 thousand cumulative over the one-year period ending April 30, 2016.

For the Javers Group acquisition, the Corporation recorded a reduction to the contingent liability during 2013 which resulted in a reduction of other noninterest expense of \$959 thousand. The adjustment reflected that revenue levels necessary for an earn-out payment in the first year post-acquisition were not met and that revenue growth levels necessary to qualify for subsequent years' earn-out payments to be made are remote. Therefore, as of September 30, 2015, the fair value of this contingent consideration liability is \$0. The Javers' original contingent consideration arrangement ranged from \$0 to a maximum of \$1.7 million cumulative over the three-year period ending June 30, 2015.

The following table presents the assets and liabilities measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014, classified using the fair value hierarchy:

(Dollars in thousands)	At September 30, 2015			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities:				
U.S. treasuries	\$4,945	\$—	\$—	\$4,945
U.S. government corporations and agencies	—	105,371	—	105,371
State and political subdivisions	—	108,420	—	108,420
Residential mortgage-backed securities	—	13,544	—	13,544
Collateralized mortgage obligations	—	3,303	—	3,303
Corporate bonds	—	87,913	—	87,913
Money market mutual funds	9,020	—	—	9,020
Equity securities	984	—	—	984
Total available-for-sale securities	14,949	318,551	—	333,500
Interest rate locks with customers	—	1,264	—	1,264
Total assets	\$14,949	\$319,815	\$—	\$334,764
Liabilities:				
Contingent consideration liability	\$—	\$—	\$5,956	\$5,956
Interest rate swap	—	685	—	685
Forward loan sale commitments	—	184	—	184
Total liabilities	\$—	\$869	\$5,956	\$6,825

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(Dollars in thousands)	At December 31, 2014			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities:				
U.S. treasuries	\$4,845	\$—	\$—	\$4,845
U.S. government corporations and agencies	—	121,844	—	121,844
State and political subdivisions	—	102,774	—	102,774
Residential mortgage-backed securities	—	13,643	—	13,643
Collateralized mortgage obligations	—	3,725	—	3,725
Corporate bonds	—	54,440	—	54,440
Money market mutual funds	11,675	—	—	11,675
Equity securities	1,337	—	—	1,337
Total available-for-sale securities	17,857	296,426	—	314,283
Interest rate locks with customers	—	788	—	788
Total assets	\$17,857	\$297,214	\$—	\$315,071
Liabilities:				
Contingent consideration liability	\$—	\$—	\$6,541	\$6,541
Interest rate swap	—	241	—	241
Forward loan sale commitments	—	112	—	112
Total liabilities	\$—	\$353	\$6,541	\$6,894

At September 30, 2015 and December 31, 2014, the Corporation had no assets measured at fair value on a recurring basis utilizing Level 3 inputs.

The following table presents the change in the balance of the contingent consideration liability related to acquisitions for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Nine Months Ended September 30, 2015				
	Balance at December 31, 2014	Contingent Consideration from New Acquisition*	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at September 30, 2015
Sterner Insurance Associates	\$680	\$1,525	\$1,751	\$535	\$989
Girard Partners	5,503	—	620	(102)	4,781
John T. Fretz Insurance Agency	358	—	260	88	186
Total contingent consideration liability	\$6,541	\$1,525	\$2,631	\$521	\$5,956
(Dollars in thousands)	Nine Months Ended September 30, 2014				
	Balance at December 31, 2013	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at September 30, 2014
Sterner Insurance Associates	\$—	\$635	\$—	\$22	\$657
Girard Partners	\$—	\$5,470	\$—	\$197	\$5,667
John T. Fretz Insurance Agency	501	—	310	154	345
Total contingent consideration liability	\$501	\$6,105	\$310	\$373	\$6,669

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

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The Corporation may be required to periodically measure certain assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or impairment charges of individual assets. The following table represents assets measured at fair value on a non-recurring basis at September 30, 2015 and December 31, 2014:

At September 30, 2015				
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	\$—	\$—	\$32,388	\$ 32,388
Total	\$—	\$—	\$32,388	\$ 32,388
At December 31, 2014				
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	\$—	\$—	\$55,193	\$ 55,193
Total	\$—	\$—	\$55,193	\$ 55,193

The following table presents assets and liabilities and off-balance sheet items not measured at fair value on a recurring or non-recurring basis in the Corporation's consolidated balance sheets but for which the fair value is required to be disclosed at September 30, 2015 and December 31, 2014. The disclosed fair values are classified using the fair value hierarchy.

At September 30, 2015					
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	\$108,544	\$—	\$—	\$108,544	\$108,544
Held-to-maturity securities	—	41,323	—	41,323	41,058
Loans held for sale	—	9,169	—	9,169	9,151
Net loans and leases held for investment	—	—	2,042,152	2,042,152	2,046,799
Mortgage servicing rights	—	—	7,592	7,592	5,772
Other real estate owned	—	955	—	955	955
Total assets	\$108,544	\$51,447	\$2,049,744	\$2,209,735	\$2,212,279
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	\$1,881,594	\$—	\$—	\$1,881,594	\$1,881,594
Time deposits	—	492,950	—	492,950	491,271
Total deposits	1,881,594	492,950	—	2,374,544	2,372,865
Short-term borrowings	—	19,555	—	19,555	21,191
Subordinated notes	—	50,125	—	50,125	49,340
Total liabilities	\$1,881,594	\$562,630	\$—	\$2,444,224	\$2,443,396
Off-Balance-Sheet:					
Commitments to extend credit	\$—	\$(1,763)) \$—	\$(1,763)) \$—

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(Dollars in thousands)	At December 31, 2014			Fair Value	Carrying Amount
	Level 1	Level 2	Level 3		
Assets:					
Cash and short-term interest-earning assets	\$38,565	\$—	\$—	\$38,565	\$38,565
Held-to-maturity securities	—	54,765	—	54,765	54,347
Loans held for sale	—	3,374	—	3,374	3,302
Net loans and leases held for investment	—	—	1,555,033	1,555,033	1,550,770
Mortgage servicing rights	—	—	6,941	6,941	5,509
Other real estate owned	—	955	—	955	955
Total assets	\$38,565	\$59,094	\$1,561,974	\$1,659,633	\$1,653,448
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	\$1,608,748	\$—	\$—	\$1,608,748	\$1,608,748
Time deposits	—	254,224	—	254,224	252,593
Total deposits	1,608,748	254,224	—	1,862,972	1,861,341
Short-term borrowings	—	38,631	—	38,631	41,974
Total liabilities	\$1,608,748	\$292,855	\$—	\$1,901,603	\$1,903,315
Off-Balance-Sheet:					
Commitments to extend credit	\$—	\$(1,420)	\$—	\$(1,420)	\$—

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

Cash and short-term interest-earning assets: The carrying amounts reported in the balance sheet for cash and due from banks, interest-earning deposits with other banks, and other short-term investments approximates those assets' fair values. Cash and short-term interest-earning assets are classified within Level 1 in the fair value hierarchy.

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

Loans held for sale: The fair value of the Corporation's mortgage loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. These loans are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. At September 30, 2015, loans held for sale included two non-accrual construction loans for one borrower for \$4.0 million. These loans were transferred to loans held for sale in the second quarter of 2015 (while remaining in non-accrual status), as an agreement was reached to sell the loans prior to December 31, 2015. The fair value of the non-accrual construction loans was measured based on the sale price and is classified within Level 2 in the fair value hierarchy. There were no valuation adjustments for loans held for sale at September 30, 2015 and December 31, 2014.

Loans and leases held for investment: The fair values for loans are estimated using discounted cash flow analyses, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers and include components for credit risk, operating expense and embedded prepayment options. An overall valuation adjustment is made for specific credit risks in addition to general portfolio risk and is significant to the valuation. As permitted, the fair value of the loans and leases are not based on the exit price concept as discussed in the first paragraph of this note. Loans and leases are classified within Level 3 in the fair value hierarchy.

Impaired loans held for investment: Impaired loans held for investment include those collateral-dependent loans for which the practical expedient was applied, resulting in a fair-value adjustment to the loan. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans less costs to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At September 30, 2015, impaired loans

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held for investment had a carrying amount of \$32.8 million with a valuation allowance of \$380 thousand. At December 31, 2014, impaired loans held for investment had a carrying amount of \$56.2 million with a valuation allowance of \$998 thousand.

Mortgage servicing rights: The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 3 of the valuation hierarchy. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. At September 30, 2015 and December 31, 2014, mortgage servicing rights had a carrying amount of \$5.8 million and \$5.5 million, respectively, with no valuation allowance.

Goodwill and other identifiable assets: Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other identifiable intangible assets. During the nine months ended September 30, 2015, there were no triggering events that required valuation of goodwill and other identifiable intangible assets.

Other real estate owned: The fair value of other real estate owned is estimated based upon the appraised value less costs to sell. The real estate is stated at an amount equal to the loan balance prior to foreclosure, plus costs incurred for improvements to the property but no more than the fair value of the property, less estimated costs to sell. New appraisals are generally obtained on an annual basis. Other real estate owned is classified within Level 2 of the valuation hierarchy.

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

Short-term borrowings: The fair value of customer repurchase agreements and federal funds purchased are estimated using current market rates for similar borrowings and are classified within Level 2 in the fair value hierarchy.

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

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

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Note 13. Segment Reporting

At September 30, 2015, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines the segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. At September 30, 2015, these segments meet the quantitative thresholds for separate disclosure as a business segment. Non-reportable segments include the parent holding company and intercompany eliminations, and are included in the "Other" segment. Prior to 2014, the Corporation had only one reportable segment, Community Banking. During 2014, the Corporation acquired Girard Partners and Sterner Insurance and realigned the investment and trust operations into its Wealth Management Reporting unit; this resulted in the three reportable segments of Banking, Wealth Management and Insurance.

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

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

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

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

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

The accounting policies, used in the disclosure of the operating segments, are the same as those described in Note 1, "Summary of Significant Accounting Policies".

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

(Dollars in thousands)	At September 30, 2015	At December 31, 2014	At September 30, 2014
Banking	\$2,773,279	\$2,154,485	\$2,147,763
Wealth Management	32,793	34,195	32,908
Insurance	23,825	22,930	21,930
Other	21,671	23,711	19,595
Consolidated assets	\$2,851,568	\$2,235,321	\$2,222,196

The following tables provide reportable segment-specific information and reconciliations to consolidated financial information for the three and nine months ended September 30, 2015 and 2014.

(Dollars in thousands)	Three Months Ended September 30, 2015				
	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	\$25,576	\$—	\$—	\$9	\$25,585
Interest expense	2,220	—	—	—	2,220
Net interest income	23,356	—	—	9	23,365
Provision for loan and lease losses	670	—	—	—	670
Noninterest income	4,932	4,628	3,345	(50)	12,855
Noninterest expense	18,408	3,410	3,109	316	25,243
Intersegment (revenue) expense*	(554)) 259	295	—	—
Income (loss) before income taxes	9,764	959	(59)) (357)) 10,307

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Income taxes	2,495	368	(44) (40) 2,779
Net income (loss)	\$7,269	\$591	\$(15) \$(317) \$7,528
Capital expenditures	\$925	\$1	\$3	\$138	\$1,067

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	Three Months Ended September 30, 2014				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	\$19,211	\$—	\$—	\$8	\$19,219
Interest expense	978	—	—	—	978
Net interest income	18,233	—	—	8	18,241
Provision for loan and lease losses	233	—	—	—	233
Noninterest income	4,536	4,985	3,001	(12)	12,510
Noninterest expense	16,279	3,263	2,820	(343)	22,019
Intersegment (revenue) expense*	(660)	) 214	446	—	—
Income (loss) before income taxes	6,917	1,508	(265)	) 339	8,499
Income taxes	1,599	580	(105)	) 190	2,264
Net income (loss)	\$5,318	\$928	\$(160)	) \$149	\$6,235
Capital expenditures	\$313	\$25	\$16	\$82	\$436
	Nine Months Ended September 30, 2015				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	\$75,811	\$—	\$—	\$25	\$75,836
Interest expense	5,787	—	—	—	5,787
Net interest income	70,024	—	—	25	70,049
Provision for loan and lease losses	2,885	—	—	—	2,885
Noninterest income	14,240	14,216	11,138	43	39,637
Noninterest expense	59,595	9,903	9,514	474	79,486
Intersegment (revenue) expense*	(1,583)	) 676	907	—	—
Income (loss) before income taxes	23,367	3,637	717	(406)	) 27,315
Income taxes	5,471	1,405	282	47	7,205
Net income (loss)	\$17,896	\$2,232	\$435	\$(453)	) \$20,110
Capital expenditures	\$6,020	\$9	\$53	\$216	\$6,298
	Nine Months Ended September 30, 2014				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	\$56,864	\$—	\$—	\$26	\$56,890
Interest expense	2,959	—	—	(2)	) 2,957
Net interest income	53,905	—	—	28	53,933
Provision for loan and lease losses	2,959	—	—	—	2,959
Noninterest income	12,153	14,969	9,030	423	36,575
Noninterest expense	48,800	9,869	7,320	(1,297)	) 64,692
Intersegment (revenue) expense*	(1,616)	) 674	942	—	—
Income before income taxes	15,915	4,426	768	1,748	22,857
Income taxes	3,078	1,672	331	735	5,816
Net income	\$12,837	\$2,754	\$437	\$1,013	\$17,041
Capital expenditures	\$2,016	\$97	\$83	\$149	\$2,345

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

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Note 14. Restructuring Charges

During the first quarter of 2015, the Corporation finalized a new financial center model, which is smaller in size, combines enhanced technology with personal service and provides consultive services and solutions delivered by personal bankers. These efforts have led to the development of a comprehensive financial center optimization plan approved in April 2015 which includes opening new financial centers in growth markets while closing financial centers which operate in close proximity to other centers. As the Corporation announced, six financial centers were closed in September 2015 that operated in close proximity to other centers. As a result, the Corporation recorded \$1.6 million in restructuring charges during the second quarter of 2015. These charges are included in the Banking business segment and are separately classified as a component of non-interest expense, within the consolidated statement of income.

A roll-forward of the accrued restructuring expense is as follows:

(Dollars in thousands)	Severance expenses	Write-downs and retirements of fixed assets	Lease cancellations	Total
Accrued at January 1, 2015	\$—	\$—	\$—	\$—
Restructuring charges	73	607	962	1,642
Payments	(67	) —	(46	) (113
Accelerated depreciation	—	(379	) —	(379
Accrued at September 30, 2015	\$6	\$228	\$916	\$1,150

Note 15. Share Repurchase Plan

On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares in the common shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. During the quarter, the Corporation repurchased 86,650 shares of common stock at a cost of \$1.8 million under the share repurchase program. Shares available for future repurchases under the plan totaled 1,080,246 at September 30, 2015. Total shares outstanding at September 30, 2015 were 19,502,613. The Corporation will repurchase shares of its common stock from time to time through open market purchases, tender offers, privately negotiated purchases or other means. The share repurchase program does not obligate the Corporation to acquire any particular amount of common stock. The program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

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

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

Forward-Looking Statements

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words "believe," "anticipate," "estimate," "expect," "project," "target," "goal" and similar expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including those set forth below:

- Operating, legal and regulatory risks

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

- The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful

- Volatility in interest rates

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

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These forward-looking statements speak only at the date of the report. The Corporation expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Corporation's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

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Critical Accounting Policies

Management, in order to prepare the Corporation's financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that affect the amounts reported in the Corporation's financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies. For more information on these critical accounting policies, please refer to the Corporation's 2014 Annual Report on Form 10-K.

General

Univest Corporation of Pennsylvania (the Corporation), is a Bank Holding Company owning all of the capital stock of Univest Bank and Trust Co. (the Bank).

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

Executive Overview

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change Amount	Change Percent	2015	2014	Change Amount	Change Percent
(Dollars in thousands, except per share data)								
Net income	\$7,528	\$6,235	\$1,293	21 %	\$20,110	\$17,041	\$3,069	18 %
Net income per share:								
Basic	\$0.39	\$0.38	\$0.01	3	\$1.02	\$1.05	\$(0.03)	(3)
Diluted	0.39	0.38	0.01	3	1.02	1.05	(0.03)	(3)
Return on average assets	1.06 %	1.12 %	(6 BP)	(5)	0.98 %	1.04 %	(6 BP)	(6)
Return on average equity	8.36 %	8.58 %	(22 BP)	(3)	7.48 %	7.98 %	(50 BP)	(6)

The Corporation reported net income of \$7.5 million or \$0.39 diluted earnings per share for the quarter ended September 30, 2015, a 21% increase from reported net income of \$6.2 million or \$0.38 diluted earnings per share for the quarter ended September 30, 2014. Net income for the nine months ended September 30, 2015 was \$20.1 million or \$1.02 diluted earnings per share, an 18% increase in net income compared to \$17.0 million or \$1.05 diluted earnings per share for the comparable period in the prior year. The quarter and year-to-date financial results include the Valley Green Bank acquisition which the Corporation completed on January 1, 2015. The results for the nine months ended September 30, 2015 included \$2.0 million (\$1.3 million net of tax) of integration and acquisition-related costs associated with Valley Green Bank, incurred during the first and second quarters, or \$0.07 diluted earnings per share on a year-to-date tax affected basis. In addition, the results for the nine months ended September 30, 2015 also included \$1.6 million (\$1.1 million, net of tax) of restructuring charges, incurred in the second quarter, related to the consolidation of six financial centers in September 2015 under the Bank's optimization plan or \$0.05 diluted earnings per share on a tax affected basis.

Net interest income on a tax-equivalent basis for the three months ended September 30, 2015 was \$24.7 million, an increase of \$5.2 million or 27% compared to the same period in 2014. The net interest margin on a tax-equivalent basis for the third quarter of 2015 was 3.89%, compared to 3.88% for the third quarter of 2014. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2015 was \$74.0 million, an increase of \$16.3 million or 28% compared to the same period in 2014. The net interest margin on a tax-equivalent basis for the nine months ended September 30, 2015 was 4.01%, an increase of 11 basis points compared to 3.90% for the same period in the prior year. The increase in net interest income was mainly due to the acquisition of Valley Green Bank.

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The provision for loan and lease losses for the three months ended September 30, 2015 was \$670 thousand, compared to \$233 thousand for the same period in 2014. The provision for loan and lease losses for the nine months ended September 30, 2015 of \$2.9 million was consistent with the same period in the prior year.

Noninterest income for the three months ended September 30, 2015 was \$12.9 million, an increase of \$345 thousand, or 3% from the same period in the prior year. Noninterest income for the nine months ended September 30, 2015 was \$39.6 million, an increase of \$3.1 million, or 8% from the same period in the prior year. The year-to date increase was primarily due to the acquisition of Sterner Insurance on July 1, 2014 and higher mortgage banking income partially offset by a decline in investment advisory commission and fee income.

Non-interest expense for the three months ended September 30, 2015 was \$25.2 million, an increase of \$3.2 million, or 15% from the same period in the prior year. Non-interest expense for the nine months ended September 30, 2015 was \$79.5 million, an increase of \$14.8 million, or 23% from the same period in the prior year. Non-interest expense was impacted by the Valley Green Bank acquisition which included integration and acquisition-related costs totaling \$2.0 million for the nine months ended September 30, 2015, and additional expenses related to staffing, branch offices and operations. In addition, non-interest expense for the nine months ended September 30, 2015 included restructuring charges of \$1.6 million recognized during the second quarter related to the consolidation of six financial centers in September 2015 under the Bank's optimization plan. The projected annualized savings from these consolidations is \$1.9 million

Gross loans and leases held for investment increased \$471.2 million, or 29% from December 31, 2014, which included \$380.9 million of loans acquired from Valley Green Bank. Organic loan growth was 6% (8% annualized) from December 31, 2014. Deposits increased \$511.5 million, or 27% from December 31, 2014, primarily due to \$385.9 million of deposits acquired from Valley Green Bank and an increase in public funds mostly due to seasonal tax deposits. Borrowings at September 30, 2015, included \$50 million in aggregate principal amount fixed-to-floating rate subordinated notes issued in a private placement transaction to institutional accredited investors completed on March 30, 2015. The subordinated notes have a five-year fixed rate of 5.10% and thereafter a rate of three-month LIBOR plus 3.544% until the maturity date of March 30, 2025, or any early redemption date.

Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications were \$20.8 million at September 30, 2015 compared to \$17.3 million at December 31, 2014 and \$18.8 million at September 30, 2014. Nonaccrual loans and leases as a percentage of total loans and leases (held for investment and nonaccrual loans held for sale) were 0.99% at September 30, 2015 compared to 1.07% at December 31, 2014 and 1.18% at September 30, 2014. Net loan and lease charge-offs were \$1.7 million for the three months ended September 30, 2015 compared to \$2.6 million for the same period in the prior year. Net loan and lease charge-offs were \$4.9 million for the nine months ended September 30, 2015, compared to \$5.7 million in the same period in the prior year.

Capital

The Corporation and the Bank continue to remain well-capitalized at September 30, 2015. The Corporation and the Bank adopted the new Basel III regulatory capital rules during the first quarter of 2015 under the transition rules. Total risk-based capital at September 30, 2015 under Basel III was 13.68% for the Corporation and 12.7% for the Bank, well in excess of the regulatory minimum for well-capitalized status of 10.00%.

On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares in the common shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. During the quarter, the Corporation repurchased 86,650 shares of common stock at a cost of \$1.8 million under the share repurchase program. Shares available for future repurchases under the plan totaled 1,080,246 at September 30, 2015. Total shares outstanding at September 30, 2015 were 19,502,613.

Valley Green Bank Acquisition

On January 1, 2015, the Corporation completed the acquisition of Valley Green Bank. The merger of Valley Green Bank with and into the Bank was effected pursuant to the terms and conditions of the Agreement and Plan of Merger (Merger Agreement) dated June 17, 2014. Headquartered in the Mt. Airy neighborhood of Philadelphia, Pennsylvania, Valley Green operated three full- service banking offices and two administrative offices for loan production in the

greater Philadelphia marketplace. With the assumption of Valley Green Bank's three branches and two administrative offices for loan production in the Philadelphia marketplace, the Corporation entered a new small business and consumer market and expanded its existing lending network within southeastern Pennsylvania.

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The acquisition was an all-stock transaction with an aggregate value of approximately \$77 million with the issuance of 3,787,866 shares of the Corporation's common stock to the former shareholders of Valley Green Bank.

The transaction is being accounted for using the acquisition method of accounting, which requires the Corporation to allocate the total consideration transferred to the assets acquired and liabilities assumed, based on their respective fair values at the merger date, with remaining excess consideration recorded as goodwill. The fair value of total assets acquired as a result of the merger totaled \$425.2 million, which included \$380.9 million in loans at January 1, 2015.

The fair value of liabilities assumed was \$389.8 million which included \$385.9 million in deposits and a core deposit intangible of \$1.5 million at January 1, 2015. As a result of the Valley Green Bank acquisition, the Corporation recorded goodwill of \$43.5 million. The fair value estimates are subject to adjustment if additional information becomes available. Such adjustments, may change the amount of the purchase price allocation to goodwill while changes to other assets and liabilities may impact the statement of income due to adjustments in the yield and/or amortization/accretion of the adjusted assets and liabilities. The results of Valley Green Bank's operations have been included in the Corporation's consolidated financial statements prospectively from the date of the merger.

Details of the changes in the various components of net income and the balance sheet are further discussed in the sections that follow.

The Corporation earns revenues primarily from the margins and fees generated from lending and depository services to customers as well as fee-based income from trust, insurance, mortgage banking and investment services to customers. The Corporation seeks to achieve adequate and reliable earnings through business growth while maintaining adequate levels of capital and liquidity and limiting exposure to credit and interest rate risk to Board of Directors approved levels. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation is in a liability sensitive position from both a maturity perspective and from a repricing perspective, as interest rates remain at historically low levels. Despite being liability sensitive, the Corporation projects increased net interest income in rising rate scenarios as the magnitude of the asset pricing change exceeds the liability pricing change. The Corporation seeks to establish itself as the financial provider of choice in the markets it serves. The Corporation plans to achieve this goal by offering a broad range of high quality financial products and services and by increasing market awareness of its brand and the benefits that can be derived from its products. The Corporation operates in an attractive market for financial services but also is in intense competition with domestic and international banking organizations and other insurance and wealth management providers for the financial services business. The Corporation has taken initiatives to achieve its business objectives by acquiring banks and other financial service providers in strategic markets, through marketing, public relations and advertising, by establishing standards of service excellence for customers, and by using technology to ensure that the needs of customers are understood and satisfied.

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Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation's revenue. Table 1 presents a summary of the Corporation's average balances, the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders' equity on a tax-equivalent basis for the three and nine months ended September 30, 2015 and 2014. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders' equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Three and nine months ended September 30, 2015 versus 2014

Net interest income on a tax-equivalent basis for the three months ended September 30, 2015 was \$24.7 million, an increase of \$5.2 million or 27% from the same period in 2014. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2015 was \$74.0 million, an increase of \$16.3 million or 28% from the same period in 2014. The tax-equivalent net interest margin for the three months ended September 30, 2015 was 3.89% compared to 3.88% for the three months ended September 30, 2014. The tax-equivalent net interest margin for the nine months ended September 30, 2015 increased 11 basis points to 4.01% from 3.90% for the nine months ended September 30, 2014. The increase in net interest income during 2015 was mainly due to the impact of the Valley Green Bank acquisition, which included the average net interest-earning assets acquired and the net accretion of acquisition accounting fair value adjustments (the impact of the acquisition accounting adjustments was 8 basis points and 10 basis points for the three and nine months ended September 30, 2015, respectively). The subordinated debt issuance increased funding costs by 14 basis points and 9 basis points for the three and nine months ended September 30, 2015, respectively.

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

(Dollars in thousands)	Three Months Ended September 30, 2015			2014			Average Rate
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	
Assets:							
Interest-earning deposits with other banks	\$50,514	\$21	0.16	% \$34,701	\$18	0.21	%
U.S. government obligations	119,712	345	1.14	127,505	320	1.00	
Obligations of states and political subdivisions	109,300	1,335	4.85	107,039	1,360	5.04	
Other debt and equity securities	139,825	859	2.44	125,730	643	2.03	
Total interest-earning deposits and investments	419,351	2,560	2.42	394,975	2,341	2.35	
Commercial, financial and agricultural loans	423,912	4,219	3.95	394,297	4,054	4.08	
Real estate—commercial and construction loans	857,181	9,942	4.60	622,249	6,722	4.29	
Real estate—residential loans	509,599	5,786	4.50	298,530	3,067	4.08	
Loans to individuals	28,957	388	5.32	30,616	492	6.38	
Municipal loans and leases	205,302	2,450	4.73	181,170	2,214	4.85	
Lease financings	73,056	1,555	8.44	71,103	1,586	8.85	
Gross loans and leases	2,098,007	24,340	4.60	1,597,965	18,135	4.50	
Total interest-earning assets	2,517,358	26,900	4.24	1,992,940	20,476	4.08	
Cash and due from banks	35,419			36,600			
Reserve for loan and lease losses	(20,494	)		(24,450)		
Premises and equipment, net	40,852			35,580			
Other assets	231,443			176,804			
Total assets	\$2,804,578			\$2,217,474			
Liabilities:							
Interest-bearing checking deposits	\$375,362	77	0.08	\$316,923	44	0.06	
Money market savings	361,530	318	0.35	290,194	79	0.11	
Regular savings	590,331	134	0.09	537,175	80	0.06	
Time deposits	463,524	1,014	0.87	265,293	768	1.15	
Total time and interest-bearing deposits	1,790,747	1,543	0.34	1,409,585	971	0.27	
Short-term borrowings	30,520	10	0.13	38,763	7	0.07	
Subordinated notes*	49,321	667	5.37	—	—	—	
Total borrowings	79,841	677	3.36	38,763	7	0.07	
Total interest-bearing liabilities	1,870,588	2,220	0.47	1,448,348	978	0.27	
Noninterest-bearing deposits	534,302			450,553			
Accrued expenses and other liabilities	42,538			30,144			
Total liabilities	2,447,428			1,929,045			
Shareholders' Equity:							
Common stock	110,271			91,332			
Additional paid-in capital	120,770			62,268			
Retained earnings and other equity	126,109			134,829			

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Total shareholders' equity	357,150		288,429	
Total liabilities and shareholders' equity	\$2,804,578		\$2,217,474	
Net interest income		\$24,680		\$19,498
Net interest spread		3.77		3.81
Effect of net interest-free funding sources		0.12		0.07
Net interest margin		3.89	%	3.88
Ratio of average interest-earning assets to average interest-bearing liabilities	134.58	%	137.60	%

* The interest rate on subordinated notes is calculated on a 30/360 day basis at a rate of 5.10%. The balance is net of debt issuance costs which are amortized to interest expense.

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.

Tax-equivalent amounts for the three months ended September 30, 2015 and 2014 have been calculated using the Corporation's federal applicable rate of 35%.

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(Dollars in thousands)	Nine Months Ended September 30, 2015			2014			
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	
Assets:							
Interest-earning deposits with other banks	\$25,957	\$37	0.19	% \$28,457	\$49	0.23	%
U.S. government obligations	129,646	1,075	1.11	128,799	967	1.00	
Obligations of states and political subdivisions	107,807	4,011	4.97	107,269	4,189	5.22	
Other debt and equity securities	137,747	2,267	2.20	139,779	2,058	1.97	
Federal funds sold	2,448	2	0.11	—	—	—	
Total interest-earning deposits, investments and federal funds sold	403,605	7,392	2.45	404,304	7,263	2.40	
Commercial, financial and agricultural loans	426,997	12,951	4.06	396,915	11,925	4.02	
Real estate—commercial and construction loans	841,930	29,486	4.68	602,862	19,692	4.37	
Real estate—residential loans	488,646	16,789	4.59	288,548	8,865	4.11	
Loans to individuals	29,570	1,184	5.35	34,981	1,627	6.22	
Municipal loans and leases	204,748	7,318	4.78	177,446	6,447	4.86	
Lease financings	71,368	4,673	8.75	70,957	4,807	9.06	
Gross loans and leases	2,063,259	72,401	4.69	1,571,709	53,363	4.54	
Total interest-earning assets	2,466,864	79,793	4.32	1,976,013	60,626	4.10	
Cash and due from banks	32,768			32,564			
Reserve for loan and lease losses	(20,983	)		(24,951)		
Premises and equipment, net	40,618			34,733			
Other assets	226,500			171,499			
Total assets	\$2,745,767			\$2,189,858			
Liabilities:							
Interest-bearing checking deposits	\$364,006	190	0.07	\$314,095	129	0.05	
Money market savings	360,473	857	0.32	286,667	214	0.10	
Regular savings	578,478	392	0.09	539,248	238	0.06	
Time deposits	456,726	2,966	0.87	267,271	2,351	1.18	
Total time and interest-bearing deposits	1,759,683	4,405	0.33	1,407,281	2,932	0.28	
Short-term borrowings	40,902	33	0.11	41,271	25	0.08	
Subordinated notes *	33,411	1,349	5.40	—	—	—	
Total borrowings	74,313	1,382	2.49	41,271	25	0.08	
Total interest-bearing liabilities	1,833,996	5,787	0.42	1,448,552	2,957	0.27	
Noninterest-bearing deposits	509,002			427,277			
Accrued expenses and other liabilities	43,312			28,511			
Total liabilities	2,386,310			1,904,340			
Shareholders' Equity:							
Common stock	110,271			91,332			
Additional paid-in capital	120,409			61,967			
	128,777			132,219			

Retained earnings and other equity					
Total shareholders' equity	359,457		285,518		
Total liabilities and shareholders' equity	\$2,745,767		\$2,189,858		
Net interest income		\$74,006		\$57,669	
Net interest spread			3.90		3.83
Effect of net interest-free funding sources			0.11		0.07
Net interest margin			4.01	%	3.90
Ratio of average interest-earning assets to average interest-bearing liabilities	134.51	%	136.41	%	

* The interest rate on subordinated notes is calculated on a 30/360 day basis at a rate of 5.10%. The balance is net of debt issuance costs which are amortized to interest expense.

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.

Tax-equivalent amounts for the nine months ended September 30, 2015 and 2014 have been calculated using the Corporation's federal applicable rate of 35%.

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Table 2—Analysis of Changes in Net Interest Income

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

(Dollars in thousands)	Three Months Ended September 30, 2015 Versus 2014			Nine Months Ended September 30, 2015 Versus 2014		
	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	\$7	\$(4)	\$3	\$(4)	\$(8)	\$(12)
U.S. government obligations	(20)	45	25	6	102	108
Obligations of states and political subdivisions	28	(53)	(25)	21	(199)	(178)
Other debt and equity securities	77	139	216	(30)	239	209
Federal funds sold	—	—	—	2	—	2
Interest on deposits, investments and federal funds sold	92	127	219	(5)	134	129
Commercial, financial and agricultural loans	297	(132)	165	907	119	1,026
Real estate—commercial and construction loans	2,703	517	3,220	8,308	1,486	9,794
Real estate—residential loans	2,374	345	2,719	6,782	1,142	7,924
Loans to individuals	(26)	(78)	(104)	(233)	(210)	(443)
Municipal loans and leases	292	(56)	236	978	(107)	871
Lease financings	43	(74)	(31)	28	(162)	(134)
Interest and fees on loans and leases	5,683	522	6,205	16,770	2,268	19,038
Total interest income	5,775	649	6,424	16,765	2,402	19,167
Interest expense:						
Interest-bearing checking deposits	12	21	33	18	43	61
Money market savings	24	215	239	67	576	643
Regular savings	9	45	54	20	134	154
Time deposits	468	(222)	246	1,353	(738)	615
Interest on time and interest-bearing deposits	513	59	572	1,458	15	1,473
Short-term borrowings	(1)	4	3	—	8	8
Subordinated notes	667	—	667	1,349	—	1,349
Interest on borrowings	666	4	670	1,349	8	1,357
Total interest expense	1,179	63	1,242	2,807	23	2,830
Net interest income	\$4,596	\$586	\$5,182	\$13,958	\$2,379	\$16,337

Interest Income

Three and nine months ended September 30, 2015 versus 2014

Interest income on a tax-equivalent basis for the three months ended September 30, 2015 was \$26.9 million, an increase of \$6.4 million, or 31% from the same period in 2014. Interest income on a tax-equivalent basis for the nine months ended September 30, 2015 was \$79.8 million, an increase of \$19.2 million, or 32% from the same period in 2014. The increases were mainly due to the impact of the Valley Green Bank acquisition, which included the average interest-earning assets acquired and the net accretion of acquisition accounting fair value adjustments (the impact of the acquisition accounting adjustments on interest earning assets was 7 basis points and 8 basis points for the the three and nine months ended September 30, 2015, respectively). Growth in commercial real estate, residential real estate and municipal loans and leases was partially offset by decreases in loan interest rates due to re-pricing and the competitive environment.

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Interest Expense

Three and nine months ended September 30, 2015 versus 2014

Interest expense for the three months ended September 30, 2015 was \$2.2 million, an increase of \$1.2 million from the same period in 2014. Interest expense for the nine months ended September 30, 2015 was \$5.8 million, an increase of \$2.8 million from the same period in 2014. The increases were due to the impact of the Valley Green Bank acquisition which included the average interest-bearing deposits assumed and the net amortization of acquisition accounting fair value adjustments (the impact of the acquisition accounting adjustments on interest-bearing liabilities was 2 basis points and 3 basis points for the three and nine months ended September 30, 2015, respectively). The increases in interest expense were also due to the subordinated debt issuance which increased funding costs for the three and nine months ended September 30, 2015 by 14 basis points and 9 basis points, respectively.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans are also 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. Any of the above criteria may cause the reserve to fluctuate. The provision for loan and lease losses for the three months ended September 30, 2015 was \$670 thousand, compared to \$233 thousand for the same period in 2014. The provision for loan and lease losses of \$2.9 million for the nine months ended September 30, 2015 was consistent with the same period in the prior year.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities, net gains (losses) on mortgage banking activities, net gains (losses) on sales and write-downs of other real estate owned and other miscellaneous types of income. Other service fee income primarily consists of fees from credit card companies for a portion of merchant charges paid to the credit card companies for the Bank's customer debit card usage (Mastermoney fees), non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Bank owned life insurance income represents changes in the cash surrender value of bank-owned life insurance policies, which is affected by the market value of the underlying assets, and also includes any excess proceeds from death benefit claims. The net gain on mortgage banking activities consists of gains (losses) on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan sale commitments. Other noninterest income includes other miscellaneous income.

The following table presents noninterest income for the periods indicated:

(Dollars in thousands)	Three Months Ended		Change		Nine Months		Change			
	September 30,	September 30,	Amount	Percent	Ended	September 30,	Amount	Percent		
	2015	2014			2015	2014				
Trust fee income	\$1,904	\$1,862	\$42	2	% \$5,878	\$5,692	\$186	3	%	
Service charges on deposit accounts	1,069	1,073	(4)	)	—	3,171	3,134	37	1
Investment advisory commission and fee income	2,687	3,086	(399))	(13))	8,190	9,144	(954)) (10)
Insurance commission and fee income	3,232	2,881	351	12		10,812	8,647	2,165	25	
Other service fee income	1,956	1,767	189	11		5,387	5,471	(84)	) (2)
Bank owned life insurance income	306	346	(40))	(12))	870	1,167	(297)) (25)
Net gain on sales of investment securities	296	—	296	N/M		568	557	11	2	
	1,123	616	507	82		3,748	1,484	2,264	N/M	

Net gain on mortgage banking activities										
Net gain on sales of other real estate owned	14	195	(181	) (93	)	14	195	(181	) (93)
Other income	268	684	(416) (61)	999	1,084	(85) (8)
Total noninterest income	\$12,855	\$12,510	\$345	3	%	\$39,637	\$36,575	\$3,062	8	%

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Three and nine months ended September 30, 2015 versus 2014

Noninterest income for the three months ended September 30, 2015 was \$12.9 million, an increase of \$345 thousand or 3% from the same period in the prior year. Noninterest income for the nine months ended September 30, 2015 was \$39.6 million, an increase of \$3.1 million, or 8% from the same period in the prior year. Insurance commission and fee income increased \$2.2 million for the nine months ended September 30, 2015, primarily due to the acquisition of Sterner Insurance on July 1, 2014. The net gain on mortgage banking activities increased \$507 thousand for the quarter and \$2.3 million for the nine months ended September 30, 2015, mainly due to an increase in purchase volume. Funded first mortgage volume for the quarter increased \$7.3 million or 17%, and \$67.7 million or 78% for the nine months ended September 30, 2015, compared to the same periods in 2014. These favorable increases were partially offset by a decline in investment advisory commission and fee income of \$399 thousand for the quarter and \$954 thousand for the nine months ended September 30, 2015. The decline in investment advisory commission and fee income was related to the fourth quarter of 2014 divestiture of approximately \$375 million in marginally profitable assets under the supervision of independent consultants.

Noninterest Expense

The operating costs of the Corporation are known as noninterest expense, and include, but are not limited to, salaries and benefits, commissions, occupancy, equipment, professional services expenses and integration and acquisition-related costs. Expense control is very important to the management of the Corporation, and every effort is made to contain and minimize the growth of operating expenses, and to provide technological innovation whenever practical, as operations change or expand.

The following table presents noninterest expense for the periods indicated:

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,		Amount	Percent	September 30,		Amount	Percent
(Dollars in thousands)	2015	2014			2015	2014		
Salaries and benefits	\$11,970	\$11,035	\$935	8 %	\$37,241	\$31,948	\$5,293	17 %
Commissions	2,174	2,200	(26)	(1)	6,143	5,585	558	10
Net occupancy	2,093	1,689	404	24	6,486	5,130	1,356	26
Equipment	1,831	1,426	405	28	5,228	4,170	1,058	25
Professional fees	1,096	744	352	47	2,969	2,399	570	24
Marketing and advertising	583	391	192	49	1,494	1,333	161	12
Deposit insurance premiums	433	386	47	12	1,267	1,162	105	9
Intangible expenses	710	352	358	N/M	2,389	1,762	627	36
Acquisition-related costs	—	180	(180)	N/M	507	739	(232)	(31)
Integration costs	—	8	(8)	N/M	1,484	8	1,476	N/M
Restructuring charges	—	—	—	—	1,642	—	1,642	N/M
Other expense	4,353	3,608	745	21	12,636	10,456	2,180	21
Total noninterest expense	\$25,243	\$22,019	\$3,224	15 %	\$79,486	\$64,692	\$14,794	23 %

Three and nine months ended September 30, 2015 versus 2014

Noninterest expense for the three months ended September 30, 2015 was \$25.2 million, an increase of \$3.2 million or 15% from the same period in the prior year. Non-interest expense for the nine months ended September 30, 2015 was \$79.5 million, an increase of \$14.8 million, or 23% from the same period in the prior year. Non-interest expense was impacted by the Valley Green Bank acquisition which included integration and acquisition-related costs totaling \$2.0 million for the nine months ended September 30, 2015. Salaries and benefit expense increased \$935 thousand for the quarter and \$5.3 million for the nine months ended September 30, 2015, primarily attributable to the Valley Green Bank acquisition and increased pension plan expense. The Sterner Insurance acquisition also impacted year-to-date salaries and benefits expense. This increase was partially offset by higher deferred loan origination costs. Commission

expense increased \$558 thousand for the nine months ended September 30, 2015, mostly due to the increase in mortgage banking volume. Premises and equipment expenses increased \$809 thousand for the quarter and \$2.4 million for the nine months ended September 30, 2015, mainly due to the Valley Green Bank acquisition and increased investments in computer equipment and software.

In addition, non-interest expense for the nine months ended September 30, 2015 included restructuring charges of \$1.6 million recognized during the second quarter related to the consolidation of six financial centers in September 2015 under the Bank's optimization plan. The projected annualized savings from these consolidations is \$1.9 million.

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Tax Provision

The provision for income taxes for the three months ended September 30, 2015 and 2014 was \$2.8 million and \$2.3 million, at effective rates of 27% and 27%, respectively. The provision for income taxes for the nine months ended September 30, 2015 and 2014 was \$7.2 million and \$5.8 million at effective rates of 26% and 25%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities, loans and bank-owned life insurance.

Financial Condition

Assets

The following table presents assets at the dates indicated:

(Dollars in thousands)	At September	At December	Change	
	30, 2015	31, 2014	Amount	Percent
Cash and interest-earning deposits	\$ 108,544	\$ 38,565	\$ 69,979	N/M
Investment securities	374,558	368,630	5,928	2
Loans held for sale	9,151	3,302	5,849	N/M
Loans and leases held for investment	2,097,807	1,626,625	471,182	29
Reserve for loan and lease losses	(18,620	) (20,662	) 2,042	10
Premises and equipment, net	41,110	37,009	4,101	11
Goodwill and other intangibles, net	125,725	79,897	45,828	57
Bank owned life insurance	71,135	62,265	8,870	14
Accrued interest receivable and other assets	42,158	39,690	2,468	6
Total assets	\$2,851,568	\$2,235,321	\$616,247	28 %

Interest-earning Deposits

Interest-earning deposits increased as of September 30, 2015 as compared to December 31, 2014 primarily due to an increase in cash maintained at the Federal Reserve Bank. This was mainly due to the seasonal inflow of public funds deposits which were primarily invested in overnight fed funds, as the Corporation's cash position increased by \$69.9 million from December 31, 2014 to September 30, 2015.

Investment Securities

The investment portfolio is managed as part of the overall asset and liability management process to optimize income and market performance over an entire interest rate cycle while mitigating risk. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk, to take advantage of market conditions that create more economically beneficial returns on these investments, and to collateralize public fund deposits. The securities portfolio consists primarily of U.S. Government agencies, municipals, residential mortgage-backed securities and corporate bonds.

Total investments at September 30, 2015 increased \$5.9 million from December 31, 2014. Securities acquired from Valley Green Bank and purchases of \$140.0 million were partially offset by sales of \$56.0 million, maturities and pay-downs of \$41.9 million, calls of \$34.6 million and decreases in the fair value of available-for-sale investment securities of \$1.2 million. The decreases in fair value of available-for-sale investment securities were primarily due to the increase in long-term interest rates.

Loans and Leases

Gross loans and leases held for investment at September 30, 2015 increased \$471.2 million from December 31, 2014, which included \$380.9 million of loans acquired from Valley Green Bank. Organic loan growth was 6% (8% annualized) from December 31, 2014. The growth in loans was primarily in commercial real estate loans and residential real estate loans.

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Bank Owned Life Insurance

The Corporation purchased bank owned life insurance policies totaling \$8.0 million during the three months ended September 30, 2015. The Bank purchases bank owned life insurance to protect itself against the loss of key employees due to death and to offset or finance the Corporation's future costs and obligations to its employees under its benefit plans.

Asset Quality

Performance of the entire loan and lease portfolio is reviewed on a regular basis by Bank management and lending officers. A number of factors regarding the borrower, such as overall financial strength, collateral values and repayment ability, are considered in deciding what actions should be taken when determining the collectability of interest for accrual purposes.

When a loan or lease, including a loan or lease that is impaired, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease is typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan or lease is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest payments received on nonaccrual loans and leases are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal.

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

At September 30, 2015, the recorded investment in loans held for investment and loans held for sale that were considered to be impaired was \$36.8 million. The related reserve for loan losses was \$380 thousand. At December 31, 2014, the recorded investment in loans that were considered to be impaired was \$56.2 million. The related reserve for loan losses was \$998 thousand. Impaired loans include nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management's judgments about the ultimate outcome of these credits. Interest income recognized on impaired loans for the nine months ended September 30, 2015 and 2014 was \$1.2 million and \$1.4 million, respectively. For the nine months ended September 30, 2015 and 2014, additional interest income that would have been recognized under the original terms for impaired loans was \$998 thousand and \$891 thousand, respectively.

The impaired loan balances consisted mainly of commercial real estate, construction and business loans. Impaired loans included one large credit which went on nonaccrual during the third quarter of 2009 and was comprised of three separate facilities to a local commercial real estate developer/home builder, aggregating to a September 30, 2015 balance of \$4.0 million. During the second quarter of 2014, one of the facilities was transferred to loans held for sale for \$532 thousand and was sold during the third quarter of 2014 for a pre-tax loss of \$7 thousand. This credit incurred charge-offs of \$3.8 million during 2014 primarily attributable to updated assessments of residential building lots securing the loans. During the second quarter of 2015, the two remaining loans were transferred to loans held for sale for \$4.0 million as an agreement was reached to sell the loans associated with the credit prior to December 31, 2015. In conjunction, this credit incurred \$1.3 million in charge-offs during the second quarter of 2015, as the loans were written down to the sale price. Other real estate owned was \$955 thousand at September 30, 2015 and December 31, 2014, for which an agreement of sale was entered into during the fourth quarter of 2014.

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

The following table details information pertaining to the Corporation's non-performing assets at the dates indicated:

(Dollars in thousands)	At September 30, 2015	At December 31, 2014	At September 30, 2014	
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:				
Loans held for sale	\$4,000	\$—	\$—	
Loans held for investment:				
Commercial, financial and agricultural	8,593	5,002	5,050	
Real estate—commercial	4,223	4,413	4,482	
Real estate—construction	363	5,931	7,570	
Real estate—residential	3,237	1,611	1,425	
Lease financings	422	380	287	
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	20,838	17,337	18,814	
Accruing troubled debt restructured loans and lease modifications not included in the above	4,789	5,469	5,463	
Accruing loans and leases 90 days or more past due:				
Real estate—residential	76	31	41	
Loans to individuals	237	365	257	
Lease financings	115	55	46	
Total accruing loans and leases, 90 days or more past due	428	451	344	
Total non-performing loans and leases	26,055	23,257	24,621	
Other real estate owned	955	955	955	
Total nonperforming assets	\$27,010	\$24,212	\$25,576	
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment and nonaccrual loans held for sale	0.99	% 1.07	% 1.18	%
Nonperforming loans and leases / loans and leases held for investment and nonaccrual loans held for sale	1.24	1.43	1.54	
Nonperforming assets / total assets	0.95	1.09	1.15	
Allowance for loan and lease losses / loans and leases held for investment	0.89	1.27	1.36	
Allowance for loan and lease losses / loans and leases held for investment (excluding acquired loans at period-end)	1.06	1.27	1.36	
Allowance for loan and lease losses / nonaccrual loans and leases held for investment	110.58	119.18	115.67	
Allowance for loan and lease losses / nonperforming loans and leases held for investment	84.43	88.84	88.39	
Allowance for loan and lease losses	\$18,620	\$20,662	\$21,762	
* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table	\$742	\$3,104	\$3,392	
Acquired credit impaired loans	\$1,379	\$—	\$—	

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

(Dollars in thousands)	At September 30, 2015	At December 31, 2014	At September 30, 2014	
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	\$ 16,838	\$ 17,337	\$ 18,814	
Nonaccrual loans and leases with partial charge-offs	8,319	6,465	5,753	
Life-to-date partial charge-offs on nonaccrual loans and leases	3,945	1,831	2,550	
Charge-off rate of nonaccrual loans and leases with partial charge-offs	32.2	% 22.1	% 30.7	%
Specific reserves on impaired loans	\$ 380	\$ 998	\$ 1,142	

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is appropriate at September 30, 2015 to absorb probable losses in the loan and lease portfolio. Management's methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

The reserve for loan and lease loss analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Impaired loans, including nonaccrual loans and leases, troubled debt restructured loans and other accruing impaired loans are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience and qualitative factors, loss factors are determined giving consideration to the areas noted in the preceding paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve.

The reserve for loan and lease losses is determined at the end of each quarter, and more frequently for management review purposes. Calculating the Corporation's reserve for loan and lease losses considers the Bank's loan portfolio utilizing historical loss data as a starting point, while evaluating the impact of environmental factors in a quantitative manner as they relate to the collectability of outstanding loan obligations. The Corporation utilizes a rolling eight-quarter migration analysis and loss emergence period analysis to determine the annualized net expected loan loss experience.

Each quarter, the conditions that exist within the look-back period are compared to current conditions to support a conclusion as to which qualitative adjustments are (or are not) deemed necessary for each loan portfolio segment. These factors are evaluated subjectively based on management's experience and supported by the Corporation's defined analytical metrics/drivers relative to the historical look-back period. Factors include, but are not limited to, asset quality trends, portfolio growth trends, changes in lending policies and management, economic trends, concentrations of credit risk and the impact of collateral dependent lending.

The reserve for loan and lease losses is based on management's evaluation of the loan and lease portfolio under current economic conditions and such other factors, which deserve recognition in estimating loan and lease losses. This evaluation is inherently subjective, as it requires estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Additions to the reserve arise from the provision for loan and lease losses charged to operations or from the recovery of amounts previously charged off. Loan and lease charge-offs reduce the reserve. Loans and leases are charged off when there has been permanent impairment or when in the opinion of management the full amount of the loan or lease will not be realized. Certain impaired loans are reported at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, or for certain loans, at the present value of expected future cash flows using the loan's initial

effective interest rate.

The reserve for loan and lease losses consists of an allocated reserve and unallocated reserve categories. The allocated reserve is comprised of reserves established on specific loans and leases and class reserves based on historical loan and lease loss experience and qualitative factors, current trends, and management assessments. The unallocated reserve supports other risk considerations not readily quantifiable through the allocated reserve metrics outlined above, as well as the inherent imprecision of the reserve for loan and lease losses model complexity. These considerations include, but are not limited to, fair value instability within the non-performing category, and the improving credit risk profile of performing loans individually measured for impairment.

The specific reserve element is based on a regular analysis of impaired commercial and real estate loans. For these loans, the specific reserve established is based on an analysis of related collateral value, cash flow considerations and, if applicable, guarantor capacity.

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The class reserve element is determined by an internal loan and lease grading process in conjunction with associated allowance factors. The Corporation revises the class allowance factors whenever necessary, but no less than quarterly, in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. The reserve for these off-balance sheet credits was \$369 thousand and \$338 thousand at September 30, 2015 and December 31, 2014, respectively.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has core deposit and customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets was \$844 thousand and \$818 thousand for the three months ended September 30, 2015 and 2014, respectively. The amortization of intangible assets was \$2.7 million and \$2.2 million for the nine months ended September 30, 2015 and 2014, respectively. The Corporation also has goodwill with a net carrying value of \$112.7 million at September 30, 2015 and \$67.7 million at December 31, 2014, which is deemed to be an indefinite intangible asset and is not amortized. The increase in goodwill of \$44.9 million was related to the Valley Green and Sterner acquisitions. The Corporation recorded \$43.5 million related to the Valley Green acquisition completed on January 1, 2015. Due to updates to the original assumptions utilized for determining the contingent consideration liability for the Sterner acquisition completed on July 1, 2014, the Corporation recorded a purchase accounting adjustment, in accordance with ASC Topic 805, in 2015 which resulted in an increase to the contingent consideration liability and an increase to goodwill of \$1.5 million.

The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation also completes an impairment test for other identifiable intangible assets on an annual basis or more often if events and circumstances indicate there may be impairment. There was no impairment of goodwill or identifiable intangibles during the nine months ended September 30, 2015 and 2014. Since the last annual impairment analysis during 2014, there have been no circumstances to indicate impairment. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Other Assets

At September 30, 2015 and December 31, 2014, the Bank held \$6.6 million and \$3.3 million, respectively, in Federal Reserve Bank stock as required by the Federal Reserve Bank. In the first quarter of 2015, the Bank purchased an additional \$2.3 million of Federal Reserve Bank stock due to the increase of capital with the acquisition of Valley Green Bank. The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership as determined by the FHLB. The Bank is required to hold additional stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of \$2.4 million at September 30, 2015 and \$1.1 million at December 31, 2014. Additionally, the FHLB might require its members to increase capital stock requirements. Changes in the credit ratings of the U.S. government and federal agencies, including the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on the FHLB operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation's investment in FHLB stock. The Corporation determined there was no other-than-temporary impairment of the investment in FHLB stock. Therefore, at September 30, 2015, the FHLB stock is recorded at cost.

Liabilities

The following table presents liabilities at the dates indicated:

(Dollars in thousands)	At September 30, 2015	At December 31, 2014	Change Amount	Percent
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Deposits	\$2,372,865	\$1,861,341	\$511,524	27	%
Short-term borrowings	21,191	41,974	(20,783)	(50)
Long-term borrowings	49,340	—	49,340	N/M	
Accrued interest payable and other liabilities	49,063	47,452	1,611	3	
Total liabilities	\$2,492,459	\$1,950,767	\$541,692	28	%

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Deposits

Total deposits increased \$511.5 million or 27% from December 31, 2014, primarily due to \$385.9 million of deposits acquired from Valley Green Bank and an increase in public funds mostly due to seasonal tax deposits.

Borrowings

Short-term borrowings at September 30, 2015, consisted of customer repurchase agreements on an overnight basis totaling \$21.2 million. Long-term borrowings at September 30, 2015 consisted of \$50.0 million in aggregate principal amount subordinated notes issued by the Corporation in a private placement transaction to institutional accredited investors with net proceeds of \$49.3 million.

Shareholders' Equity

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

(Dollars in thousands)	At September 30,	At December 31,	Change		
	2015	2014	Amount	Percent	
Common stock	\$110,271	\$91,332	\$18,939	21	%
Additional paid-in capital	120,895	62,980	57,915	92	
Retained earnings	190,159	181,851	8,308	5	
Accumulated other comprehensive loss	(14,979)	(14,462)	(517)	(4))
Treasury stock	(47,237)	(37,147)	(10,090)	(27))
Total shareholders' equity	\$359,109	\$284,554	\$74,555	26	%

The increase in shareholder's equity at September 30, 2015 of \$74.6 million from December 31, 2014 was primarily related to the issuance of common stock of \$18.9 million and additional paid-in capital of \$57.7 million for the acquisition of Valley Green Bank. Retained earnings at September 30, 2015 were impacted by the nine months of net income of \$20.1 million partially offset by cash dividends declared of \$11.8 million. Treasury stock increased primarily due to the purchase of 608,757 treasury shares, totaling \$12.0 million under the Corporation's Board approved share repurchase program partially offset by the issuance of restricted stock.

Capital Adequacy

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

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

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies' capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity Tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-adjusted assets requirements include a common equity Tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a Tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier

1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The final rules permit institutions, other than certain large institutions, to elect to continue to treat most components of accumulated other comprehensive income as permitted under the current general risk-based capital rules, and not reflect these items in common equity Tier 1 calculations (such as

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unrealized gains and losses on available-for-sale securities, amounts recorded in accumulated other comprehensive income attributed to defined benefit retirement plans resulting from the initial and subsequent application of the relevant U.S. GAAP standards and accumulated net gains and losses on cash flow hedges related to items that are reported on the balance sheet at fair value.) The new minimum capital requirements were effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Corporation adopted the new Basel III regulatory capital rules during the first quarter of 2015 under the transition rules, primarily relating to regulatory deductions and adjustments impacting common equity tier 1 capital and tier 1 capital, to be phased in over a three-year period beginning January 1, 2015. Additionally under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. Total risk-based capital at September 30, 2015 under Basel III was 13.68% for the Corporation and 12.70% for the Bank, well in excess of the regulatory minimum for well-capitalized status of 10%.

Table 4—Regulatory Capital

The Corporation's and Bank's actual and required capital ratios as of September 30, 2015 and December 31, 2014 were as follows. Ratios at September 30, 2015 are under BASEL III regulatory capital rules. Ratios at December 31, 2014 are under BASEL I regulatory capital rules.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
At September 30, 2015						
Total Capital (to Risk-Weighted Assets):						
Corporation	\$331,150	13.68	% \$193,609	8.00	% \$242,012	10.00
Bank	304,762	12.70	191,918	8.00	239,897	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	262,550	10.85	145,207	6.00	193,609	8.00
Bank	285,502	11.90	143,938	6.00	191,918	8.00
Tier 1 Common Capital (to Risk-Weighted Assets):						
Corporation	262,550	10.85	108,905	4.50	157,308	6.50
Bank	285,502	11.90	107,954	4.50	155,933	6.50
Tier 1 Capital (to Average Assets):						
Corporation	262,550	9.75	107,722	4.00	134,652	5.00
Bank	285,502	10.67	106,985	4.00	133,731	5.00
At December 31, 2014						
Total Capital (to Risk-Weighted Assets):						
Corporation	\$256,329	13.90	% \$147,568	8.00	% \$184,460	10.00
Bank	238,336	13.06	145,991	8.00	182,489	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	232,946	12.63	73,784	4.00	110,676	6.00
Bank	215,497	11.81	72,995	4.00	109,493	6.00
Tier 1 Capital (to Average Assets):						
Corporation	232,946	10.85	85,876	4.00	107,346	5.00
Bank	215,497	10.11	85,277	4.00	106,597	5.00

At September 30, 2015 and December 31, 2014, management believes that the Corporation and the Bank continued to meet all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 Capital and Total Capital equal to at least 6.0% and 8.0%, respectively, of total risk-weighted assets (including various off-balance-sheet items). The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository

institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, Tier 1 and Total Capital ratios must be at least 8.0% and 10.0% on a risk-adjusted basis, respectively. At September 30, 2015, the Bank is categorized as “well capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s

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category. The Corporation will continue to analyze the impact of the new rules as it grows and as the capital conservation buffer requirements are phased in.

Asset/Liability Management

The primary functions of Asset/Liability Management are to assure adequate earnings, capital and liquidity while maintaining an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet cash flow requirements of customers and corporate needs. Interest-rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of net interest income through periods of changing rates.

The Corporation uses both interest-sensitivity gap analysis and simulation modeling to quantify exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year and two-year horizon. The simulation uses existing portfolio rate and re-pricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayment speeds on loans, and the discretionary pricing of non-maturity assets and liabilities. The Corporation is in a liability sensitive position from both a maturity perspective and from a repricing perspective, as interest rates remain at historically low levels. Despite being liability sensitive, the Corporation projects increased net interest income in rising rate scenarios as the magnitude of the asset pricing change exceeds the liability pricing change.

Liquidity

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

Sources of Funds

Core deposits and customer repurchase agreements have historically been the most significant funding sources for the Corporation. These deposits and repurchase agreements are generated from a base of consumer, business and public customers primarily located in Bucks and Montgomery counties, Pennsylvania. The Corporation faces increased competition for these deposits from a large array of financial market participants, including banks, credit unions, savings institutions, mutual funds, security dealers and others.

The Corporation supplements its core funding with money market funds it holds for the benefit of various trust accounts. These funds are fully collateralized by the Bank's investment portfolio and bear interest at current money market mutual fund rates. This funding source is subject to changes in the asset allocations of the trust accounts.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately \$768.1 million. At September 30, 2015 and December 31, 2014, there were no outstanding borrowings with the FHLB. At September 30, 2015 and December 31, 2014, the Bank had outstanding short-term letters of credit with the FHLB totaling \$194.3 million and \$55.0 million, respectively, which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB's internal credit rating of the Bank, and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Corporation has a \$10.0 million line of credit with a correspondent bank. At September 30, 2015, the Corporation had no outstanding borrowings under this line.

The Bank maintains federal fund lines with several correspondent banks totaling \$122.0 million and \$82.0 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014, the Corporation had no outstanding federal funds purchased with these correspondent banks. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At September 30, 2015

and December 31, 2014, the Corporation had no outstanding borrowings under this line.

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Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay certificates of deposit. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its branch network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market.

Commitments to extend credit are the Bank's most significant commitment in both the under and over one year time periods. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Footnote 1, "Summary of Significant Accounting Policies" of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes in the Corporation's market risk or market strategy occurred during the current period. A detailed discussion of market risk is provided in the Corporation's Annual Report on Form 10-K for the period ended December 31, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be so disclosed by an issuer is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Management is not aware of any litigation that would have a material adverse effect on the consolidated balance sheet or statement of income of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation. In addition, there are no material proceedings pending or known to be threatened or contemplated against the Corporation or the Bank by government authorities.

Item 1A. Risk Factors

There have been no material changes in risk factors from those disclosed under Item 1A, "Risk Factors." in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

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

The following table provides information on repurchases by the Corporation of its common stock during the three months ended September 30, 2015 under the Corporation's Board approved program.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – 31, 2015	86,650	\$20.31	86,650	1,080,246
August 1 – 31, 2015	—	—	—	1,080,246
September 1 – 30, 2015	—	—	—	1,080,246
Total	86,650	\$20.31	86,650	

1. Transactions are reported as of trade dates.

On October 23, 2013, the Corporation's Board of Directors approved a new stock repurchase plan for the repurchase of up to 800,000 shares, or approximately 5% of the shares outstanding. On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. The repurchased shares limit is net of normal treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and equity compensation plans. The program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

a. Exhibits

Exhibit 31.1	Certification of Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Michael S. Keim, Senior Executive Vice President and Chief Financial Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Michael S. Keim, Senior Executive Vice President and Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

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

Univest Corporation of Pennsylvania
(Registrant)

Date: November 6, 2015

/s/ Jeffrey M. Schweitzer
Jeffrey M. Schweitzer
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2015

/s/ Michael S. Keim
Michael S. Keim
Senior Executive Vice President and Chief Financial
Officer
(Principal Financial and Accounting Officer)