

BRYN MAWR BANK CORP
Form 10-Q
November 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

**Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For Quarter ended September 30, 2015

Commission File Number 1-35746

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania **23-2434506**
(State or other jurisdiction of incorporation or organization) **(I.R.S. Employer identification No.)**

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

19010
(Zip Code)

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

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Classes	Outstanding at November 3, 2015
Common Stock, par value \$1	17,168,714

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED September 30, 2015

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

<i>(dollars in thousands)</i>	(unaudited) September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 17,161	\$ 16,717
Interest bearing deposits with banks	100,980	202,552
Cash and cash equivalents	118,141	219,269
Investment securities available for sale, at fair value (amortized cost of \$337,978 and \$227,553 as of September 30, 2015 and December 31, 2014 respectively)	341,421	229,577
Investment securities, trading	3,451	3,896
Loans held for sale	8,721	3,882
Portfolio loans and leases, originated	1,804,834	1,535,004
Portfolio loans and leases, acquired	423,930	117,253
Total portfolio loans and leases	2,228,764	1,652,257
Less: Allowance for originated loan and lease losses	(15,900)	(14,500)
Less: Allowance for acquired loan and lease	(35)	(86)

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losses				
Total allowance for loans and lease losses	(15,935)	(14,586)
Net portfolio loans and leases	2,212,829		1,637,671	
Premises and equipment, net	44,370		33,748	
Accrued interest receivable	7,744		5,560	
Deferred income taxes	11,216		7,209	
Mortgage servicing rights	5,031		4,765	
Bank owned life insurance	38,157		20,535	
Federal Home Loan Bank stock	11,742		11,523	
Goodwill	104,338		35,781	
Intangible assets	25,356		22,521	
Other investments	9,499		5,226	
Other assets	10,726		5,343	
Total assets	\$ 2,952,742		\$ 2,246,506	
Liabilities				
Deposits:				
Non-interest-bearing	\$ 605,607		\$ 446,903	
Interest-bearing	1,634,237		1,241,125	
Total deposits	2,239,844		1,688,028	
Short-term borrowings	24,264		23,824	
Long-term FHLB advances and other borrowings	254,893		260,146	
Subordinated notes	29,466		-	
Accrued interest payable	1,444		1,040	
Other liabilities	34,676		27,994	
Total liabilities	2,584,587		2,001,032	
Shareholders' equity				
Common stock, par value \$1; authorized 100,000,000 shares; issued 20,853,511 and 16,742,135 shares as of September 30, 2015 and December 31, 2014, respectively, and outstanding of 17,166,323 and 13,769,336 as of September 30, 2015 and December 31, 2014, respectively	20,854		16,742	
Paid-in capital in excess of par value	226,980		100,486	
Less: Common stock in treasury at cost - 3,687,188 and 2,972,799 shares as of September 30, 2015 and December 31, 2014, respectively	(53,000)	(31,642)

Accumulated other comprehensive loss, net of tax benefit	(11,040)	(11,704)
Retained earnings	184,361	171,592
Total shareholders' equity	368,155	245,474
Total liabilities and shareholders' equity	\$ 2,952,742	\$ 2,246,506

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<i>(dollars in thousands, except per share data)</i>				
Interest income:				
Interest and fees on loans and leases	\$25,620	\$19,710	\$76,352	\$58,628
Interest on cash and cash equivalents	107	46	346	127
Interest on investment securities:				
Taxable	1,135	863	3,616	2,705
Non-taxable	125	100	366	304
Dividends	42	30	96	87
Total interest income	27,029	20,749	80,776	61,851
Interest expense on:				
Deposits	1,076	742	3,166	2,144
Short-term borrowings	8	3	39	12
FHLB advances and other borrowings	881	828	2,642	2,354
Subordinated notes	231	-	231	-
Total interest expense	2,196	1,573	6,078	4,510
Net interest income	24,833	19,176	74,698	57,341
Provision for loan and lease losses	1,200	550	2,619	1,200
Net interest income after provision for loan and lease losses	23,633	18,626	72,079	56,141
Non-interest income:				
Fees for wealth management services	9,194	9,099	27,899	27,511
Insurance commissions	1,065	164	2,903	369
Service charges on deposits	721	663	2,185	1,920
Loan servicing and other fees	397	431	1,585	1,305
Net gain on sale of loans	685	440	2,271	1,301
Net gain on sale of investment securities available for sale	60	-	873	81
Net (loss) gain on sale of other real estate owned ("OREO")	-	(49) 90	171
Dividend on bank stocks	138	126	1,052	404
Other operating income	1,090	669	3,434	2,377
Total non-interest income	13,350	11,543	42,292	35,439
Non-interest expenses:				
Salaries and wages	10,941	9,110	32,875	27,244
Employee benefits	2,590	1,652	7,937	5,440
Occupancy and bank premises	2,557	1,881	7,831	5,497
Furniture, fixtures, and equipment	1,712	1,078	4,712	3,150
Advertising	410	310	1,446	1,104
Amortization of intangible assets	953	633	2,890	1,906
Due diligence, merger-related and merger integration expenses	1,015	775	4,810	1,416

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Professional fees	843	701	2,343	2,208
Pennsylvania bank shares tax	433	412	1,299	1,192
Information technology	1,053	678	2,569	2,024
Other operating expenses	2,896	2,731	10,102	8,305
Total non-interest expenses	25,403	19,961	78,814	59,486
Income before income taxes	11,580	10,208	35,557	32,094
Income tax expense	4,084	3,702	12,448	11,295
Net income	\$7,496	\$6,506	\$23,109	\$20,799
Basic earnings per common share	\$0.43	\$0.48	\$1.31	\$1.54
Diluted earnings per common share	\$0.42	\$0.47	\$1.29	\$1.50
Dividends declared per share	\$0.20	\$0.19	\$0.58	\$0.55
Weighted-average basic shares outstanding	17,572,421	13,600,348	17,610,353	13,539,327
Dilutive shares	261,877	272,516	320,067	294,114
Adjusted weighted-average diluted shares	17,834,298	13,872,864	17,930,520	13,833,441

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

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

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Net income	\$7,496	\$6,506	\$23,109	\$20,799
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on investment securities available for sale:				
Net unrealized gains (losses) arising during the period, net of tax expense (benefit) of \$503, \$(227), \$803 and \$1,090, respectively	935	(421)	1,489	2,025
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of \$21, \$0, \$306 and \$28, respectively	(39)	-	(567)	(53)
Unrealized investment gains (losses), net of tax expense (benefit) of \$482, \$(227), \$497 and \$1,062, respectively	896	(421)	922	1,972
Net change in fair value of derivative used for cash flow hedge:				
Change in fair value of hedging instruments, net of tax benefit of \$(188), \$(4), \$(216) and \$(257), respectively	(349)	(8)	(400)	(477)
Net change in unfunded pension liability:				
Change in unfunded pension liability, net of tax expense of \$26, \$25, \$76 and \$74, respectively	47	46	142	139
Total other comprehensive (loss) income	594	(383)	664	1,634
Total comprehensive income	\$8,090	\$6,123	\$23,773	\$22,433

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

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

	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net Income	\$23,109	\$20,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,619	1,200
Depreciation of fixed assets	3,510	2,401
Net amortization of investment premiums and discounts	2,486	1,786
Net gain on sale of investment securities available for sale	(873)	(81)
Net gain on sale of loans	(2,271)	(1,301)
Stock based compensation cost	1,047	911
Amortization and net impairment of mortgage servicing rights	531	357
Net accretion of fair value adjustments	(4,029)	(2,244)
Amortization of intangible assets	2,890	1,906
Impairment of other real estate owned ("OREO")	90	-
Net gain on sale of OREO	(90)	(171)
Net increase in cash surrender value of bank owned life insurance ("BOLI")	(568)	(231)
Other, net	1,770	(2,454)
Loans originated for resale	(110,098)	(41,192)
Proceeds from loans sold	107,240	42,065
Provision for deferred income taxes	2,753	2,025
Excess tax benefit from stock-based compensation	(715)	(720)
Change in income taxes payable/receivable	1,824	269
Change in accrued interest receivable	(90)	67
Change in accrued interest payable	109	33
Net cash provided by operating activities	31,244	25,425
Investing activities:		
Purchases of investment securities available for sale	(124,161)	(41,647)
Proceeds from maturity of investment securities and paydowns of mortgage-related securities	48,968	29,230
Proceeds from sale of investment securities available for sale	64,528	4,165
Net change in FHLB stock	4,762	(1,235)
Proceeds from calls of investment securities	80,465	29,450
Net change in other investments	(4,223)	(155)
Net portfolio loan and lease originations	(150,812)	(98,144)
Purchases of premises and equipment	(5,194)	(3,422)
Purchases of BOLI	(5,000)	-
Acquisitions, net of cash acquired	16,129	-
Proceeds from sale of OREO	928	1,325
Net cash used in investing activities	(73,610)	(80,433)
Financing activities:		

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Change in deposits	70,780	19,004
Change in short-term borrowings	(108,066)	3,089
Dividends paid	(10,395)	(7,597)
Change in FHLB advances and other borrowings	(24,883)	25,021
Net proceeds from issuance of subordinated debentures	29,466	-
Excess tax benefit from stock-based compensation	715	720
Proceeds from sale of treasury stock from deferred compensation plans	-	79
Net purchase of treasury stock	(21,402)	(920)
Proceeds from issuance of common stock	20	45
Proceeds from exercise of stock options	5,003	2,061
Net cash (used in) provided by financing activities	(58,762)	41,502
Change in cash and cash equivalents	(101,128)	(13,506)
Cash and cash equivalents at beginning of period	219,269	81,071
Cash and cash equivalents at end of period	\$118,141	\$67,565

Supplemental cash flow information:

Cash paid during the year for:

Income taxes	\$7,301	\$9,005
Interest	\$5,674	\$4,477

Non-cash information:

Change in other comprehensive loss	\$664	\$1,634
Change in deferred tax due to change in comprehensive income	\$357	\$879
Transfer of loans to other real estate owned	\$401	\$1,193
Issuance of shares and options for acquisitions	\$123,734	-
Acquisition of noncash assets and liabilities:		
Assets acquired	727,379	-
Liabilities assumed	619,774	-

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

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

	For the Nine Months Ended September 30, 2015						Total Shareholders' Equity
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	
Balance December 31, 2014	16,742,135	\$ 16,742	\$ 100,486	\$(31,642)	\$ (11,704)	\$ 171,592	\$ 245,474
Net income	-	-	-	-	-	23,109	23,109
Dividends declared, \$0.58 per share	-	-	-	-	-	(10,340)	(10,340)
Other comprehensive income, net of tax expense of \$357	-	-	-	-	664	-	664
Stock based compensation	-	-	1,047	-	-	-	1,047
Excess tax benefit from stock-based compensation	-	-	715	-	-	-	715
Retirement of treasury stock	(4,418)	(4)	(40)	44	-	-	-
Cancellation of forfeited restricted stock awards	(27,375)	(27)	27	-	-	-	-
Net purchase of treasury stock	-	-	-	(21,402)	-	-	(21,402)
Shares issued in acquisitions	3,878,304	3,878	117,513	-	-	-	121,391
Options assumed in acquisitions	-	-	2,343	-	-	-	2,343
Common stock issued: Dividend Reinvestment and Stock Purchase Plan	663	1	19	-	-	-	20
Share-based awards and options exercises	264,202	264	4,870	-	-	-	5,134
Balance September 30, 2015	20,853,511	\$ 20,854	\$ 226,980	\$(53,000)	\$ (11,040)	\$ 184,361	\$ 368,155

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

Table Of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(Unaudited)****Note 1 - Basis of Presentation**

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In the opinion of Bryn Mawr Bank Corporation’s (the “Corporation”) management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation’s Annual Report on Form 10-K for the twelve months ended December 31, 2014 (the “2014 Annual Report”).

The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Note 2 - Earnings per Common Share

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

<i>(dollars in thousands except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Numerator:				
Net income available to common shareholders	\$7,496	\$6,506	\$23,109	\$20,799
	17,572,421	13,600,348	17,610,353	13,539,327

Denominator for basic earnings per share – weighted				
average shares outstanding				
Effect of dilutive common shares	261,877	272,516	320,067	294,114
Denominator for diluted earnings per share – adjusted				
weighted average shares outstanding	17,834,298	13,872,864	17,930,420	13,833,441
Basic earnings per share	\$0.43	\$0.48	\$1.31	\$1.54
Diluted earnings per share	\$0.42	\$0.47	\$1.29	\$1.50
Anti-dilutive shares excluded from computation of average dilutive earnings per share	—	—	—	—

Table Of Contents**Note 3 - Business Combinations****Robert J. McAllister Agency, Inc. (“RJM”)**

The acquisition of RJM, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed on April 1, 2015. The consideration paid by the Corporation was \$1.0 million, of which \$500 thousand was paid at closing and five contingent cash payments, not to exceed \$100 thousand each, will be payable on each of March 31, 2016, March 31, 2017, March 31, 2018, March 31, 2019, and March 31, 2020, subject to the attainment of certain revenue targets during the related periods. The acquisition will enhance the Corporation’s ability to offer comprehensive insurance solutions to both individual and business clients.

In connection with the RJM acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

(dollars in thousands)

Consideration paid:

Cash paid at closing	\$ 500
Contingent payment liability	500
Value of consideration	1,000

Assets acquired:

Cash operating accounts	20
Intangible assets – customer relationships	424
Intangible assets – non-competition agreements	257
Intangible assets – trade name	129
Other assets	4
Total assets	834

Liabilities assumed:

Deferred tax liability	336
Other liabilities	46
Total liabilities	382

Net assets acquired 452

Goodwill resulting from acquisition of RJM \$ 548

The fair values of the assets acquired and liabilities assumed are preliminary estimates. 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.

Continental Bank Holdings, Inc. (“CBH”)

On January 1, 2015, the previously announced merger (the “Merger”) of CBH with and into the Corporation, and the merger of Continental Bank with and into The Bryn Mawr Trust Company, the wholly-owned subsidiary of the Corporation (the “Bank”), as contemplated by the Agreement and Plan of Merger, by and between CBH and the Corporation, dated as of May 5, 2014 (as amended by the Amendment to Agreement and Plan of Merger, dated as of October 23, 2014, the “Agreement”), were completed. In accordance with the Agreement, the aggregate share consideration paid to CBH shareholders consisted of 3,878,383 shares (which included fractional shares paid in cash) of the Corporation’s common stock. Shareholders of CBH received 0.45 shares of Corporation common stock for each share of CBH common stock they owned as of the effective date of the Merger. Holders of options to purchase shares of CBH common stock received options to purchase shares of Corporation common stock, converted at the same ratio of 0.45. In addition, \$1,323,000 was paid to certain warrant holders to cash-out certain warrants. In accordance with the acquisition method of accounting, assets acquired and liabilities assumed were preliminarily adjusted to their fair values as of the date of the Merger. The excess of consideration paid above the fair value of net assets acquired was recorded as goodwill. This goodwill is not amortizable nor is it deductible for income tax purposes.

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In connection with the Merger, the consideration paid and the estimated fair value of identifiable assets acquired and liabilities assumed as of the date of the Merger are summarized in the following table:

(dollars in thousands)

Consideration paid:

Common shares issued (3,878,304)	\$121,391
Cash in lieu of fractional shares	2
Cash-out of certain warrants	1,323
Fair value of options assumed	2,343
Value of consideration	125,059

Assets acquired:

Cash and due from banks	17,934
Investment securities available for sale	181,838
Loans	424,737
Premises and equipment	9,037
Deferred income taxes	7,453
Bank-owned life insurance	12,054
Core deposit intangible	4,191
Favorable lease asset	724
Other assets	17,974
Total assets	675,942

Liabilities assumed:

Deposits	481,674
FHLB and other long-term borrowings	19,726
Short-term borrowings	108,609
Unfavorable lease liability	2,884
Other liabilities	5,999
Total liabilities	618,892

Net assets acquired 57,050

Goodwill resulting from acquisition of CBH \$68,009

The following table details the effect, on goodwill, of adjustments to the initial fair value estimates of the assets acquired and liabilities assumed:

Goodwill resulting from acquisition of CBH based on initial fair value estimates: \$65,838

Effect on goodwill of adjustments to:

Assets:

Portfolio loans	1,864
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Deferred income taxes	(1,165)
Favorable lease asset	68
Other assets	111
Liabilities:	
Other liabilities	1,293
Adjusted goodwill resulting from acquisition of CBH as of September 30, 2015	\$68,009

The fair values of the assets acquired and liabilities assumed are preliminary estimates. The fair value estimates are subject to adjustment if additional information becomes available during the measurement period in accordance with 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.

Table Of Contents**Pro Forma Income Statements**

The following pro forma income statements for the three and nine months ended September 30, 2014 and 2015 present the pro forma results of operations of the combined institution (CBH and the Corporation) had the merger occurred on January 1, 2014 and January 1, 2015, respectively. The pro forma income statement adjustments are limited to the effects of fair value mark amortization and accretion and intangible asset amortization. No cost savings or additional merger expenses have been included in the pro forma results of operations for the three or nine months ended September 30, 2014.

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net interest income	\$24,833	\$25,027	\$74,698	\$74,702
Provision for loan and lease losses	1,200	850	2,619	2,057
Net interest income after provision for loan and lease losses	23,633	24,177	72,079	72,645
Non-interest income	13,350	11,812	42,292	37,088
Non-interest expense	25,403	24,106	78,814	72,970
Income before income taxes	11,580	11,883	35,557	36,763
Income tax expense	4,084	4,279	12,448	13,017
Net income	\$7,496	\$7,604	\$23,109	\$23,746
Per share data*:				
Weighted-average basic shares outstanding	17,572,421	17,478,652	17,610,353	17,417,631
Dilutive shares	261,877	351,099	320,067	372,697
Adjusted weighted-average diluted shares	17,834,298	17,829,751	17,930,420	17,790,328
Basic earnings per common share	\$0.43	\$0.44	\$1.31	\$1.36
Diluted earnings per common share	\$0.42	\$.043	\$1.29	\$1.33

* Assumes that the shares of common stock outstanding as of December 31, 2014 for CBH were outstanding for the full three and nine months ended September 30, 2014 and therefore equal the weighted average shares of common stock outstanding for the three and nine months ended September 30, 2014. The merger conversion of 8,618,629 shares of CBH common stock equals 3,878,304 shares of Corporation common stock (8,618,629 times 0.45, minus 79 fractional shares paid in cash).

Table Of Contents**Powers Craft Parker and Beard, Inc. (“PCPB”)**

The acquisition of PCPB, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed on October 1, 2014. The consideration paid by the Corporation was \$7.0 million, of which \$5.4 million was paid at closing. The remaining \$1.6 million consists of three contingent payments, with each payment not to exceed \$542 thousand. Each payment is subject to the attainment of certain revenue targets during the applicable periods. The measurement periods for the three contingent payments are the twelve month periods ending September 30, 2015, 2016 and 2017. As of September 30, 2015, the revenue targets for the twelve month period ended September 30, 2015 had been satisfied and payment of \$542 thousand is scheduled to occur during the fourth quarter of 2015. The acquisition of PCPB has enabled the Corporation to offer a comprehensive line of insurance solutions to both individual and business clients.

In connection with the PCPB acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

(dollars in thousands)

Consideration paid:

Cash paid at closing	\$5,399
Contingent payment liability	1,625
Value of consideration	7,024

Assets acquired:

Cash operating accounts	1,274
Other investments	302
Premises and equipment	100
Intangible assets – customer relationships	3,280
Intangible assets – non-competition agreements	1,580
Intangible assets – trade name	955
Other assets	850
Total assets	8,341

Liabilities assumed:

Deferred tax liability	2,437
Other liabilities	1,818
Total liabilities	4,255

Net assets acquired 4,086

Goodwill resulting from acquisition of PCPB \$2,938

As of December 31, 2014, the Corporation had finalized its fair value estimates related to the acquisition of PCPB.

Due Diligence, Merger-Related and Merger Integration Expenses

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

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine months Ended September 30,	
	2015	2014	2015	2014
Advertising	\$36	\$—	\$83	\$—
Employee benefits	60	—	213	—
Furniture, fixtures and equipment	64	1	93	1
Professional fees	319	693	2,084	819
Salaries and wages	480	28	1,224	29
Other	56	53	1,113	567
Total due diligence, merger-related and merger integration expenses	\$1,015	\$775	\$4,810	\$1,416

Table Of Contents**Note 4 - Investment Securities**

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

As of September 30, 2015

	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
<i>(dollars in thousands)</i>				
U.S. Treasury securities	\$ 101	\$ —	\$ —	\$ 101
Obligations of the U.S. government and agencies	90,927	732	(20)	91,639
Obligations of state and political subdivisions	43,976	179	(24)	44,131
Mortgage-backed securities	152,918	2,603	(11)	155,510
Collateralized mortgage obligations	32,614	358	(19)	32,953
Other investments	17,442	16	(371)	17,087
Total	\$ 337,978	\$ 3,888	\$ (445)	\$ 341,421

As of December 31, 2014

	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
<i>(dollars in thousands)</i>				
U.S. Treasury securities	\$ 102	\$ —	\$ (2)	\$ 100
Obligations of the U.S. government and agencies	66,881	171	(290)	66,762
Obligations of state and political subdivisions	28,955	137	(47)	29,045
Mortgage-backed securities	79,498	1,914	(30)	81,382
Collateralized mortgage obligations	34,618	299	(120)	34,797
Other investments	17,499	173	(181)	17,491
Total	\$ 227,553	\$ 2,694	\$ (670)	\$ 229,577

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

As of September 30, 2015

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
Obligations of the U.S. government and agencies	\$8,201	\$ (8)	\$2,994	\$ (12)	\$11,195	\$ (20)
Obligations of state and political subdivisions	11,003	(18)	2,484	(6)	13,487	(24)
Mortgage-backed securities	5,511	(11)	—	—	5,511	(11)
Collateralized mortgage obligations	3,081	(10)	2,618	(9)	5,699	(19)
Other investments	15,271	(371)	—	—	15,271	(371)
Total	\$43,067	\$ (418)	\$8,096	\$ (27)	\$51,163	\$ (445)

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Table Of Contents**As of December 31, 2014**

<i>(dollars in thousands)</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$—	\$ —	\$100	\$ (2)	\$100	\$ (2)
Obligations of the U.S. government and agencies	16,822	(28)	22,691	(262)	39,513	(290)
Obligations of state and political subdivisions	4,777	(19)	4,060	(28)	8,837	(47)
Mortgage-backed securities	2,289	(14)	3,814	(16)	6,103	(30)
Collateralized mortgage obligations	3,274	(22)	9,507	(98)	12,781	(120)
Other investments	13,717	(181)	—	—	13,717	(181)
Total	\$40,879	\$ (264)	\$40,172	\$ (406)	\$81,051	\$ (670)

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

As of September 30, 2015 and December 31, 2014, securities having fair values of \$148.6 million and \$91.9 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the Federal Reserve Bank of Philadelphia discount window program, Federal Home Loan Bank of Pittsburgh ("FHLB") borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

The amortized cost and fair value of investment securities available for sale as of September 30, 2015 and December 31, 2014, by contractual maturity, are shown below:

<i>(dollars in thousands)</i>	September 30, 2015		December 31, 2014	
	Amortized Fair		Amortized Fair	
	Cost	Value	Cost	Value

Investment securities ¹ :				
Due in one year or less	\$8,426	\$8,433	\$15,254	\$15,277
Due after one year through five years	70,623	70,908	59,433	59,463
Due after five years through ten years	36,500	36,650	23,151	23,067
Due after ten years	21,355	21,775	—	—
Subtotal	136,904	137,766	97,838	97,807
Mortgage-related securities ²	185,532	188,463	114,116	116,179
Total	\$322,436	\$326,229	\$211,954	\$213,986

¹ *Included in the investment portfolio, but not in the table above, are mutual funds with a fair value of \$15.2 million and \$15.6 million as of September 30, 2015 and December 31, 2014, respectively, which have no stated maturity.*

² *Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.*

As of September 30, 2015 and December 31, 2014, the Corporation's investment securities held in trading accounts were comprised of a deferred compensation trust which is invested in marketable securities whose diversification is at the discretion of the deferred compensation plan participants.

Table Of Contents**Note 5 - Loans and Leases**

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

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

	September 30, 2015	December 31, 2014
Loans held for sale	\$8,721	\$3,882
Real estate loans:		
Commercial mortgage	\$971,983	\$689,528
Home equity lines and loans	212,258	182,082
Residential mortgage	399,730	313,442
Construction	82,820	66,267
Total real estate loans	1,666,791	1,251,319
Commercial and industrial	488,977	335,645
Consumer	22,350	18,480
Leases	50,646	46,813
Total portfolio loans and leases	2,228,764	1,652,257
Total loans and leases	\$2,237,485	\$1,656,139
Loans with fixed rates	\$1,114,739	\$927,009
Loans with adjustable or floating rates	1,122,746	729,130
Total loans and leases	\$2,237,485	\$1,656,139
Net deferred loan origination costs included in the above loan table	\$220	\$324

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

	September 30, 2015	December 31, 2014
Loans held for sale	\$8,721	\$3,882
Real estate loans:		

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Commercial mortgage	\$758,266	\$637,100
Home equity lines and loans	171,297	164,554
Residential mortgage	304,370	276,596
Construction	72,216	66,206
Total real estate loans	1,306,149	1,144,456
Commercial and industrial	426,058	325,264
Consumer	21,981	18,471
Leases	50,646	46,813
Total portfolio loans and leases	1,804,834	1,535,004
Total loans and leases	\$1,813,555	\$1,538,886
Loans with fixed rates	\$928,606	\$856,203
Loans with adjustable or floating rates	884,949	682,683
Total originated loans and leases	\$1,813,555	\$1,538,886
Net deferred loan origination costs included in the above loan table	220	324

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

	September 30,	December 31,
	2015	2014
Real estate loans:		
Commercial mortgage	\$ 213,717	\$ 52,428
Home equity lines and loans	40,961	17,528
Residential mortgage	95,360	36,846
Construction	10,604	61
Total real estate loans	360,642	106,863
Commercial and industrial	62,919	10,381
Consumer	369	9
Total portfolio loans and leases	423,930	117,253
Total loans and leases	\$ 423,930	\$ 117,253
Loans with fixed rates	\$ 186,133	\$ 70,806
Loans with adjustable or floating rates	237,797	46,447
Total acquired loans and leases	\$ 423,930	\$ 117,253

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

<i>(dollars in thousands)</i>	September 30,	December 31,
	2015	2014
Minimum lease payments receivable	\$ 57,187	\$ 53,131
Unearned lease income	(8,816)	(8,546)
Initial direct costs and deferred fees	2,275	2,228
Total	\$ 50,646	\$ 46,813

C. Non-Performing Loans and Leases⁽¹⁾

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

<i>(dollars in thousands)</i>	September 30,	December 31,
-------------------------------	--------------------------	-------------------------

	2015	2014
Non-accrual loans and leases:		
Commercial mortgage	\$ 931	\$ 668
Home equity lines and loans	1,661	1,061
Residential mortgage	5,249	5,693
Construction	34	263
Commercial and industrial	4,337	2,390
Consumer	2	—
Leases	101	21
Total	\$ 12,315	\$ 10,096

Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of \$837 thousand and \$572 thousand of purchased credit-impaired loans as of September 30, 2015 and December 31, 2014, respectively, which became non-performing subsequent to acquisition.

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

<i>(dollars in thousands)</i>	September 30,	December 31,
	2015	2014
Non-accrual originated loans and leases:		
Commercial mortgage	\$ 374	\$ —
Home equity lines and loans	1,493	904
Residential mortgage	4,107	4,662
Construction	34	263
Commercial and industrial	2,760	1,583
Consumer	2	—
Leases	101	21
Total	\$ 8,871	\$ 7,433

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

<i>(dollars in thousands)</i>	September 30,	December 31,
	2015	2014
Non-accrual acquired loans and leases:		
Commercial mortgage	\$ 557	\$ 668
Home equity lines and loans	168	157
Residential mortgage	1,142	1,031
Construction	—	—
Commercial and industrial	1,577	807
Consumer	—	—
Total	\$ 3,444	\$ 2,663

Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of \$837 thousand and \$572 thousand of purchased credit-impaired loans as of September 30, 2015 and December 31, 2014, respectively, which became non-performing subsequent to acquisition.

D. Purchased Credit-Impaired Loans

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

<i>(dollars in thousands)</i>	September 30,	December 31,
	2015	2014
Outstanding principal balance	\$ 27,626	\$ 12,491
Carrying amount ⁽¹⁾	\$ 19,095	\$ 9,045

Includes \$1.0 million and \$105 thousand of purchased credit-impaired loans as of September 30, 2015 and December 31, 2014, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table⁽¹⁾ above includes \$837 thousand and \$572 thousand of purchased credit-impaired loans as of September 30, 2015 and December 31, 2014, respectively, which became non-performing subsequent to acquisition, which are disclosed in Note 5C, above, and which also have no accretable yield.

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the nine months ended September 30, 2015:

<i>(dollars in thousands)</i>	Accretable Discount
Balance, December 31, 2014	\$ 5,357
Accretion	(1,631)
Reclassifications from nonaccretable difference	204
Additions/adjustments	3,132
Disposals	(339)
Balance, September 30, 2015	\$ 6,723

Table Of Contents**E. Age Analysis of Past Due Loans and Leases**

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

Accruing Loans and Leases								
<i>(dollars in thousands)</i>								
	30 – 59	60 – 89	Over 89	Total Past Due	Current	Total	Nonaccrual	Total
	Days Past Due	Days Past Due	Days Past Due	Days Past Due		Loans and Leases	Loans and Leases	Loans and Leases
As of September 30, 2015								
Commercial mortgage	\$ 740	\$ —	\$ —	\$ 740	\$ 970,312	\$ 971,052	\$ 931	\$ 971,983
Home equity lines and loans	264	709	—	973	209,624	210,597	1,661	212,258
Residential mortgage	1,655	433	—	2,088	392,393	394,481	5,249	399,730
Construction	—	—	—	—	82,786	82,786	34	82,820
Commercial and industrial	894	100	—	994	483,646	484,640	4,337	488,977
Consumer	22	—	—	22	22,326	22,348	2	22,350
Leases	123	20	—	143	50,402	50,545	101	50,646
	\$ 3,698	\$ 1,262	\$ —	\$ 4,960	\$ 2,211,489	\$ 2,216,449	\$ 12,315	\$ 2,228,764

Accruing Loans and Leases								
<i>(dollars in thousands)</i>								
	30 – 59	60 – 89	Over 89	Total Past Due	Current	Total	Nonaccrual	Total
	Days Past Due	Days Past Due	Days Past Due	Days Past Due		Loans and Leases	Loans and Leases	Loans and Leases
As of December 31, 2014								
Commercial mortgage	\$ 71	\$ 1,185	\$ —	\$ 1,256	\$ 687,604	\$ 688,860	\$ 668	\$ 689,528
Home equity lines and loans	26	—	—	26	180,995	181,021	1,061	182,082

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Residential mortgage	381	123	—	504	307,245	307,749	5,693	313,442
Construction	—	—						