UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 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 incorporation or organization)	(IRS Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x
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 x

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

Common Stock, $5 par value	19,495,268
(Title of Class)	(Number of shares outstanding at July 31, 2015)

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PART I. FINANCIAL INFORMATION

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

(Dollars in thousands, except share data)	(UNAUDITED) At June 30, 2015	At December 31, 2014
ASSETS		
Cash and due from banks	$32,302	$31,995
Interest-earning deposits with other banks	2,863	6,570
Investment securities held-to-maturity (fair value $43,431 and $54,765 at June 30, 2015 and December 31, 2014, respectively)	43,135	54,347
Investment securities available-for-sale	331,576	314,283
Loans held for sale	8,831	3,302
Loans and leases held for investment	2,107,857	1,626,625
Less: Reserve for loan and lease losses	(19,602)	(20,662)
Net loans and leases held for investment	2,088,255	1,605,963
Premises and equipment, net	40,433	37,009
Goodwill	112,518	67,717
Other intangibles, net of accumulated amortization and fair value adjustments of $13,640 and $11,776 at June 30, 2015 and December 31, 2014, respectively	13,547	12,180
Bank owned life insurance	62,829	62,265
Accrued interest receivable and other assets	44,289	39,690
Total assets	$2,780,578	$2,235,321
LIABILITIES		
Noninterest-bearing deposits	$519,026	$449,339
Interest-bearing deposits:		
Demand deposits	705,462	640,095
Savings deposits	582,856	519,314
Time deposits	455,681	252,593
Total deposits	2,263,025	1,861,341
Customer repurchase agreements	22,026	41,974
Federal funds purchased	39,150	—
Subordinated notes	49,304	—
Accrued interest payable and other liabilities	50,887	47,452
Total liabilities	2,424,392	1,950,767
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2015 and December 31, 2014; 22,054,270 and 18,266,404 shares issued at June 30, 2015 and December 31, 2014, respectively; 19,559,941 and 16,221,607 shares outstanding at June 30, 2015 and December 31, 2014, respectively	110,271	91,332
Additional paid-in capital	120,605	62,980
Retained earnings	186,530	181,851
Accumulated other comprehensive loss, net of tax benefit	(15,170)	(14,462)
Treasury stock, at cost; 2,494,329 and 2,044,797 shares at June 30, 2015 and December 31, 2014, respectively	(46,050)	(37,147)

Total shareholders' equity	356,186	284,554
Total liabilities and shareholders' equity	$2,780,578	$2,235,321

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2015	2014	2015	2014
Interest income				
Interest and fees on loans and leases:				
Taxable	$21,939	$15,435	$43,193	$30,995
Exempt from federal income taxes	1,579	1,369	3,163	2,744
Total interest and fees on loans and leases	23,518	16,804	46,356	33,739
Interest and dividends on investment securities:				
Taxable	1,104	1,011	2,138	2,062
Exempt from federal income taxes	880	893	1,739	1,839
Interest on federal funds sold	—	—	2	—
Other interest income	11	17	16	31
Total interest income	25,513	18,725	50,251	37,671
Interest expense				
Interest on deposits	1,445	969	2,862	1,961
Interest on short-term borrowings	13	12	23	18
Interest on long-term borrowings	675	—	682	—
Total interest expense	2,133	981	3,567	1,979
Net interest income	23,380	17,744	46,684	35,692
Provision for loan and lease losses	1,141	1,251	2,215	2,726
Net interest income after provision for loan and lease losses	22,239	16,493	44,469	32,966
Noninterest income				
Trust fee income	2,154	1,931	3,974	3,830
Service charges on deposit accounts	1,039	1,047	2,102	2,061
Investment advisory commission and fee income	2,740	3,009	5,503	6,058
Insurance commission and fee income	3,434	2,434	7,580	5,766
Other service fee income	1,833	1,897	3,431	3,704
Bank owned life insurance income	211	443	564	821
Net gain on sales of investment securities	181	415	272	557
Net gain on mortgage banking activities	1,367	519	2,625	868
Other income	392	229	731	400
Total noninterest income	13,351	11,924	26,782	24,065
Noninterest expense				
Salaries and benefits	11,957	10,242	25,271	20,913
Commissions	2,155	1,795	3,969	3,385
Net occupancy	2,035	1,687	4,393	3,441
Equipment	1,708	1,410	3,397	2,744
Professional fees	1,066	846	1,873	1,655
Marketing and advertising	551	581	911	942
Deposit insurance premiums	422	397	834	776
Intangible expenses	893	650	1,679	1,410
Acquisition-related costs	41	516	507	559
Integration costs	110	—	1,484	—
Restructuring charges	1,642	—	1,642	—

Other expense	4,252	3,666	8,283	6,848
Total noninterest expense	26,832	21,790	54,243	42,673
Income before income taxes	8,758	6,627	17,008	14,358
Income taxes	2,292	1,547	4,426	3,552
Net income	$6,466	$5,080	$12,582	$10,806
Net income per share:				
Basic	$0.33	$0.31	$0.64	$0.67
Diluted	0.33	0.31	0.63	0.66
Dividends declared	0.20	0.20	0.40	0.40

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

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

	Three Months Ended June 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	$8,758	$2,292	$6,466	$6,627	$1,547	$5,080
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(3,555)	(1,244)	(2,311)	2,708	948	1,760
Less: reclassification adjustment for net gains on sales realized in net income	(181)	(63)	(118)	(415)	(145)	(270)
Total net unrealized (losses) gains on available-for-sale investment securities	(3,736)	(1,307)	(2,429)	2,293	803	1,490
Net change in fair value of interest rate swaps used in cash flow hedges	377	132	245	—	—	—
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	340	119	221	167	59	108
Accretion of prior service cost included in net periodic pension costs	(70)	(25)	(45)	(69)	(25)	(44)
Total defined benefit pension plans	270	94	176	98	34	64
Other comprehensive (loss) income	(3,089)	(1,081)	(2,008)	2,391	837	1,554
Total comprehensive income	$5,669	$1,211	$4,458	$9,018	$2,384	$6,634

	Six Months Ended June 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	$17,008	$4,426	$12,582	$14,358	$3,552	$10,806
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(1,397)	(489)	(908)	5,458	1,911	3,547
Less: reclassification adjustment for net gains on sales realized in net income	(272)	(95)	(177)	(557)	(195)	(362)
Total net unrealized (losses) gains on available-for-sale investment securities	(1,669)	(584)	(1,085)	4,901	1,716	3,185
Net change in fair value of interest rate swaps used in cash flow hedges	40	14	26	—	—	—
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	681	239	442	331	116	215
	(140)	(49)	(91)	(144)	(51)	(93)

Accretion of prior service cost included in net periodic pension costs						
Total defined benefit pension plans	541	190	351	187	65	122
Other comprehensive (loss) income	(1,088)	(380)	(708)	5,088	1,781	3,307
Total comprehensive income	$15,920	$4,046	$11,874	$19,446	$5,333	$14,113

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
Six Months Ended June 30, 2015							
Balance at December 31, 2014	16,221,607	$91,332	$62,980	$181,851	$ (14,462)	$(37,147)	$284,554
Net income	—	—	—	12,582	—	—	12,582
Other comprehensive income, net of income tax	—	—	—	—	(708)	—	(708)
Cash dividends declared ($0.40 per share)	—	—	—	(7,902)	—	—	(7,902)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	63,502	—	30	(1)	—	1,221	1,250
Issuance of common stock, acquisition	3,787,866	18,939	57,727	—	—	—	76,666
Exercise of stock options	14,666	—	(27)	—	—	268	241
Repurchase of cancelled restricted stock awards	(17,684)	—	277	—	—	(277)	—
Stock-based compensation	—	—	813	—	—	—	813
Purchases of treasury stock	(575,771)	—	—	—	—	(11,310)	(11,310)
Restricted stock awards granted	65,755	—	(1,195)	—	—	1,195	—
Balance at June 30, 2015	19,559,941	$110,271	$120,605	$186,530	$ (15,170)	$(46,050)	$356,186

(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
Six Months Ended June 30, 2014							
Balance at December 31, 2013	16,287,812	$91,332	$62,417	$172,602	$ (9,955)	$(35,890)	$280,506
Net income	—	—	—	10,806	—	—	10,806
Other comprehensive income, net of income tax benefit	—	—	—	—	3,307	—	3,307
Cash dividends declared ($0.40 per share)	—	—	—	(6,497)	—	—	(6,497)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	69,628	—	27	—	—	1,360	1,387
Exercise of stock options	1,500	—	(3)	—	—	27	24
Repurchase of cancelled restricted stock awards	(13,625)	—	235	—	—	(235)	—
Stock-based compensation	—	—	514	—	—	—	514

Net tax deficiency on stock-based compensation	—	—	(2)	—	—	—	(2)
Purchases of treasury stock	(171,124)	—	—	—	—	(3,258)	(3,258)
Restricted stock awards granted	74,304	—	(1,349)	—	—	1,349	—
Balance at June 30, 2014	16,248,495	$91,332	$61,839	$176,911	$ (6,648)	$(36,647)	$286,787

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

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

	Six Months Ended June 30,	
(Dollars in thousands)	2015	2014
Cash flows from operating activities:		
Net income	$12,582	$10,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,215	2,726
Depreciation of premises and equipment	1,937	1,502
Net gain on sales of investment securities	(272)	(557)
Net gain on mortgage banking activities	(2,625)	(868)
Net gain on dispositions of fixed assets	(143)	(40)
Bank owned life insurance income	(564)	(821)
Stock-based compensation	813	514
Intangible expenses	1,679	1,410
Other adjustments to reconcile net income to cash provided by operating activities	2,685	1,013
Originations of loans held for sale	(104,072)	(43,642)
Proceeds from the sale of loans held for sale	104,782	45,656
Contributions to pension and other postretirement benefit plans	(2,145)	(112)
(Increase) decrease in accrued interest receivable and other assets	(3,027)	2,081
Increase (decrease) in accrued interest payable and other liabilities	770	(1,762)
Net cash provided by operating activities	14,615	17,906
Cash flows from investing activities:		
Net cash paid due to acquisitions	(2,967)	(5,379)
Net capital expenditures	(2,254)	(1,365)
Proceeds from maturities and calls of securities held-to-maturity	11,000	9,000
Proceeds from maturities and calls of securities available-for-sale	41,169	45,258
Proceeds from sales of securities available-for-sale	37,546	30,286
Purchases of investment securities available-for-sale	(85,107)	(36,206)
Net increase in loans and leases	(106,375)	(57,562)
Net decrease in interest-earning deposits	8,626	27,920
Net decrease in federal funds sold	17,442	—
Net cash (used in) provided by investing activities	(80,920)	11,952
Cash flows from financing activities:		
Net increase (decrease) in deposits	16,062	(12,264)
Net increase in short-term borrowings	19,202	7,309
Proceeds from issuance of subordinated notes	49,267	—
Payment of contingent consideration on acquisitions	(880)	(310)
Purchases of treasury stock	(11,310)	(3,258)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	1,250	1,387
Proceeds from exercise of stock options	241	24
Cash dividends paid	(7,220)	(6,505)
Net cash provided by (used in) financing activities	66,612	(13,617)
Net increase in cash and due from banks	307	16,241
Cash and due from banks at beginning of year	31,995	32,646
Cash and due from banks at end of period	$32,302	$48,887
Supplemental disclosures of cash flow information:		

Cash paid for interest	$3,152	$2,195
Cash paid for income taxes, net of refunds	49	3,019
Non cash transactions:		
Transfer of loans to loans held for sale	$4,000	$8,926
Assets acquired through acquisitions	425,311	—
Liabilities assumed through acquisitions	389,782	—
Contingent consideration recorded as goodwill	1,525	5,470

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 six-month period ended June 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 April 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (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. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, or January 1, 2017 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. On July 9, 2015, the FASB voted to approve a one-year deferral of the effective date of this guidance and expects to issue the final ASU formally amending the effective date by the end of the third quarter of 2015.

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

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(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 million, which included $381 million in loans and $386 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	381,106	
Premises and equipment, net	2,973	
Core deposit intangible *	1,520	
Accrued interest receivable and other assets	4,585	
Total identifiable assets		425,311
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	1,800	
Total liabilities		389,782
Identifiable net assets		35,529
Goodwill resulting from merger *		$43,377

* - 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 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 $381.1 million. A fair value premium of $4.4 million was recognized to reflect the fair values of loans. A fair value discount of $5.9 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 $1.9 million of acquired impaired loans subject to a nonaccretable discount difference of $5.2 million. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount of $352 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	$7,429	
Contractual cash flows not expected to be collected (nonaccretable difference)	(5,166	)
Cash flows expected to be collected	2,263	
Interest component of expected cash flows (accretable difference)	(352	)
Fair value of loans acquired with a deterioration of credit quality	$1,911	

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 three and six months ended June 30, 2015, the Corporation incurred $151 thousand and $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 six months ended June 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 For the Three Months Ended June 30,		Pro Forma For the Six Months Ended June 30,	
(Dollars in thousands, except share data)	2015	2014	2015	2014
Net interest income	$23,380	$22,733	$46,684	$45,645
Noninterest income	13,351	12,068	26,782	24,365
Noninterest expense	26,832	24,164	54,243	47,561
Net income	6,466	6,485	12,582	13,903
Earnings per share				
Basic	0.33	0.32	0.64	0.69
Diluted	0.33	0.32	0.63	0.69

* The three months and six months ended June 30, 2015 included integration and acquisition-related costs associated with Valley Green Bank of $151 thousand ($98 thousand, net of tax) and $2.0 million ($1.3 million, net of tax), respectively or $0 and $0.07 diluted earnings per share on a tax affected basis, respectively. The three and six months ended June 30, 2015 also included restructuring charges of $1.6 million related to the consolidation of six financial centers in the third quarter 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 June 30, 2015 and December 31, 2014, by contractual maturity within each type:

	At June 30, 2015				At December 31, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Corporate bonds:								
Within 1 year	$10,082	$79	$—	$10,161	$13,088	$82	$—	$13,170
After 1 year to 5 years	33,053	236	(19)	33,270	41,259	388	(52)	41,595
	43,135	315	(19)	43,431	54,347	470	(52)	54,765
Total	$43,135	$315	$(19)	$43,431	$54,347	$470	$(52)	$54,765
Securities Available-for-Sale								
U.S. treasuries:								
After 1 year to 5 years	$4,975	$—	$(79)	$4,896	$4,972	$—	$(127)	$4,845
	4,975	—	(79)	4,896	4,972	—	(127)	4,845
U.S. government corporations and agencies:								
After 1 year to 5 years	115,037	216	(157)	115,096	122,328	48	(532)	121,844
After 5 years to 10 years	4,881	46	—	4,927	—	—	—	—
	119,918	262	(157)	120,023	122,328	48	(532)	121,844
State and political subdivisions:								
Within 1 year	—	—	—	—	600	2	—	602
After 1 year to 5 years	13,233	62	(41)	13,254	12,326	17	(59)	12,284
After 5 years to 10 years	54,220	1,375	(210)	55,385	49,554	1,616	(77)	51,093
Over 10 years	39,984	1,264	(242)	41,006	37,004	1,792	(1)	38,795
	107,437	2,701	(493)	109,645	99,484	3,427	(137)	102,774
Residential mortgage-backed securities:								
After 1 year to 5 years	9,820	41	(4)	9,857	5,066	17	—	5,083
After 5 years to 10 years	—	—	—	—	4,856	—	(32)	4,824
Over 10 years	3,619	57	—	3,676	3,661	75	—	3,736
	13,439	98	(4)	13,533	13,583	92	(32)	13,643
Collateralized mortgage obligations:								
Over 10 years	3,501	—	(91)	3,410	3,810	—	(85)	3,725
	3,501	—	(91)	3,410	3,810	—	(85)	3,725
Corporate bonds:								
Within 1 year	5,000	—	—	5,000	4,998	22	—	5,020
After 1 year to 5 years	19,845	55	(114)	19,786	29,505	88	(244)	29,349
After 5 years to 10 years	10,157	—	(296)	9,861	20,442	—	(371)	20,071
Over 10 years	40,000	—	(1,446)	38,554	—	—	—	—
	75,002	55	(1,856)	73,201	54,945	110	(615)	54,440

Money market mutual funds:								
No stated maturity	5,668	—	—	5,668	11,675	—	—	11,675
	5,668	—	—	5,668	11,675	—	—	11,675
Equity securities:								
No stated maturity	673	530	(3)	1,200	854	483	—	1,337
	673	530	(3)	1,200	854	483	—	1,337
Total	$330,613	$3,646	$(2,683)	$331,576	$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 June 30, 2015 and December 31, 2014 do not represent other-than-temporary impairments.

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Securities with a carrying value of $226.4 million and $230.9 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes as required by law.

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

	Six Months Ended June 30,	
(Dollars in thousands)	2015	2014
Securities available-for-sale:		
Proceeds from sales	$37,546	$30,286
Gross realized gains on sales	294	557
Gross realized losses on sales	22	—
Tax expense related to net realized gains on sales	95	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 six months ended June 30, 2015 and 2014.

At June 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 June 30, 2015 and December 31, 2014 by the length of time those securities were in a continuous loss position:

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2015						
Securities Held-to-Maturity						
Corporate bonds	$—	$—	$4,991	$(19)	$4,991	$(19)
Total	$—	$—	$4,991	$(19)	$4,991	$(19)
Securities Available-for-Sale						
U.S. treasuries	$—	$—	$4,896	$(79)	$4,896	$(79)
U.S. government corporations and agencies	45,156	(131)	4,974	(26)	50,130	(157)
State and political subdivisions	28,564	(479)	1,336	(14)	29,900	(493)
Residential mortgage-backed securities	4,809	(4)	—	—	4,809	(4)
Collateralized mortgage obligations	—	—	3,410	(91)	3,410	(91)
Corporate bonds	55,913	(1,787)	6,005	(69)	61,918	(1,856)
Equity securities	2	(3)	—	—	2	(3)
Total	$134,444	$(2,404)	$20,621	$(279)	$155,065	$(2,683)
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

	At June 30, 2015			At December 31, 2014
(Dollars in thousands)	Originated	Acquired	Total	Total
Commercial, financial and agricultural	$484,776	$27,184	$511,960	$457,827
Real estate-commercial	685,024	134,911	819,935	628,478
Real estate-construction	91,956	41,693	133,649	79,887
Real estate-residential secured for business purpose	51,923	135,971	187,894	36,932
Real estate-residential secured for personal purpose	172,721	4,234	176,955	166,850

Real estate-home equity secured for personal purpose	116,491	11,961	128,452	108,250
Loans to individuals	28,070	345	28,415	29,941
Lease financings	120,597	—	120,597	118,460
Total loans and leases held for investment, net of deferred income	$1,751,558	$356,299	$2,107,857	$1,626,625
Unearned lease income, included in the above table	$(13,561)	$—	$(13,561)	$(14,131)
Net deferred costs, included in the above table	3,285	—	3,285	3,218
Overdraft deposits included in the above table	75	—	75	50

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

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The carrying amount of acquired loans at June 30, 2015 totaled $356.3 million, including $1.9 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.

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

(Dollars in thousands)	At June 30, 2015
Outstanding principal balance	$6,235
Carrying amount	1,876
Allowance for loan losses	—

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

(Dollars in thousands)	Six Months Ended June 30, 2015
Beginning of period	$—
Acquisition of credit impaired loans	352
Accretable yield amortized to interest income	(82)
End of period	$270

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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 June 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 June 30, 2015								
Commercial, financial and agricultural	$1,434	$274	$3,647	$5,355	$506,301	$304	$511,960	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	9,553	1,409	1,551	12,513	806,401	1,021	819,935	—
Construction	520	500	363	1,383	132,266	—	133,649	—
Real estate—residential and home equity:								
Residential secured for business purpose	819	943	845	2,607	184,796	491	187,894	—
Residential secured for personal purpose	239	649	252	1,140	175,815	—	176,955	—
Home equity secured for personal purpose	174	—	60	234	128,158	60	128,452	—
Loans to individuals	460	83	149	692	27,723	—	28,415	149
Lease financings	1,342	679	663	2,684	117,913	—	120,597	138
Total	$14,541	$4,537	$7,530	$26,608	$2,079,373	$1,876	$2,107,857	$ 287
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

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 June 30, 2015 and December 31, 2014:

	At June 30, 2015				At December 31, 2014			
(Dollars in thousands)	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total 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	5,888	2,735	—	8,623	5,002	2,851	—	7,853
Real estate—commercial real estate and construction:								
Commercial real estate	4,639	3,000	—	7,639	4,413	2,618	—	7,031
Construction	363	—	—	363	5,931	—	—	5,931
Real estate—residential and home equity:								
Residential secured for business purpose	1,333	347	—	1,680	915	—	—	915
Residential secured for personal purpose	789	—	—	789	512	—	—	512
Home equity secured for personal purpose	160	—	—	160	184	—	31	215
Loans to individuals	—	—	149	149	—	—	365	365
Lease financings	525	17	138	680	380	—	55	435
Total	$17,697	$6,099	$287	$24,083	$17,337	$5,469	$451	$23,257

* Includes nonaccrual troubled debt restructured loans and lease modifications of $2.8 million and $3.1 million at June 30, 2015 and December 31, 2014, respectively.

** Includes two real estate construction loans for one borrower of $4.0 million at June 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 June 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 June 30, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	$4,243	$—	$2,895	$ —	$7,138
3. Strong	14,413	7,686	3,837	—	25,936
4. Satisfactory	22,873	22,513	8,872	331	54,589
5. Acceptable	318,059	454,140	63,399	40,658	876,256
6. Pre-watch	78,898	156,795	12,090	4,011	251,794
7. Special Mention	8,885	11,378	—	1,658	21,921
8. Substandard	37,405	32,512	863	5,265	76,045
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$484,776	$685,024	$91,956	$ 51,923	$1,313,679
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 June 30, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	$1,015	$—	$—	$ —	$1,015
3. Strong	—	—	—	—	—
4. Satisfactory	1,217	3,079	1,058	2,619	7,973
5. Acceptable	23,911	128,155	40,635	131,011	323,712
6. Pre-watch	592	1,728	—	1,391	3,711
7. Special Mention	—	—	—	253	253
8. Substandard	449	1,949	—	697	3,095
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$27,184	$134,911	$41,693	$ 135,971	$339,759

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 June 30, 2015					
Performing	$ 171,932	$ 116,331	$27,921	$119,917	$436,101
Nonperforming	789	160	149	680	1,778
Total	$ 172,721	$ 116,491	$28,070	$120,597	$437,879
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 June 30, 2015					
Performing	$ 4,234	$ 11,961	$345	$—	$16,540
Nonperforming	—	—	—	—	—
Total	$ 4,234	$ 11,961	$345	$—	$16,540

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.

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

The following presents, by portfolio segment, for originated loans, 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 six months ended June 30, 2015 and 2014:

(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 June 30, 2015								
Reserve for loan and lease losses:								
Beginning balance	$ 6,712	$ 9,648	$668	$1,128	$365	$1,013	$ 1,400	$20,934
Charge-offs*	(1,038)	(1,348)	(24)	(107)	(64)	(189)	N/A	(2,770)
Recoveries	115	91	7	—	41	43	N/A	297
Provision (recovery of provision)	1,058	(590)	(35)	167	47	258	236	1,141
Ending balance	$ 6,847	$ 7,801	$616	$1,188	$389	$1,125	$ 1,636	$19,602
Three Months Ended June 30, 2014								
Reserve for loan and lease losses:								
Beginning balance	$ 9,547	$ 9,247	$1,056	$1,221	$598	$1,295	$ 1,603	$24,567
Charge-offs	(250)	(1,251)	(98)	(10)	(267)	(143)	N/A	(2,019)
Recoveries	63	—	45	26	81	80	N/A	295
Provision (recovery of provision)	354	1,267	22	11	(7)	(131)	(265)	1,251
Ending balance	$ 9,714	$ 9,263	$1,025	$1,248	$405	$1,101	$ 1,338	$24,094
Six Months Ended June 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*	(1,338)	(1,696)	(24)	(138)	(248)	(419)	N/A	(3,863)
Recoveries	225	156	13	1	89	104	N/A	588
Provision (recovery of	1,040	398	(136)	201	188	455	69	2,215

provision)								
Ending balance	$ 6,847	$ 7,801	$ 616	$ 1,188	$ 389	$ 1,125	$ 1,636	$ 19,602
Six Months Ended June 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	(1,689)	(1,308)	(114)	(90)	(490)	(290)	N/A	(3,981)
Recoveries	109	370	48	27	159	142	N/A	855
Provision (recovery of provision)	1,505	1,421	29	27	42	(36)	(262)	2,726
Ending balance	$ 9,714	$ 9,263	$ 1,025	$ 1,248	$ 405	$ 1,101	$ 1,338	$ 24,094

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 at June 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 June 30, 2015								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 444	$—	$—	$—	$—	$—	N/A	$444
Ending balance: collectively evaluated for impairment	6,403	7,801	616	1,188	389	1,125	1,636	19,158
Total ending balance	$ 6,847	$ 7,801	$616	$ 1,188	$ 389	$ 1,125	$ 1,636	$ 19,602
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 15,409	$ 18,956	$ 3,633	$ 949	$—	$—		$ 38,947
Ending balance: collectively evaluated for impairment	469,367	758,024	48,290	288,263	28,070	120,597		1,712,611
Total ending balance	$ 484,776	$ 776,980	$ 51,923	$ 289,212	$ 28,070	$ 120,597		$ 1,751,558
At June 30, 2014								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 680	$ 8	$456	$—	$—	$—	N/A	$ 1,144
Ending balance: collectively evaluated for impairment	9,034	9,255	569	1,248	405	1,101	1,338	22,950
Total ending balance	$ 9,714	$ 9,263	$ 1,025	$ 1,248	$ 405	$ 1,101	$ 1,338	$ 24,094
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 14,800	$ 34,259	$ 2,477	$ 887	$ 1	$—		$ 52,424
Ending balance: collectively evaluated for impairment	433,193	668,536	32,807	260,345	31,563	108,126		1,534,570
Total ending balance	$ 447,993	$ 702,795	$ 35,284	$ 261,232	$ 31,564	$ 108,126		$ 1,586,994

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 fair value adjustment. 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. At June 30, 2015, there was no allowance for loan losses related to acquired loans.

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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 June 30, 2015 and December 31, 2014. The impaired loans exclude loans acquired with deteriorated credit quality.

	At June 30, 2015			At December 31, 2014		
(Dollars in thousands)	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	$12,542	$13,518		$12,628	$13,050	
Real estate—commercial real estate	18,093	19,189		29,779	30,810	
Real estate—construction	863	952		5,931	6,474	
Real estate—residential secured for business purpose	3,633	3,657		3,008	3,044	
Real estate—residential secured for personal purpose	789	833		512	547	
Real estate—home equity secured for personal purpose	160	160		184	184	
Total impaired loans with no allowance recorded	$40,080	$43,538		$52,042	$54,109	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	$2,867	$2,870	$444	$3,933	$3,935	$920
Real estate—commercial real estate	—	—	—	216	216	78
Total impaired loans with an allowance recorded	$2,867	$2,870	$444	$4,149	$4,151	$998

	At June 30, 2015			At December 31, 2014		
(Dollars in thousands)	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	$15,409	$16,388	$444	$16,561	$16,985	$920
Real estate—commercial real estate	18,093	19,189	—	29,995	31,026	78
Real estate—construction	863	952	—	5,931	6,474	—
Real estate—residential secured for business purpose	3,633	3,657	—	3,008	3,044	—
Real estate—residential secured for personal purpose	789	833	—	512	547	—
Real estate—home equity secured for personal purpose	160	160	—	184	184	—
Total impaired loans	$42,947	$46,408	$444	$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. 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 $19.7 million and $33.8 million at June 30, 2015 and December 31, 2014, respectively. Specific reserves on other accruing impaired loans were $331 thousand and $476 thousand at June 30, 2015 and December 31, 2014, respectively.

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

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Loans held for sale	$83	$—	$ 1	$—	$—	$ —
Loans held for investment:						
Commercial, financial and agricultural	15,669	116	99	13,296	124	51
Real estate—commercial real estate	26,093	306	82	23,666	253	72
Real estate—construction	5,621	—	76	12,357	41	123
Real estate—residential secured for business purpose	3,385	39	38	2,574	17	15
Real estate—residential secured for personal purpose	796	—	11	762	—	18
Real estate—home equity secured for personal purpose	175	—	3	90	—	1
Loans to individuals	—	—	—	2	—	—
Total	$51,822	$461	$ 310	$52,747	$435	$ 280

* Includes interest income recognized on a cash basis for nonaccrual loans of $18 thousand and $0 thousand for the three months ended June 30, 2015 and 2014, respectively and interest income recognized on the accrual method for accruing impaired loans of $443 thousand and $435 thousand for the three months ended June 30, 2015 and 2014, respectively.

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Loans held for sale	$47	$—	$ 1	$—	$—	$ —
Loans held for investment:						
Commercial, financial and agricultural	15,990	258	186	13,794	251	116
Real estate—commercial real estate	27,450	626	165	24,884	535	166
Real estate—construction	5,688	—	153	12,412	83	247
Real estate—residential secured for business purpose	3,291	68	54	2,272	33	35

Real estate—residential secured for personal purpose	674	—	24	888	—	32
Real estate—home equity secured for personal purpose	179	—	6	84	—	2
Loans to individuals	—	—	—	6	—	—
Total	$53,319	$952	$ 589	$54,340	$902	$ 598

* Includes interest income recognized on a cash basis for nonaccrual loans of $22 thousand and $23 thousand for the six months ended June 30, 2015 and 2014, respectively and interest income recognized on the accrual method for accruing impaired loans of $930 thousand and $879 thousand for the six months ended June 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 June 30, 2015 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Three Months Ended June 30, 2014 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	2	$ 947	$ 947	$ —	—	$ —	$ —	$ —
Real estate—commercial real estate	1	405	405	—	—	—	—	—
Total	3	$ 1,352	$ 1,352	$ —	—	$ —	$ —	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Total	—	$ —	$ —	$ —	—	$ —	$ —	$ —

(Dollars in thousands)	Six Months Ended June 30, 2015 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Six Months Ended June 30, 2014 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	3	$ 1,090	$ 1,090	$ 71	—	$ —	$ —	$ —
Real estate—commercial real estate	1	405	405	—	—	—	—	—
Real estate—residential secured for business purpose	1	353	353	—	—	—	$ —	—
Total	5	$ 1,848	$ 1,848	$ 71	—	$ —	$ —	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and	1	$ 122	$ 122	$ 42	—	$ —	$ —	$ —

agricultural								
Real estate—commercial real estate	—	—	—	—	1	50	50	—
Real estate—residential secured for business purpose	—	—	—	—	2	688	688	—
Total	1	$ 122	$ 122	$ 42	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. Our 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 six months ended June 30, 2015 and 2014.

	Temporary Payment Reduction		Interest Rate Reduction		Maturity Date Extension		Amortization Period Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Three Months Ended June 30, 2015										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	—	$ —	1	$ 500	1	$ 447	2	$ 947
Real estate—commercial real estate	—	—	—	—	—	—	1	405	1	405
Total	—	$ —	—	$ —	1	$ 500	2	$ 852	3	$ 1,352
Nonaccrual Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Three Months Ended June 30, 2014										
Accruing Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Six Months Ended June 30, 2015										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	1	$ 143	—	$ —	1	$ 500	1	$ 447	3	$ 1,090
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	2	$ 852	5	$ 1,848
Nonaccrual Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	1	$ 122	—	$ —	—	$ —	—	$ —	1	$ 122
Total	1	$ 122	—	$ —	—	$ —	—	$ —	1	$ 122
Six Months Ended June 30, 2014										
Accruing Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
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

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

Three Months Ended June 30,	Six Months Ended June 30,

(Dollars in thousands)	2015 Number of Loans	Recorded Investment	2014 Number of Loans	Recorded Investment	2015 Number of Loans	Recorded Investment	2014 Number of Loans	Recorded Investment
Accruing Troubled Debt Restructured Loans:								
Total	—	$ —	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	—	$ —	2	$ 200	—	$ —
Total	—	$ —	—	$ —	2	$ 200	—	$ —

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.

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

(Dollars in thousands)	At June 30, 2015	At December 31, 2014
Real estate-residential secured for personal purpose	$313	$62
Real estate-home equity secured for personal purpose	59	—
Total	$372	$62

The Corporation held no foreclosed consumer residential real estate property at June 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 six months ended June 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	43,377	—	1,424	44,801
Balance at June 30, 2015	$78,435	$15,434	$18,649	$112,518

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

	At June 30, 2015			At December 31, 2014		
(Dollars in thousands)	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:						
Core deposit intangibles	$1,520	$138	$1,382	$—	$—	$—
Customer related intangibles	14,227	7,758	6,469	13,397	6,726	6,671
Mortgage servicing rights	11,440	5,744	5,696	10,559	5,050	5,509
Total amortized intangible assets	$27,187	$13,640	$13,547	$23,956	$11,776	$12,180

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		$1,108
2016		1,872
2017		1,544
2018		1,170
2019		846
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 $7.8 million and $6.9 million at June 30, 2015 and December 31, 2014, respectively. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at June 30, 2015, and December 31, 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2015	2014	2015	2014
Beginning of period	$5,523	$5,406	$5,509	$5,519
Servicing rights capitalized	499	236	881	359
Amortization of servicing rights	(326)	(264)	(694)	(507)
Changes in valuation allowance	—	—	—	7
End of period	$5,696	$5,378	$5,696	$5,378
Mortgage loans serviced for others	$832,318	$761,413	$832,318	$761,413

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2015	2014	2015	2014
Valuation allowance, beginning of period	$—	$(243)	$—	$(250)
Additions	—	—	—	—
Reductions	—	—	—	7
Direct write-downs	—	—	—	—
Valuation allowance, end of period	$—	$(243)	$—	$(243)

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		$430
2016		804
2017		695
2018		597
2019		511
Thereafter		2,659

Note 6. Income Taxes

At June 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 purposes. At June 30, 2015, the Corporation's tax years 2011 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. 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.

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

	Three Months Ended June 30,			
	2015	2014	2015	2014
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	$193	$137	$14	$18
Interest cost	488	475	27	31
Expected return on plan assets	(756)	(745)	—	—
Amortization of net actuarial loss	326	165	14	2
Accretion of prior service cost	(70)	(71)	—	2
Net periodic benefit cost (income)	$181	$(39)	$55	$53

	Six Months Ended June 30,			
	2015	2014	2015	2014
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	$386	$273	$29	$37
Interest cost	976	950	55	67
Expected return on plan assets	(1,512)	(1,490)	—	—
Amortization of net actuarial loss	654	326	27	5
Accretion of prior service cost	(140)	(141)	—	(3)
Net periodic benefit cost (income)	$364	$(82)	$111	$106

The Corporation contributed $2.0 million to its qualified retirement plan during the three and six months ended June 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 six months ended June 30, 2015, the Corporation contributed $98 thousand to its non-qualified retirement plans and $47 thousand to its other postretirement plans. During the six months ended June 30, 2015, $1.2 million has been paid to participants from the retirement plans and $47 thousand has been 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.

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.

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Note 9. Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands, except per share data)	2015	2014	2015	2014
Numerator for basic and diluted earnings per share—income available to common shareholders	$6,466	$5,080	$12,582	$10,806
Denominator for basic earnings per share—weighted-average shares outstanding	19,675	16,243	19,812	16,250
Effect of dilutive securities—employee stock options and awards	98	86	99	86
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	19,773	16,329	19,911	16,336
Basic earnings per share	$0.33	$0.31	$0.64	$0.67
Diluted earnings per share	$0.33	$0.31	$0.63	$0.66
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	507	521	489	502

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	(1,085)	26	351	(708)
Balance, June 30, 2015	$ 626	$(131)	$(15,665)	$(15,170)
Balance, December 31, 2013	$ (1,472)	$—	$(8,483)	$(9,955)
Net Change	3,185	—	122	3,307
Balance, June 30, 2014	$ 1,713	$—	$(8,361)	$(6,648)

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The following table illustrates the amounts reclassified out of each component of accumulated comprehensive (loss) income for the three and six months ended June 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 June 30,		Six Months Ended June 30,		
(Dollars in thousands)	2015	2014	2015	2014	
Net unrealized holding gains (losses) on available-for-sale investment securities:					
	$181	$415	$272	$557	Net gain on sales of investment securities
	181	415	272	557	Total before tax
	(63)	(145)	(95)	(195)	Tax expense
	$118	$270	$177	$362	Net of tax
Defined benefit pension plans:					
Amortization of net loss included in net periodic pension costs*	$(340)	$(167)	$(681)	$(331)	
Accretion of prior service cost included in net periodic pension costs*	70	69	140	144	
	(270)	(98)	(541)	(187)	Total before tax
	94	34	190	65	Tax benefit
	$(176)	$(64)	$(351)	$(122)	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 June 30, 2015, the notional amount of the cash flow hedge was $19.6 million, with a negative fair value of $202 thousand. The Corporation has pledged $250 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 June 30, 2015 and December 31, 2014:

(Dollars in thousands)	Notional Amount	Derivative Assets Balance Sheet Classification	Fair Value	Derivative Liabilities Balance Sheet Classification	Fair Value
At June 30, 2015					
Interest rate locks with customers	$38,548	Other Assets	$925		$—
Forward loan sale commitments	43,575	Other Assets	137		—
Total	$82,123		$1,062		$—
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 June 30, 2015 and December 31, 2014:

(Dollars in thousands)	Notional Amount	Derivative Assets Balance Sheet Classification	Derivative Assets Fair Value	Derivative Liabilities Balance Sheet Classification	Derivative Liabilities Fair Value
At June 30, 2015					
Interest rate swap - cash flow hedge	$19,610		$—	Other Liabilities	$202
Total	$19,610		$—		$202
At December 31, 2014					
Interest rate swap - cash flow hedge	$19,945		$—	Other Liabilities	$241
Total	$19,945		$—		$241

For the three and six months ended June 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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest rate locks with customers	Net gain on mortgage banking activities	$(312)	$350	$137	$448
Forward loan sale commitments	Net loss on mortgage banking activities	305	(200)	249	(213)
Total		$(7)	$150	$386	$235

For the three and six months ended June 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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest rate swap—cash flow hedge—interest payments	Interest expense	$95	—	$191	—
Net loss		$(95)	$—	$(191)	$—

At June 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 June 30, 2015	At December 31, 2014
Interest rate swap—cash flow hedge	Fair value, net of taxes	$(131)	$(157)
Total		$(131)	$(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.

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

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

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

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

Investment Securities

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

Fair values for securities are determined using independent pricing services and market-participating brokers. The Corporation’s independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available 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 have not 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 June 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.

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 $5.7 million over the three-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 June 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 June 30, 2015 and December 31, 2014, classified using the fair value hierarchy:

	At June 30, 2015			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$4,896	$—	$—	$4,896
U.S. government corporations and agencies	—	120,023	—	120,023
State and political subdivisions	—	109,645	—	109,645
Residential mortgage-backed securities	—	13,533	—	13,533
Collateralized mortgage obligations	—	3,410	—	3,410
Corporate bonds	—	73,201	—	73,201
Money market mutual funds	5,668	—	—	5,668
Equity securities	1,200	—	—	1,200
Total available-for-sale securities	11,764	319,812	—	331,576
Interest rate locks with customers	—	925	—	925
Forward loan sale commitments	—	137	$—	137
Total assets	$11,764	$320,874	$—	$332,638
Liabilities:				
Contingent consideration liability	$—	$—	$7,556	$7,556
Interest rate swap	—	202	—	202
Total liabilities	$—	$202	$7,556	$7,758

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	At December 31, 2014			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$4,845			