DE GEUS AART
Form 4
December 11, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
DE GEUS AART

(Last) (First) (Middle)

700 EAST MIDDLEFIELD ROAD

(Street)

MOUNTAIN VIEW, CA 94043

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SYNOPSYS INC [SNPS]

3. Date of Earliest Transaction (Month/Day/Year)
12/11/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman of the Board & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/11/2006		M		58,979	A	$ 19.125	411,474	D	
Common Stock	12/11/2006		S		58,979	D	$ 26.75	352,495	D	
Common Stock								22,000	I	by Spouse (1)
Common Stock								275,000	I	by Trust (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amou Underlying Secur (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Am or Nu of S
Non-Qualified Stock Option (right to buy)	$ 19.125	12/11/2006		M			58,979	07/24/2002	07/24/2008	Common Stock	58

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DE GEUS AART 700 EAST MIDDLEFIELD ROAD MOUNTAIN VIEW, CA 94043	X		Chairman of the Board & CEO	

Signatures

By: Stephen Buckhout pursuant to POA For: Aart de Geus — 12/11/2006

**Signature of Reporting Person — Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Reporting person disclaims beneficial ownership by spouse

(2) These shares were previously reported as directly beneficially owned but were contributed to a grantor retained annuity trust on September 12, 2006.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. -align:left;font-size:10pt;">

1,106

272

Real estate—construction
123

—

8

253

—

19

—

—

—

Real estate—residential secured for business purpose
1,844

22

108

3,801

65

169

4,084

Explanation of Responses:

67

207

Real estate—residential secured for personal purpose
1,229

3

94

614

3

39

498

2

24

Real estate—home equity secured for personal purpose
1,112

1

85

406

—

26

440

—

25

Total
$
30,215

$
382

$
1,703

$
35,584

$
1,060

$
889

$
44,846

$
1,433

$
909

* Includes interest income recognized on a cash basis for nonaccrual loans of $27 thousand, $4 thousand and $8 thousand for the years ended December 31, 2018, 2017 and 2016, respectively and interest income recognized on the accrual method for accruing impaired loans of $355 thousand, $1.1 million and $1.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The Bank maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded. The reserve for these off-balance sheet credits was $426 thousand and $390 thousand at December 31, 2018 and 2017, respectively.

Impaired Leases

The Corporation had no impaired leases at December 31, 2018. The Corporation had impaired leases of $1.3 million at December 31, 2017 with no related reserves which were paid off in full during the fourth quarter of 2018.

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Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and nonaccrual loans that were restructured during the years ended December 31, 2018 and 2017:

	For the Years Ended December 31,							
	2018				2017			
(Dollars in thousands)	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Reserve	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Reserve
Accruing Troubled Debt Restructured Loans:								
Real estate—commercial real estate	—	$ —	$ —	$ —	3	$ 9,206	$ 9,206	$ —
Total	—	$ —	$ —	$ —	3	$ 9,206	$ 9,206	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	$ —	$ —	2	$ 1,127	$ 1,127	$ —
Real estate—commercial real estate	—	—	—	—	1	328	328	—
Real estate—residential secured for personal purpose	1	66	66	—	—	—	—	—
Total	1	$ 66	$ 66	$ —	3	$ 1,455	$ 1,455	$ —

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

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The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the years ended December 31, 2018 and 2017:

(Dollars in thousands)	Maturity Date Extension		Amortization Period Extension		Total Concessions Granted	
	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
For the Year Ended December 31, 2018						
Accruing Troubled Debt Restructured Loans:						
Total	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:						
Real estate—residential secured for personal purpose	—	$ —	1	$ 66	1	$ 66
Total	—	$ —	1	$ 66	1	$ 66
For the Year Ended December 31, 2017						
Accruing Troubled Debt Restructured Loans:						
Real estate—commercial real estate	—	$ —	3	$ 9,206	3	$ 9,206
Total	—	$ —	3	$ 9,206	3	$ 9,206
Nonaccrual Troubled Debt Restructured Loans:						
Commercial, financial and agricultural	—	$ —	2	$ 1,127	2	$ 1,127
Real estate—commercial real estate	1	328	—	—	1	328
Total	1	$ 328	2	$ 1,127	3	$ 1,455

There were no loans for which there were payment defaults within twelve months of the restructuring date during the years ended December 31, 2018 and 2017.

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 December 31, 2018 and 2017:

(Dollars in thousands)	At December 31, 2018	At December 31, 2017
Real estate-residential secured for personal purpose	$ 563	$ 31
Real estate-home equity secured for personal purpose	1,134	—
Total	$ 1,697	$ 31

The following presents foreclosed residential real estate property included in other real estate owned at December 31, 2018 and 2017.

(Dollars in thousands)	At December 31, 2018	At December 31, 2017
Foreclosed residential real estate	$ —	$ 80

Note 6. Premises and Equipment

The following table reflects the components of premises and equipment:

(Dollars in thousands)	At December 31, 2018	2017
Land and land improvements	$15,683	$15,402
Premises and improvements	53,707	54,643
Furniture and equipment	32,068	33,675
Total cost	101,458	103,720
Less: accumulated depreciation	(41,899)	(41,923)
Net book value	$59,559	$61,797

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The following table summarizes rental expense charged to operations for the periods indicated:

(Dollars in thousands)	For the Years Ended December 31, 2018	2017	2016
Rental expense	$3,866	$3,938	$3,791
Rental income	(207)	(227)	(138)
Net rental expense	$3,659	$3,711	$3,653

Note 7. Goodwill and Other Intangible Assets

The Corporation has core deposit and customer-related intangibles and servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets for the years ended December 31, 2018, 2017 and 2016 was $3.4 million, $4.2 million and $4.1 million, respectively. The Corporation also has goodwill which is deemed to be an indefinite intangible asset and is not amortized.

In accordance with ASC Topic 350, the Corporation performed a qualitative assessment of goodwill during the fourth quarter of 2018 and determined it was more likely than not that the fair value of the Corporation, including each of the identified reporting units, was more than its carrying amount; therefore, the Corporation did not need to perform the two-step impairment test for the Corporation or the reporting units.

The Corporation also completed an impairment test for other intangible assets during the fourth quarter of 2018. There was no impairment of goodwill or other identifiable intangibles recorded during 2016 through 2018.

Changes in the carrying amount of the Corporation's goodwill by business segment for the years ended December 31, 2018 and 2017 were as follows:

(Dollars in thousands)	Banking	Wealth Management	Insurance	Consolidated
Balance at December 31, 2016	$138,476	$ 15,434	$ 18,649	$ 172,559
Addition to goodwill from acquisitions	—	—	—	—
Balance at December 31, 2017	138,476	15,434	18,649	172,559
Addition to goodwill from acquisitions	—	—	—	—
Balance at December 31, 2018	$138,476	$ 15,434	$ 18,649	$ 172,559

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

(Dollars in thousands)	At December 31, 2018			At December 31, 2017		
	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:						
Covenants not to compete	$710	$ 710	$ —	$710	$ 580	$ 130
Core deposit intangibles	6,788	3,143	3,645	6,788	2,135	4,653
Customer related intangibles	12,381	10,804	1,577	12,381	9,828	2,553
Servicing rights	17,314	10,546	6,768	15,855	9,282	6,573
Total amortized intangible assets	$37,193	$ 25,203	$ 11,990	$35,734	$ 21,825	$ 13,909

The estimated aggregate amortization expense for core deposit and customer-related intangibles for each of the five succeeding fiscal years and thereafter follows:

Year	(Dollars in thousands)	Amount
2019		$ 1,565
2020		1,200
2021		923
2022		666

2023	409
Thereafter	459

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The Corporation has originated mortgage servicing rights, which are included in other intangible assets on the consolidated balance sheet. 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 $11.5 million and $10.0 million at December 31, 2018 and 2017, respectively. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at December 31, 2018 and 2017. The Corporation also records servicing rights on SBA loans. The value of these servicing rights was $42 thousand and $21 thousand at December 31, 2018 and 2017, respectively.

Changes in the servicing rights balance are summarized as follows:

	For the Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Beginning of period	$6,573	$6,485	$5,877
Servicing rights capitalized	1,458	1,487	2,049
Acquired servicing rights	—	—	87
Amortization of servicing rights	(1,263)	(1,399)	(1,528)
Changes in valuation allowance	—	—	—
End of period	$6,768	$6,573	$6,485
Residential mortgage and SBA loans serviced for others	$1,031,506	$1,008,123	$965,729

There was no activity in the valuation allowance for the years ended December 31, 2018, 2017 and 2016.

The estimated amortization expense of servicing rights for each of the five succeeding fiscal years and thereafter is as follows:

Year	(Dollars in thousands)	Amount
2019		$ 908
2020		801
2021		705
2022		619
2023		541
Thereafter		3,194

Note 8. Accrued Interest Receivable and Other Assets

The following table provides the details of accrued interest receivable and other assets:

	At December 31,	
(Dollars in thousands)	2018	2017
Other real estate owned	$1,187	$1,843
Accrued interest receivable	14,255	12,362
Accrued income and other receivables	3,933	3,872
Fair market value of derivative financial instruments	679	601
Other prepaid expenses	14,652	21,496
Net federal deferred tax assets	3,585	1,174
Other	322	154
Total accrued interest and other assets	$38,613	$41,502

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Note 9. Deposits

Deposits and their respective weighted average interest rate at December 31, 2018 and 2017 consist of the following:

	December 31,			
	2018		2017	
	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount
	(Dollars in thousands)			
Noninterest-bearing deposits	— %	$1,055,919	— %	$1,040,026
Demand deposits	1.01	1,377,171	0.43	1,109,438
Savings deposits	0.33	782,766	0.26	830,706
Time deposits	1.76	670,077	1.12	574,749
Total	0.73%	$3,885,933	0.38%	$3,554,919

The aggregate amount of time deposits in denominations of $100 thousand or more was $283.4 million at December 31, 2018 and $250.0 million at December 31, 2017. Deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Deposit insurance per account owner is currently up to $250 thousand. The aggregate amount of time deposits in denominations over $250 thousand was $129.5 million at December 31, 2018 and $118.4 million at December 31, 2017.

At December 31, 2018, the scheduled maturities of time deposits are as follows:

Year	(Dollars in thousands)	Amount
Due in 2019		$394,239
Due in 2020		128,518
Due in 2021		40,750
Due in 2022		32,995
Due in 2023		70,056
Thereafter		3,519
Total		$670,077

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Note 10. Borrowings

The following is a summary of borrowings by type. Short-term borrowings consist of overnight borrowings and term borrowings with an original maturity of one year or less. The long-term debt balances and weighted average interest rates include purchase accounting fair value adjustments, net of related amortization, from the Fox Chase acquisition.

(Dollars in thousands)	Balance at End of Year	Weighted Average Interest Rate		Maximum Amount Outstanding at Month End During the Year	Average Amount Outstanding During the Year	Weighted Average Interest Rate During the Year	
2018							
Short-term borrowings:							
FHLB borrowings	$108,300	2.62	%	$ 261,240	$ 85,601	2.01	%
Federal funds purchased	60,000	2.60		65,003	36,591	1.88	
Customer repurchase agreements	21,468	0.05		28,323	22,120	0.05	
Long-term debt:							
FHLB advances	$125,000	1.92	%	$ 125,031	$ 120,983	1.80	%
Security repurchase agreements	20,330	2.71		30,751	29,049	2.08	
Subordinated notes	$94,574	5.33	%	$ 94,574	$ 94,451	5.34	%
2017							
Short-term borrowings:							
FHLB borrowings	$30,225	1.54	%	$ 124,500	$ 50,063	1.10	%
Federal funds purchased	55,000	1.56		95,000	32,282	1.05	
Customer repurchase agreements	20,206	0.05		26,376	23,207	0.05	
Long-term debt:							
FHLB advances	$125,036	1.73	%	$ 190,689	$ 155,073	1.43	%
Security repurchase agreements	30,792	1.52		31,234	31,036	1.30	
Subordinated notes	$94,331	5.35	%	$ 94,331	$ 94,208	5.35	%

The Corporation, through the Bank, has a credit facility with the FHLB with a maximum borrowing capacity of approximately $1.6 billion. Advances from the FHLB are secured by qualifying commercial real estate and residential mortgage loans, investments and other assets. At December 31, 2018 and 2017, the Bank had outstanding short-term letters of credit with the FHLB totaling $347.5 million and $234.2 million, respectively, which were utilized to collateralize public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of the Bank’s qualifying collateral assets as well as the FHLB’s internal credit rating of the Bank.

The Corporation, through the Bank, maintains uncommitted federal fund credit lines with several correspondent banks totaling $367.0 million at December 31, 2018 and 2017. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, holds collateral at the Federal Reserve Bank of Philadelphia in order to access the Discount Window Lending program. The collateral consisting of investment securities was valued at $69.5 million and $52.0 million at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Corporation had no outstanding borrowings under this program.

The Corporation has a $10.0 million line of credit with a correspondent bank. At December 31, 2018 and 2017, the Corporation had no outstanding borrowings under this line.

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Long-term advances with the FHLB of Pittsburgh mature as follows:

(Dollars in thousands)	As of December 31, 2018	Weighted Average Rate	
2019	$ 10,000	1.35	%
2020	40,000	1.70	
2021	55,000	1.94	
2022	10,000	2.09	
2023	10,000	3.02	
Thereafter	—	—	
Total	$ 125,000	1.92	%

Long-term debt under security repurchase agreements with large commercial banks mature as follows:

(Dollars in thousands)	As of December 31, 2018	Weighted Average Rate	
2019	$ 10,114	2.72	%
2020	10,216	2.71	
2021	—	—	
2022	—	—	
2023	—	—	
Thereafter	—	—	
Total	$ 20,330	2.71	%

Long-term debt under security repurchase agreements totaling $20.3 million are variable based on the one-month LIBOR rate plus a spread.

Subordinated Debt

On July 1, 2016, the Corporation issued $45.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2026 (2016 Notes) in a private placement transaction to institutional accredited investors. The net proceeds of the offering approximated $44.5 million. The 2016 Notes bear interest at an annual fixed rate of 5.00% from the date of issuance until June 30, 2021, or any early redemption date. From June 30, 2021 to the maturity date of June 30, 2026 (or any early redemption date), the 2016 Notes will bear interest at an annual rate equal to three-month LIBOR rate plus 3.90%. Beginning with the interest payment date of June 30, 2021, the Corporation has the option on each interest payment date, subject to approval of the Federal Reserve Board, to redeem the 2016 Notes in whole or in part at a redemption price equal to 100% of the principal amount of the redeemed 2016 Notes, plus accrued and unpaid interest to the date of the redemption. The Corporation may also redeem the 2016 Notes, in whole but not in part, at any time upon the occurrence of certain tax, regulatory capital and Investment Company Act of 1940 Act events, subject in each case to the approval of the Federal Reserve.

On March 30, 2015, the Corporation issued $50.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2025 (2015 Notes) in a private placement transaction to institutional accredited investors. The net proceeds of the offering $49.3 million, The 2015 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. From March 30, 2020 to the maturity date of March 30, 2025 (or any early redemption date), the 2015 Notes will bear interest at an annual rate equal to the three-month LIBOR rate plus 3.544%. Beginning with the interest payment date of March 30, 2020, the Corporation has the option on each interest payment date, subject to approval of the Federal Reserve Board, to redeem the 2015 Notes in whole or in part at a redemption price equal to 100% of the principal amount of the redeemed 2015 Notes, plus accrued and unpaid interest to the date of the redemption. The Corporation may also redeem the 2015 Notes, in whole, at any time, or in part from time to time upon the occurrence of certain tax, regulatory capital and Investment Company Act of 1940 Act events, subject in each case to the approval of the Federal Reserve.

The subordinated notes qualify as Tier 2 capital for regulatory capital purposes for the first five years of the notes' terms. The Tier 2 capital benefit is phased out at 20% per year after the fifth year (from years six to ten) and have no benefit in the tenth year.

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Note 11. Income Taxes

The provision for federal and state income taxes included in the accompanying consolidated statements of income consists of the following:

	For the Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Current:			
Federal	$9,770	$9,273	$2,400
State	972	961	539
Deferred:			
Federal	(862)	7,350	909
State	263	133	33
	$10,143	$17,717	$3,881

The provision for income taxes differs from the expected statutory provision as follows:

	For the Years Ended December 31,		
	2018	2017	2016
Expected provision at statutory rate	21.0 %	35.0 %	35.0 %
Difference resulting from:			
Tax exempt interest income, net of disallowance	(4.0)	(6.1)	(15.6)
Increase in value of bank owned life insurance assets	(1.1)	(2.2)	(4.2)
Stock-based compensation	(0.2)	(1.0)	(1.7)
Non-deductible merger-related expenses	—	—	1.2
State income taxes, net of federal benefits	1.6	1.2	(1.5)
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates	(0.5)	1.7	—
Changes in valuation allowance	0.1	0.5	3.1
Other	(0.2)	(0.4)	0.3
Effective tax rate	16.7 %	28.7 %	16.6 %

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (TCJA), was signed into law. The TCJA includes many provisions that affected the Corporation's income tax expense, including reducing the Corporation's federal tax rate from 35% to 21% effective January 1, 2018. As a result of the rate reduction, the Corporation was required to re-measure, the deferred tax assets and liabilities using the enacted rate at which they were expected to be recovered or settled. The re-measurement of the Corporation's net deferred tax asset resulted in additional 2017 income tax expense of $1.1 million.

Also, on December 22, 2017, the U.S. Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 118 (SAB 118) to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the TCJA in situations where a registrant did not have the necessary information available, prepared, or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the TCJA's enactment date to complete the necessary accounting.

The Corporation recorded provisional amounts of deferred income taxes using reasonable estimates in four areas where information necessary to complete the accounting was not available, prepared, or analyzed: 1) the Corporation's deferred tax liability for temporary differences between the tax and financial reporting basis of fixed assets is principally due to the accelerated depreciation under the TCJA which allows for full expensing of qualified property purchased and placed in service after September 27, 2017; 2) the Corporation's deferred tax asset for temporary differences associated with accrued compensation was awaiting final determinations of amounts that will be paid and deducted on the 2017 income tax returns; 3) the Corporation's deferred tax liability for temporary differences associated with equity investments in partnerships was awaiting receipt of Schedules K-1 from outside preparers,

which was necessary to determine the 2017 tax impact from these investments; and 4) the Corporation's deferred tax liability for temporary differences related to its qualified pension plan is based upon actuarial reports from the Corporation's third party provider. However, the Corporation was still in the process of determining if a contribution related to the 2017 plan year was going to be made.

The Corporation did not make any adjustments to deferred tax assets, representing future deductions for accrued compensation that may be subject to new limitations under Internal Revenue Code Section 162(m) which, generally, limits the annual deduction for certain compensation paid to certain employees to $1.0 million. There was uncertainty in applying the newly-enacted rules to existing contracts, and the Corporation was seeking further clarifications before completing its analysis.

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The Corporation completed the calculations of the provisional items above with the completion of the 2017 tax returns. The impact of the completed calculations to the re-measurement of the Corporation's net deferred tax asset resulted in an income tax benefit of $300 thousand which the Corporation recorded in 2018.
Retained earnings include $6.0 million at December 31, 2018, 2017 and 2016, which was originally generated by Fox Chase Bank (acquired in 2016), for which no provision for federal income tax has been made. This amount represents deductions for bad debt reserves for tax purposes, which were only allowed to savings institutions that met certain criteria prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act of 1996 eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Small Business Job Protection Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Corporation pays a cash dividend in excess of cumulative retained earnings or liquidates.
At December 31, 2018 and 2017, the Corporation had no unrecognized tax benefits or accrued interest and penalties recorded. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. Interest and penalties are recorded in noninterest expense in the year they are assessed. For tax purposes, interest is treated as a deductible expense and penalties are treated as a non-deductible expense.
The Corporation and its subsidiaries are subject to U.S. federal income tax, as well as income tax of the state of Pennsylvania and various other state and local jurisdictions. The Corporation and its subsidiaries are generally no longer subject to examination by federal, state and local taxing authorities for years prior to December 31, 2015.
Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred state taxes are combined with federal deferred taxes (net of the impact of deferred state tax on the deferred federal tax) and are shown in the table below by major category.
The Corporation has a state net operating loss carry-forward of $59.8 million which will begin to expire after 2019 if not utilized. A valuation allowance at December 31, 2018 and 2017 was attributable to deferred tax assets generated in certain state jurisdictions for which management believes it is more likely than not that such deferred tax assets will not be realized. Other than the valuation allowance on certain state deferred tax assets, management has determined that no additional valuation allowance is necessary for deferred tax assets because it is more likely than not that these assets will be realized through future reversals of existing temporary differences and through future taxable income. The Corporation will continue to review the criteria related to the recognition of deferred tax assets on a regular basis.
The assets and liabilities giving rise to the Corporation’s deferred tax assets and liabilities are as follows:

	At December 31,	
(Dollars in thousands)	2018	2017
Deferred tax assets:		
Allowance for loan and lease losses	$6,410	$4,643
Deferred compensation	1,734	2,110
Actuarial adjustments on retirement benefits*	4,592	4,432
State net operating losses	4,730	4,166
Other-than-temporary impairments on equity securities	148	148
Net unrealized holding losses on securities available-for-sale and swaps*	2,968	1,316
Other deferred tax assets	1,368	1,243
Gross deferred tax assets	21,950	18,058
Valuation allowance	(3,830)	(3,523)
Total deferred tax assets, net of valuation allowance	18,120	14,535
Deferred tax liabilities:		
Mortgage servicing rights	1,463	1,415
Retirement plans	5,263	4,304
Deferred loan fees and costs	1,163	2,614
Acquisition-related fair value adjustments	1,605	1,621

Intangible assets	1,987	1,513
Accounting method change adjustment	1,154	—
Depreciation	937	1,102
Other deferred tax liabilities	963	792
Total deferred tax liabilities	14,535	13,361
Net deferred tax assets	$3,585	$1,174

*Represents the amount of deferred taxes recorded in accumulated other comprehensive income.

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Note 12. 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 to certain former executives, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. These non-qualified benefit plans are not offered to new participants and all current participants are now retired. Information on these plans are aggregated and reported under “Retirement Plans” within this footnote.

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

The Corporation sponsors a 401(k) deferred salary savings plan, which is a qualified defined contribution plan, and which covers all employees of the Corporation and its subsidiaries, and provides that the Corporation makes matching contributions as defined by the plan. Expense recorded by the Corporation for the 401(k) deferred salary savings plan for the years ended December 31, 2018, 2017 and 2016 was $1.4 million, $1.4 million, and $1.2 million, respectively.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan (SNQPP), which was established in 1981 prior to the existence of the 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. Expense recorded by the Corporation for the SNQPP for the years ended December 31, 2018, 2017 and 2016 was $215 thousand, $222 thousand and $52 thousand, respectively.

Information with respect to the Retirement Plans and Other Postretirement Benefits follows:

(Dollars in thousands)	Retirement Plans 2018	Retirement Plans 2017	Other Postretirement Benefits 2018	Other Postretirement Benefits 2017
Change in benefit obligation:				
Benefit obligation at beginning of year	$50,364	$47,389	$2,611	$2,968
Service cost	560	524	88	48
Interest cost	1,760	1,927	92	118
Actuarial (gain) loss	(3,205)	3,169	(404)	(409)
Benefits paid	(2,611)	(2,645)	(104)	(114)
Benefit obligation at end of year	$46,868	$50,364	$2,283	$2,611
Change in plan assets:				
Fair value of plan assets at beginning of year	$46,753	$41,418	$—	$—
Actual (loss) return on plan assets	(1,923)	5,799	—	—
Benefits paid	(2,611)	(2,645)	(104)	(114)
Employer contribution and non-qualified benefit payments	3,160	2,181	104	114
Fair value of plan assets at end of year	$45,379	$46,753	$—	$—
Funded status	(1,489)	(3,611)	(2,283)	(2,611)
Unrecognized net actuarial loss (gain)	22,141	21,256	(92)	316
Unrecognized prior service costs	(181)	(464)	—	—
Net amount recognized	$20,471	$17,181	$(2,375)	$(2,295)

The fair value of pension plan assets exceeded the accumulated benefit obligation at December 31, 2018 and 2017.

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Components of net periodic benefit cost were as follows:

	Retirement Plans			Other Post Retirement Benefits		
(Dollars in thousands)	2018	2017	2016	2018	2017	2016
Service cost	$560	$524	$661	$ 88	$ 48	$ 46
Interest cost	1,760	1,927	2,071	92	118	133
Expected (loss) return on plan assets	(3,287)	(3,074)	(3,041)	—	—	—
Amortization of net actuarial loss	1,120	1,185	1,296	4	42	25
Accretion of prior service cost	(283)	(282)	(283)	—	—	—
Settlement cost	—	—	1,434	—	—	—
Net periodic benefit (income) cost	$(130)	$280	$2,138	$ 184	$ 208	$ 204

The components of net periodic benefit cost other than the service cost component are included in other noninterest expense in the consolidated statements of income.

In the fourth quarter of 2016, the Corporation offered to vested participants in the pension plan, who were no longer employees, the option of a one-time lump-sum payment in lieu of any future benefits that would have been payable from the plan. As a result, lump-sum payments from the plan were $3.2 million and exceeded the service cost and interest cost for the year triggering a settlement. The settlement was measured as of December 31, 2016 because the majority of lump sum payments occurred during December 2016. The settlement cost was $1.4 million. The amount represents a reclassification of accumulated other comprehensive income to pension expense (included in other noninterest expense in the statement of income) and had no impact on shareholders' equity.

(Dollars in thousands)	Retirement Plans	Other Postretirement Benefits
Expected amortization expense for 2019:		
Amortization of net actuarial loss	$ 1,175	$ —
Accretion of prior service cost	(181)	—

During 2019, the Corporation expects to contribute approximately $157 thousand to the Retirement Plans and approximately $89 thousand to Other Postretirement Benefits.

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid:

(Dollars in thousands)	Retirement Plans	Other Postretirement Benefits
For the fiscal year ending:		
2019	$ 2,836	$ 89
2020	2,839	90
2021	2,892	92
2022	2,898	94
2023	2,964	97
Years 2024-2028	14,946	540

Weighted-average assumptions used to determine benefit obligations at December 31, 2018 and 2017 were as follows:

	Retirement Plans		Other Postretirement Benefits	
	2018	2017	2018	2017
Assumed discount rate	4.2%	3.6%	4.2 %	3.6 %

Assumed salary increase rate	3.0	3.0	—	—

The benefit obligation for all plans at December 31, 2018 was based on the RP-2014 mortality table using the projection scale MP-2018 published by the Society of Actuaries.

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Weighted-average assumptions used to determine net periodic costs for the years ended December 31, 2018 and 2017 were as follows. The discount rate was determined utilizing the FTSE Pension Discount Curve. Historical investment returns is the basis used to determine the overall expected long-term rate of return on assets.

	Retirement Plans		Other Postretirement Benefits	
	2018	2017	2018	2017
Assumed discount rate	3.6%	4.0%	3.6 %	4.0 %
Assumed long-term rate of investment return	7.0	7.5	—	—
Assumed salary increase rate	3.0	3.0	—	—

The Corporation's pension plan asset allocation at December 31, 2018 and 2017, by asset category was as follows:

	Percentage of Plan Assets at December 31,	
	2018	2017
Asset Category:		
Equity securities	60 %	64 %
Debt securities	39	35
Other	1	1
Total	100%	100%

Plan assets include marketable equity securities, corporate and government debt securities, and certificates of deposit. The investment strategy is to keep a 60% equity to 40% fixed income mix to achieve the overall expected long-term rate of return of 7.0%. Equity securities do not include any common stock of the Corporation.

The major categories of assets in the Corporation's pension plan at year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy described in Note 17, "Fair Value Disclosures."

	Fair Value Measurements at December 31,	
(Dollars in thousands)	2018	2017
Level 1:		
Mutual funds	$28,360	$31,144
Short-term investments	666	515
Level 2:		
U.S. government obligations	6,167	4,910
Corporate bonds	6,031	5,974
Level 3:		
Certificates of deposit	4,155	4,210
Total fair value of plan assets	$45,379	$46,753

The following table provides a reconciliation of the beginning and ending balances for measurements in hierarchy Level 3 at December 31, 2018 and 2017:

(Dollars in thousands)	Balance at December 31, 2017	Total Unrealized (Losses) or Gains	Total Realized Gains or (Losses)	Purchases	Maturities/ Redemptions	Balance at December 31, 2018

Certificates of deposit	$ 4,210	$ —	$ —	$ 845	$ (900)	$ 4,155
Total Level 3 assets	$ 4,210	$ —	$ —	$ 845	$ (900)	$ 4,155

(Dollars in thousands)	Balance at December 31, 2016	Total Unrealized (Losses) or Gains	Total Realized Gains or (Losses)	Purchases	Maturities/ Redemptions	Balance at December 31, 2017
Certificates of deposit	$ 4,565	$ —	$ —	$ 535	$ (890)	$ 4,210
Total Level 3 assets	$ 4,565	$ —	$ —	$ 535	$ (890)	$ 4,210

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Note 13. Stock-Based Incentive Plan

The Corporation has a shareholder approved 2013 Long-Term Incentive Plan, which replaced the expired 2003 Long-Term Incentive Plan. Under the 2013 Long-Term Incentive Plan, the Corporation may grant up to 3,698,974 options and restricted stock to employees and non-employee directors, which includes 330,625 shares as a result of the Corporation's common stock issuance in 2017, 857,191 shares as a result of the completion of the acquisition of Fox Chase in 2016 and 473,483 shares as a result of the completion of the acquisition of Valley Green Bank in 2015. The number of shares of common stock available for issuance under the plan is subject to adjustment, as described in the plan. This includes, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the stock, substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the plan, in the number and option price of shares subject to outstanding options granted under the plan and in the number and price of shares subject to other awards, as described in the plan. The plan provides for the issuance of options to purchase common shares at prices not less than 100 percent of the fair market value on the date of option grant and have a contractual term of ten years; and for restricted stock awards valued at not less than 100 percent of the fair market value at the date of award grant. The options issued in 2018 become exercisable and vest at 33.3 percent per year for each of the following three years and remain exercisable for a period not exceeding ten years from the date of grant. For the majority of the restricted stock awards, the shares vest based upon the Corporation’s performance with respect to certain financial measures over a three-year period. There were 2,631,983 share awards available for future grants at December 31, 2018 under the plan. At December 31, 2018, there were 597,405 options to purchase common stock and 157,579 unvested restricted stock awards outstanding under the plan.

In December 2018, the Corporation's Board of Directors approved an Amended and Restated Univest 2013 Long-Term Incentive Plan to allow for the issuance of restricted stock units.

The following is a summary of the Corporation’s stock option activity and related information for the year ended December 31, 2018:

(Dollars in thousands, except per share data)	Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value at December 31, 2018
Outstanding at December 31, 2017	512,735	$ 21.90		
Granted	190,778	28.50		
Expired	(6,356)	24.61		
Forfeited	(40,002)	26.29		
Exercised	(59,750)	18.92		
Outstanding at December 31, 2018	597,405	23.98	7.2	$ 820
Exercisable at December 31, 2018	253,175	20.36	5.5	670

The following is a summary of nonvested stock options at December 31, 2018 including changes during the year:

(Dollars in thousands, except per share data)	Nonvested Stock Options	Weighted Average Grant Date Fair Value
Nonvested stock options at December 31, 2017	352,142	$ 6.47
Granted	190,778	6.46
Vested	(158,688)	6.43
Forfeited	(40,002)	6.49
Nonvested stock options at December 31, 2018	344,230	6.48

The Corporation's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee turnover. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury strip rate in effect at the time of grant. Expected volatility is based on the historical volatility of the Corporation’s stock over the expected life of the grant. The Corporation uses a straight-line accrual method to recognize stock-based compensation expense over the time-period it expects the options to vest.

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The Corporation recognizes compensation expense for stock options over the requisite service period based on the grant-date fair value of the awards. The Corporation records forfeitures as they occur. The following aggregated assumptions were used to estimate the fair value of options granted for the periods indicated:

	For the Years Ended December 31,				
	2018	2017	2016		
	Actual	Actual	Range		Weighted Average
Expected option life in years	6.6	6.9	7.6	-8.2	7.9
Risk free interest rate	2.80 %	2.30 %	1.38%	-1.89%	1.87 %
Expected dividend yield	2.81 %	2.84 %	3.80%	-4.19%	4.06 %
Expected volatility	27.15%	29.75%	37.71%	-46.22%	45.82 %
Fair value of options	$6.46	$6.72	$5.40	-$6.27	$6.23

The following is a summary of nonvested restricted stock awards at December 31, 2018 including changes during the year:

(Dollars in thousands, except per share data)	Nonvested Share Awards	Weighted Average Grant Date Fair Value
Nonvested share awards at December 31, 2017	229,026	$ 21.93
Granted	59,953	28.39
Vested	(97,201)	20.13
Forfeited	(34,199)	22.73
Nonvested share awards at December 31, 2018	157,579	25.33

The fair value of restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period. Certain information regarding restricted stock is summarized below for the periods indicated:

(Dollars in thousands, except per share data)	For the Years Ended December 31,		
	2018	2017	2016
Shares granted	59,953	61,823	176,255
Weighted average grant date fair value	$28.39	$28.08	$ 20.60
Intrinsic value of awards vested	$2,709	$2,954	$ 1,000

The total unrecognized compensation expense and the weighted average period over which unrecognized compensation expense is expected to be recognized related to nonvested stock options and nonvested restricted stock awards at December 31, 2018 is presented below:

(Dollars in thousands)	Unrecognized Compensation Cost	Weighted-Average Period Remaining (Years)
Stock options	$ 1,222	1.8
Restricted stock awards	1,601	1.7
	$ 2,823	1.7

The following table presents information related to the Corporation’s compensation expense related to stock incentive plans recognized for the periods indicated:

(Dollars in thousands)	For the Years Ended December 31,		
	2018	2017	2016
Stock-based compensation expense:			

Stock options	$1,020	$910	$577
Restricted stock awards	1,537	2,256	1,507
Employee stock purchase plan	68	64	67
Total	$2,625	$3,230	$2,151
Tax benefit on nonqualified stock option expense, restricted stock awards and disqualifying dispositions of incentive stock options	$620	$1,432	$1,135

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There were no significant modifications or accelerations to options or restricted stock awards during the period 2016 through 2018. The Corporation typically issues shares for stock option exercises and grants of restricted stock awards from its treasury stock.

Note 14. Accumulated Other Comprehensive Loss

The following table shows the components of accumulated other comprehensive loss, net of tax benefit, for the periods presented:

(Dollars in thousands)	Net Unrealized (Losses) Gains 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, 2015	$ (592)	$ (285)	$ (15,831)	$ (16,708)
Net Change	(4,396)	144	1,506	(2,746)
Balance, December 31, 2016	(4,988)	(141)	(14,325)	(19,454)
Net Change	927	150	606	1,683
Balance, December 31, 2017	(4,061)	9	(13,719)	(17,771)
Adjustment to initially apply ASU No. 2016-01 for equity securities measured at fair value (1)	(433)	—	—	(433)
Adjustment to initially apply ASU No. 2018-02 for reclassification of stranded net tax charges (1)	(968)	2	(2,955)	(3,921)
Other comprehensive (loss) income	(5,759)	70	(602)	(6,291)
Balance, December 31, 2018	$ (11,221)	$ 81	$ (17,276)	$ (28,416)

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

Note 15. Commitments and Contingencies

Lending Operations

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers. The Bank offers commercial, mortgage, and consumer credit products to customers in the normal course of business, which are detailed in Note 5. These products result in a diversified credit portfolio and are generally issued to borrowers within the Bank's market area. Financial instruments with off-balance sheet risk include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Collateral is obtained based on management's credit assessment of the customer.

Standby letters of credit and performance letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. They are primarily issued to support commercial paper, medium and long-term notes and debentures, including industrial revenue obligations. The approximate term is usually one year but some can be up to five years. Historically, substantially all standby letters of credit expire unfunded. If funded, the

majority of the letters of credit carry current market interest rates if converted to loans. Because letters of credit are generally un-assignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The carrying amount is recorded as unamortized deferred fees and the exposure is considered in the reserve for credit risk. At December 31, 2018, the maximum potential amount of future payments under letters of credit is $61.2 million. The current carrying amount of the contingent obligation is $289 thousand. This arrangement has credit risk essentially the same as that involved in extending loans to customers and is subject to the Bank's normal credit policies. Collateral is obtained based on management's credit assessment of the customer.

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The following schedule summarizes the Corporation’s off-balance sheet financial instruments at December 31, 2018:

(Dollars in thousands)	Contract/Notional Amount
Financial instruments representing credit risk:	
Commitments to extend credit	$ 1,276,745
Performance letters of credit	31,039
Financial standby letters of credit	29,743
Other letters of credit	410

The Bank maintains a reserve in other liabilities for estimated losses associated with sold mortgages that may be repurchased. At December 31, 2018, the reserve for sold mortgages was $299 thousand.

Legal Proceedings

The Corporation is periodically subject to various pending and threatened legal actions, which involve claims for monetary relief. Based upon information presently available to the Corporation, it is the Corporation's opinion that any legal and financial responsibility arising from such claims will not have a material adverse effect on the Corporation's results of operations, financial position or cash flows.

Operating Leases

At December 31, 2018, the Corporation and its subsidiaries were obligated under non-cancelable leases for various premises. A summary of the future minimum rental commitments under non-cancelable operating leases with original or remaining terms greater than one year is as follows:

(Dollars in thousands)

Year	Amount
2019	$3,536
2020	3,632
2021	3,688
2022	3,660
2023	3,610
Thereafter	37,389
Total	$55,515

Service Contracts

At December 31, 2018, the Corporation had contracts with third-party providers to manage the Corporation's network operations, data processing and other related services. The projected amount of the Corporation's future minimum payments due for contracts with original or remaining terms greater than one year is as follows:

(Dollars in thousands)

Year	Amount
2019	$5,421
2020	4,288
2021	3,478
2022	1,250
2023	406
Thereafter	79
Total	$14,922

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Note 16. Derivative Instruments and Hedging Activities
Interest Rate Swaps
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.
In 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 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 of one-month LIBOR. The swap matures in November 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 recorded ineffectiveness in other noninterest income of $83 thousand on the interest rate swap in 2018. At December 31, 2018, approximately $62 thousand in net deferred losses, net of tax, recorded in accumulated other comprehensive loss are expected to be reclassified into earnings during the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to December 31, 2018. At December 31, 2018, the notional amount of the interest rate swap was $17.1 million, with a positive fair value of $185 thousand.
The Corporation has an interest rate swap classified as a fair value hedge with a current notional amount of $1.3 million to hedge a 10-year fixed rate loan that is earning interest at 5.83%. The Corporation pays a fixed rate of 5.83% and receives a floating rate based on the one-month LIBOR plus 350 basis points. The swap matures in October 2021. The difference between changes in the fair values of the interest rate swap agreement and the hedged loan represents hedge ineffectiveness and is recorded in other noninterest income in the consolidated statements of operations.
The Corporation has an interest rate swap with a current notional amount of $418 thousand, for a 15-year fixed rate loan that is earning interest at 7.43%. The Corporation pays a fixed rate of 7.43% and receives a floating rate based on the one-month LIBOR plus 224 basis points. The swap matures in April 2022. The interest rate swap is carried at fair value in accordance with FASB ASC 815 "Derivatives and Hedging." The loan is carried at fair value under the fair value option as permitted by FASB ASC 825 "Financial Instruments."
Credit Derivatives
The Corporation has agreements with third-party financial institutions whereby the third-party financial institution enters into interest rate derivative contracts with loan customers referred to them by the Corporation. By the terms of the agreements, the third-party financial institution has recourse to the Corporation for any exposure created under each swap contract in the event the customer defaults on the swap agreement and the agreement is in a paying position to the third-party financial institution. These transactions represent credit derivatives and are a customary arrangement that allows the Corporation to provide access to interest rate transactions for customers without creating the swap. The Corporation records the fair value of credit derivatives in other liabilities on the consolidated balance sheets. The Corporation recognizes changes in the fair value of credit derivatives, net of any fees received, in other noninterest income in the consolidated statements of income.
At December 31, 2018, the Corporation has nineteen variable-rate to fixed-rate interest rate swap transactions between the third-party financial institution and customers with a current notional amount of $122.4 million and remaining maturities ranging from one to 10 years. At December 31, 2018, the fair value of the swaps to the customers was a

liability of $72 thousand and $59.6 million of notional amount of the swaps were in paying positions while $62.8 million are in a receiving position to the third-party financial institution.
The maximum potential payments by the Corporation to the third-party financial institution under these credit derivatives are not estimable as they are contingent on future interest rates and exchange rates, and the agreement does not provide for a limitation of the maximum potential payment amount.

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Mortgage Banking Derivatives

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.

Derivatives Tables

The following table presents the notional amounts and fair values of derivatives designated as hedging instruments recorded on the consolidated balance sheets at December 31, 2018 and 2017. The Corporation pledges cash or securities to cover the negative fair value of derivative instruments. Cash collateral associated with derivative instruments are not added to or netted against the fair value amounts.

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At December 31, 2018					
Interest rate swap - cash flow hedge	$ 17,076	Other assets	$ 185		$ —
Interest rate swap - fair value hedge	1,346	Other assets	4		—
Total	$ 18,422		$ 189		$ —
At December 31, 2017					
Interest rate swap - cash flow hedge	$ 17,836	Other assets	$ 13		$ —
Interest rate swap - fair value hedge	1,388		—	Other liabilities	12
Total	$ 19,224		$ 13		$ 12

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at December 31, 2018 and 2017:

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At December 31, 2018					
Interest rate swap	$ 418		$ —	Other liabilities	$ 20
Credit derivatives	122,410		—	Other liabilities	72
Interest rate locks with customers	21,494	Other assets	490		—
Forward loan sale commitments	23,227		—	Other liabilities	150
Total	$ 167,549		$ 490		$ 242
At December 31, 2017					
Interest rate swap	$ 523		$ —	Other liabilities	$ 38
Credit derivatives	75,622		—	Other liabilities	36
Interest rate locks with customers	27,411	Other assets	527		—
Forward loan sale commitments	29,037	Other assets	61		—
Total	$ 132,593		$ 588		$ 74

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The following table presents amounts included in the consolidated statements of income for derivatives designated as hedging instruments for the periods indicated:

(Dollars in thousands)	Statement of Income Classification	For the Years Ended December 31, 2018	2017	2016
Interest rate swap—cash flow hedge—net interest payments	Interest expense	$15	$182	$308
Interest rate swap—cash flow hedge—ineffectiveness	Other noninterest income	83	—	—
Interest rate swap—fair value hedge—ineffectiveness	Other noninterest income	3	7	9
Total net gain (loss)		$71	$(175)	$(299)

The following table presents amounts included in the consolidated statements of income for derivatives not designated as hedging instruments for the periods indicated:

(Dollars in thousands)	Statement of Income Classification	For the Years Ended December 31, 2018	2017	2016
Credit derivatives	Other noninterest income	$262	$403	$93
Interest rate locks with customers	Net loss on mortgage banking activities	(37)	(274)	(288)
Forward loan sale commitments	Net (loss) gain on mortgage banking activities	(211)	(196)	359
Total net gain (loss)		$14	$(67)	$164

The following table presents amounts included in accumulated other comprehensive (loss) income for derivatives designated as hedging instruments at December 31, 2018 and 2017:

(Dollars in thousands)	Accumulated Other Comprehensive Income	At December 31, 2018	2017
Interest rate swap—cash flow hedge	Fair value, net of taxes	$ 80	$ 9
Total		$ 80	$ 9

Note 17. 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 market participants would use in pricing the asset or liability based on the best information available in the circumstances, including assumptions about risk. Three levels of inputs are used to measure fair value. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. Transfers between levels are recognized at the end of the reporting period.

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

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.

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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. Level 2 of the valuation hierarchy includes securities issued by U.S. Government sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, corporate and municipal bonds and certain equity securities. 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. 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.

Certain corporate bonds owned by the Corporation are classified as Level 3 as they are not traded in active markets. The fair value of each bond is estimated by benchmarking similar transactions of structure, yield and credit which are owned by the Corporation and are actively traded in the market.

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. 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 determine 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 may utilize and change the security's valuation. There were no material differences in valuations noted at December 31, 2018.

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. Interest rate swaps and mortgage banking derivative financial instruments are classified within Level 2 of the valuation hierarchy. Credit derivatives are valued based on credit worthiness of the underlying borrower which is a significant unobservable input and therefore classified in Level 3 of the valuation hierarchy.

Two commercial loans, associated with interest rate swaps are classified in Level 3 of the valuation hierarchy since lending credit risk is not an observable input for these loans. The unrealized gain on the two loans was $21 thousand at December 31, 2018.

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 of estimated future contingent payments based on projected revenue of the acquired business affecting

the contingent consideration liability will be recorded through noninterest expense. Due to the significant unobservable input related to the projected revenue, the contingent consideration liability is classified within Level 3 of the valuation hierarchy. An increase in the projected revenue may result in a higher fair value of the contingent consideration liability. Alternatively, a decrease in the projected revenue may result in a lower estimated fair value of the contingent consideration liability.

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The following table presents the assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017, classified using the fair value hierarchy:

	At December 31, 2018			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$—	$15,315	$—	$ 15,315
State and political subdivisions	—	65,415	—	65,415
Residential mortgage-backed securities	—	151,762	—	151,762
Collateralized mortgage obligations	—	2,888	—	2,888
Corporate bonds	—	67,398	25,729	93,127
Total available-for-sale securities	—	302,778	25,729	328,507
Equity securities:				
Equity securities - financial services industry	924	—	—	924
Money market mutual funds	1,241	—	—	1,241
Total equity securities	2,165	—	—	2,165
Loans*	—	—	1,779	1,779
Interest rate swaps*	—	189	—	189
Interest rate locks with customers*	—	490	—	490
Total assets	$2,165	$303,457	$27,508	$ 333,130
Liabilities:				
Contingent consideration liability	$—	$—	$259	$ 259
Interest rate swaps*	—	20	—	20
Credit derivatives*	—	—	72	72
Forward loan sale commitments*	—	150	—	150
Total liabilities	$—	$170	$331	$ 501

	At December 31, 2017			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$—	$16,961	$—	$ 16,961
State and political subdivisions	—	78,297	—	78,297
Residential mortgage-backed securities	—	185,421	—	185,421
Collateralized mortgage obligations	—	3,602	—	3,602
Corporate bonds	—	79,190	27,986	107,176
Total available-for-sale securities	—	363,471	27,986	391,457
Equity securities:				
Equity securities - financial services industry	1,076	—	—	1,076
Money market mutual funds	5,985	—	—	5,985
Total equity securities	7,061	—	—	7,061
Loans*	—	—	1,958	1,958
Interest rate swaps*	—	13	—	13
Interest rate locks with customers*	—	527	—	527
Forward loan sale commitments*	—	61	—	61

Total assets	$7,061	$364,072	$29,944	$ 401,077
Liabilities:				
Contingent consideration liability	$—	$—	$339	$ 339
Interest rate swaps*	—	50	—	50
Credit derivatives*	—	—	36	36
Total liabilities	$—	$50	$375	$ 425

*Such financial instruments are recorded at fair value as further described in Note 16, "Derivative Instruments and Hedging Activities."

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The following table includes a rollforward of corporate bonds, loans and credit derivatives for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for year ended December 31, 2018 and 2017.

	For the Year Ended December 31, 2018						
(Dollars in thousands)	Balance at December 31, 2017	Purchases/additions	Sales	Payments received	Premium amortization, net	(Decrease) increase in value	Balance at December 31, 2018
Corporate bonds	$ 27,986	$ —	$ —	$ —	$ —	$ (2,257)	$ 25,729
Loans	1,958	—	—	(148)	—	(31)	1,779
Credit derivatives	(36)	(299)	—	—	—	263	(72)
Net total	$ 29,908	$ (299)	$ —	$ (148)	$ —	$ (2,025)	$ 27,436

	For the Year Ended December 31, 2017						
(Dollars in thousands)	Balance at December 31, 2016	Purchases/additions	Sales	Payments received	Premium amortization, net	(Decrease) increase in value	Balance at December 31, 2017
Corporate bonds	$ 28,778	$ —	$ —	$ —	$ —	$ (792)	$ 27,986
Loans	2,138	—	—	(137)	—	(43)	1,958
Credit derivatives	(9)	(430)	—	—	—	403	(36)
Net total	$ 30,907	$ (430)	$ —	$ (137)	$ —	$ (432)	$ 29,908

The following table presents the change in the balance of the contingent consideration liability related to acquisitions for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31, 2018				
(Dollars in thousands)	Balance at December 31, 2017	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at December 31, 2018
Girard Partners	$ 339	—	131	51	$ 259
Total contingent consideration liability	$ 339	$ —	$ 131	$ 51	$ 259

	For the Year Ended December 31, 2017				
(Dollars in thousands)	Balance at December 31, 2016	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at December 31, 2017
Sterner Insurance Associates	$ 331	$ —	$ 30	$ (301)	$ —
Girard Partners	5,668	—	5,383	54	339
Total contingent consideration liability	$ 5,999	$ —	$ 5,413	$ (247)	$ 339

The Corporation may be required to periodically measure certain assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or impairment charges of individual assets. The following table represents assets measured at fair value on a non-recurring basis at December 31, 2018 and 2017:

	At December 31, 2018			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets at Fair Value
Impaired loans held for investment	$ —	$ —	$ 25,166	$ 25,166
Other real estate owned	—	—	1,187	1,187

Total	$ —	$ —	$26,353	$26,353

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	At December 31, 2017			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets at Fair Value
Impaired loans held for investment	$—	$—	$28,351	$28,351
Impaired leases held for investment	—	—	1,250	1,250
Other real estate owned	—	—	1,843	1,843
Total	$—	$—	$31,444	$31,444

The following table presents assets and liabilities and off-balance sheet items not measured at fair value on a recurring or non-recurring basis in the Corporation's consolidated balance sheets but for which the fair value is required to be disclosed at December 31, 2018 and 2017. The disclosed fair values are classified using the fair value hierarchy.

	At December 31, 2018				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$109,420	$—	$—	$109,420	$109,420
Held-to-maturity securities	—	141,575	—	141,575	142,634
Federal Home Loan Bank, Federal Reserve Bank and other stock	N/A	N/A	N/A	N/A	28,337
Loans held for sale	—	1,798	—	1,798	1,754
Net loans and leases held for investment	—	—	3,924,329	3,924,329	3,950,265
Servicing rights	—	—	11,496	11,496	6,768
Total assets	$109,420	$143,373	$3,935,825	$4,188,618	$4,239,178
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$3,215,856	$—	$—	$3,215,856	$3,215,856
Time deposits	—	664,738	—	664,738	670,077
Total deposits	3,215,856	664,738	—	3,880,594	3,885,933
Short-term borrowings	—	189,768	—	189,768	189,768
Long-term debt	—	144,021	—	144,021	145,330
Subordinated notes	—	95,113	—	95,113	94,574
Total liabilities	$3,215,856	$1,093,640	$—	$4,309,496	$4,315,605
Off-Balance-Sheet:					
Commitments to extend credit	$—	$(2,516)	$—	$(2,516)	$—

	At December 31, 2017				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$75,409	$—	$—	$75,409	$75,409
Held-to-maturity securities	—	55,320	—	55,320	55,564
Federal Home Loan Bank, Federal Reserve Bank and other stock	N/A	N/A	N/A	N/A	27,204
Loans held for sale	—	1,676	—	1,676	1,642
Net loans and leases held for investment	—	—	3,547,451	3,547,451	3,566,953
Servicing rights	—	—	10,046	10,046	6,573
Total assets	$75,409	$56,996	$3,557,497	$3,689,902	$3,733,345
Liabilities:					

Deposits:					
Demand and savings deposits, non-maturity	$2,980,170	$—	$—	$2,980,170	$2,980,170
Time deposits	—	574,737	—	574,737	574,749
Total deposits	2,980,170	574,737	—	3,554,907	3,554,919
Short-term borrowings	—	105,431	—	105,431	105,431
Long-term debt	—	156,834	—	156,834	155,828
Subordinated notes	—	98,075	—	98,075	94,331
Total liabilities	$2,980,170	$935,077	$—	$3,915,247	$3,910,509
Off-Balance-Sheet:					
Commitments to extend credit	$—	$(2,414)	$—	$(2,414)	$—

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The following valuation methods and assumptions were used by the Corporation in estimating the fair value for financial instruments measured at fair value on a non-recurring basis and financial instruments not measured at fair value on a recurring or non-recurring basis in the Corporation's consolidated balance sheets but for which the fair value is required to be disclosed:
Cash and short-term interest-earning assets: The carrying amounts reported in the balance sheet for cash and due from banks, interest-earning deposits with other banks, federal funds sold and other short-term investments is their stated value. Cash and short-term interest-earning assets are classified within Level 1 in the fair value hierarchy.
Held-to-maturity securities: Fair values for the held-to-maturity investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics and are classified in Level 2 in the fair value hierarchy.

Federal Home Loan Bank, Federal Reserve Bank and other stock: It is not practical to determine the fair values of Federal
Home Loan Bank, Federal Reserve Bank and other stock, due to restrictions placed on their transferability.
Loans held for sale: The fair value of the Corporation's mortgage loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. These loans are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. There were no valuation adjustments for loans held for sale at December 31, 2018 and 2017.
Loans and leases held for investment: As of December 31, 2018, the fair values for loans and leases held for investment are estimated using discounted cash flow analysis, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers, adjusted as appropriate to consider credit, liquidity and marketability factors to arrive at a fair value that represents the Corporation's exit price at which these instruments would be sold or transferred. As of December 31, 2017, the fair values for loans and leases held for investment were estimated using discounted cash flow analysis, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers and included components for credit risk, operating expense and embedded prepayment options. An overall valuation adjustment was made for specific credit risks in addition to general portfolio risk and is significant to the valuation. Loans and leases are classified within Level 3 in the fair value hierarchy since credit risk is not an observable input.
Impaired loans and leases held for investment: For impaired loans and leases, the Corporation uses a variety of techniques to measure fair value, such as using the current appraised value of the collateral, agreements of sale, discounting the contractual cash flows, and analyzing market data that the Corporation may adjust due to specific characteristics of the loan/lease or collateral. At December 31, 2018, impaired loans held for investment had a carrying amount of $26.6 million with a valuation allowance of $1.4 million. At December 31, 2017, impaired loans held for investment had a carrying amount of $28.5 million with a valuation allowance of $131 thousand. The Corporation had no impaired leases at December 31, 2018.The Corporation had impaired leases of $1.3 million with no reserve at December 31, 2017.
Servicing rights: The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 3 in the fair value hierarchy based upon management's assessment of the inputs. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. The Corporation also records servicing rights on small business administration (SBA) loans. At December 31, 2018 and December 31, 2017, servicing rights had a carrying amount of $6.8 million and $6.6 million, respectively, with no valuation allowance.
Goodwill and other identifiable assets: Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other identifiable intangible assets. In accordance with ASC Topic 350, the

Corporation performed a qualitative assessment of goodwill during the fourth quarter of 2018 and determined it was more likely than not that the fair value of the Corporation, including each of the identified reporting units, was more than its carrying amount; therefore, the Corporation did not need to perform the two-step impairment test for the Corporation or the reporting units. The Corporation also completed an impairment test for other intangible assets during the fourth quarter of 2018. There was no impairment of goodwill or identifiable intangibles recorded.
Other real estate owned: The fair value of other real estate owned (OREO) is originally estimated based upon the appraised value less estimated costs to sell. The fair value less cost to sell becomes the "original cost" of the OREO asset. Subsequently, OREO is reported at the lower of the original cost or the current fair value less cost to sell. Capital improvement expenses associated with the construction or repair of the property are capitalized as part of the cost of the OREO asset; however, the capitalized expenses may not increase the OREO asset's recorded value to an amount greater than the asset's fair value after improvements and less cost

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to sell. New appraisals are generally obtained on an annual basis if an agreement of sale does not exist. During 2018, five properties had write-downs totaling $693 thousand, four properties were transferred into OREO with a fair value of $477 thousand and four properties were sold with total proceeds of $490 thousand for a net gain of $67 thousand. At December 31, 2018 and 2017, OREO had a carrying amount of $1.2 million and $1.8 million, respectively. Other real estate owned is classified within Level 3 of the valuation hierarchy due to the unique characteristics of the collateral for each loan.

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

Short-term borrowings: The fair value of short-term borrowings are estimated using current market rates for similar borrowings and are classified within Level 2 in the fair value hierarchy.

Long-term debt: The fair value of long-term debt is estimated by using discounted cash flow analysis, based on current market rates for debt with similar terms and remaining maturities. Long-term debt is classified within Level 2 in the fair value hierarchy.

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

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

Note 18. Restructuring Charges

During January 2018, the Corporation announced the closure of two owned financial centers and one leased financial center and reduced staff associated with these financial centers, resulting in accruing a loss of $571 thousand related to the Banking business segment. These financial centers were closed in April 2018. The remaining accrued restructuring expense at January 1, 2018 of $23 thousand related to 2016 restructuring charges.

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

(Dollars in thousands)	Severance expenses	Write-downs and retirements of fixed assets	Lease cancellations	Total
Accrued at January 1, 2018	$ —	$ —	$ 23	$ 23
Restructuring charges	366	48	157	571
Payments	(344)	—	(172)	(516)
Non-cash settlement	—	(48)	—	(48)
Accrued at December 31, 2018	$ 22	$ —	$ 8	$ 30

Note 19. Share Repurchase Plan

On October 23, 2013, the Corporation's Board of Directors approved a stock repurchase plan for the repurchase of up to 800,000 shares of common stock, or approximately 5% of the shares outstanding. On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares in the common shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. During the years ended December 31, 2018, 2017 and 2016, the Corporation repurchased 150,000, 0 and 66,000 shares of common stock at a cost of $3.6 million, $0.0 million and $1.4 million, respectively, under the share repurchase program. Shares available for future repurchases under the plan totaled 864,246 at December 31, 2018. Total shares outstanding at December 31, 2018 were 29,270,852. At December 31, 2018, the aggregate purchases recorded as treasury stock, at cost, on the Corporation's consolidated balance sheet was

$45.8 million. The Corporation will repurchase shares of its common stock from time to time through open market purchases, tender offers, privately negotiated purchases or other means based on general market conditions, the trading price of the Corporation's common stock, tax considerations, alternative uses of capital and the Corporation's results of operation. The share repurchase program does not obligate the Corporation to acquire any particular amount of common stock. The program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

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Note 20. Regulatory Matters

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

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

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies' capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The new minimum capital requirements were effective on January 1, 2015. Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.50% of total risk-weighted assets. The capital conservation buffer requirements began to be phased in beginning January 1, 2016 and were fully applicable on January 1, 2019.

The Corporation adopted the new Basel III regulatory capital rules during the first quarter of 2015 under the transition rules, primarily relating to regulatory deductions and adjustments impacting common equity tier 1 capital and tier 1 capital, to be phased in over a four-year period beginning January 1, 2015. Under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. During 2019, the Corporation and the Bank must hold a capital conservation buffer greater than 2.50% above its minimum risk-based capital requirements in order to avoid limitations on capital distributions. The Corporation's and Bank's intent is to maintain capital levels in excess of the capital conservation buffer which would require Tier 1 Capital to Risk Weighted Assets to exceed 8.50% and Total Capital to Risk Weighted Assets to exceed 10.50% beginning in the first quarter of 2019.

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The Corporation's and Bank's actual and required capital ratios as of December 31, 2018 and December 31, 2017 under regulatory capital rules were as follows.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
At December 31, 2018							
Total Capital (to Risk-Weighted Assets):							
Corporation	$604,213	13.70%	$352,764	8.00%	$ 440,955	10.00	%
Bank	506,728	11.54	351,220	8.00	439,026	10.00	
Tier 1 Capital (to Risk-Weighted Assets):							
Corporation	479,550	10.88	264,573	6.00	352,764	8.00	
Bank	476,639	10.86	263,415	6.00	351,220	8.00	
Tier 1 Common Capital (to Risk-Weighted Assets):							
Corporation	479,550	10.88	198,430	4.50	286,621	6.50	
Bank	476,639	10.86	197,561	4.50	285,367	6.50	
Tier 1 Capital (to Average Assets):							
Corporation	479,550	10.13	189,374	4.00	236,718	5.00	
Bank	476,639	10.12	188,487	4.00	235,609	5.00	
At December 31, 2017							
Total Capital (to Risk-Weighted Assets):							
Corporation	$563,797	14.00%	$322,148	8.00%	$ 402,685	10.00	%
Bank	464,851	11.62	320,003	8.00	400,004	10.00	
Tier 1 Capital (to Risk-Weighted Assets):							
Corporation	447,228	11.11	241,611	6.00	322,148	8.00	
Bank	442,613	11.07	240,002	6.00	320,003	8.00	
Tier 1 Common Capital (to Risk-Weighted Assets):							
Corporation	447,228	11.11	181,208	4.50	261,745	6.50	
Bank	442,613	11.07	180,002	4.50	260,002	6.50	
Tier 1 Capital (to Average Assets):							
Corporation	447,228	10.48	170,753	4.00	213,441	5.00	
Bank	442,613	10.45	169,453	4.00	211,816	5.00	

At December 31, 2018 and December 31, 2017, management believes that the Corporation and the Bank continued to meet all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 Capital and Total Capital equal to at least 6.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items). The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. During 2018, the Corporation and the Bank was required to hold a capital conservation buffer comprised of common equity Tier I capital above its minimum risk-based capital requirements in an amount greater than 1.875% of total risk-weighted assets in order to avoid limitations on capital distributions. For a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action, Tier 1 and Total Capital ratios must be at least 8.0% and 10.0% on a risk-adjusted basis, respectively. At December 31, 2018, the Bank is categorized as “well capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank’s category. The Corporation will continue to analyze the impact of the phase in of the capital conservation buffer as well as the impact on new accounting rules, such as Lease Accounting (ASU No. 2016-02) and CECL (ASU No. 2016-13) on its regulatory capital ratios.

During December 2018, the Federal Reserve announced that a banking organization that experiences a reduction in retained earnings due the CECL adoption as of the beginning of the fiscal year in which CECL is adopted may elect to phase in the regulatory capital impact of adopting CECL. Transitional amounts would be calculated for the following items: retained earnings, temporary difference deferred tax assets and credit loss allowances eligible for inclusion in regulatory capital. When calculating regulatory capital ratios, 25% of the transitional amounts are phased in during the first year. An additional 25% of the transitional amounts are phased in over each of the next two years and at the beginning of the fourth year, the day-one effects of CECL are completely reflected in regulatory capital. The election must be made in the first reporting period that CECL is adopted. See Note 1, "Summary of Significant Accounting Policies - Accounting Pronouncements Yet to Be Adopted" for additional information.

Dividends and Other Restrictions

The primary source of the Corporation’s dividends paid to its shareholders is from the earnings of the Bank paid to the Corporation in the form of dividends.

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The approval of the Federal Reserve Board of Governors is required for a state bank member in the Federal Reserve system to pay dividends if the total of all dividends declared in any calendar year exceeds the Bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank can declare dividends in 2019 without approval of the Federal Reserve Board of Governors of approximately $55.7 million plus an additional amount equal to the Bank's net profits for 2019 up to the date of any such dividend declaration.

Federal Reserve Board policy applicable to the holding company also provides that, as a general matter, a bank holding company should inform the Federal Reserve and should eliminate, defer or significantly reduce the holding company's dividends if the holding company's net income for the preceding four quarters, net of dividends paid during the period, is not sufficient to fully fund the dividends, the holding company's prospective rate of earnings retention is inconsistent with capital needs and overall current and prospective financial condition, or the holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Federal Reserve Board policy also provides that a bank holding company should inform the Federal Reserve reasonably in advance of declaring or paying a dividend that exceeds earnings for the period or that could result in a material adverse change to the organization's capital structure.

The Federal Reserve Act requires that the extension of credit by the Bank to certain affiliates, including the Corporation (parent), be secured by readily marketable securities, that the extension of credit to any one affiliate be limited to 10% of the Bank's capital and surplus (as defined), and that extensions of credit to all such affiliates be limited to 20% of the Bank's capital and surplus.

Note 21. Related Party Transactions

In the ordinary course of business, the Corporation has made loans and commitments to extend credit to certain directors and executive officers of the Corporation and companies in which directors have an interest (Related Parties). These loans and commitments have been made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with customers not related to the lender and did not involve more than the normal risk of collectability or present other unfavorable terms.

The following table provides a summary of activity for loans to Related Parties during the year ended December 31, 2018:

(Dollars in thousands)	
Balance at January 1, 2018	$17,845
Additions	920
Amounts collected and other reductions	(15,875)
Balance at December 31, 2018	$2,890

The following table provides additional information regarding transactions with Related Parties:

(Dollars in thousands)	At December 31, 2018
Commitments to extend credit	$ 869
Deposits received	3,977

Note 22. Segment Reporting

At December 31, 2018, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines the segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. The parent holding company and intercompany eliminations are included in the "Other" segment.

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

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Explanation of Responses:

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

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

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

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

The following tables provide reportable segment-specific information and reconciliations to consolidated financial information for the years ended December 31, 2018, 2017 and 2016.

(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
For the Year Ended December 31, 2018					
Interest income	$190,425	$ 32	$—	$31	$190,488
Interest expense	27,383	—	—	5,043	32,426
Net interest income (expense)	163,042	32	—	(5,012)	158,062
Provision for loan and lease losses	20,310	—	—	—	20,310
Noninterest income	20,815	23,179	16,442	(263)	60,173
Intangible expenses	1,139	553	474	—	2,166
Restructuring charges	571	—	—	—	571
Other noninterest expense	106,947	14,845	12,419	291	134,502
Intersegment (revenue) expense*	(1,113)	612	501	—	—
Income (expense) before income taxes	56,003	7,201	3,048	(5,566)	60,686
Income tax expense (benefit)	9,085	1,913	752	(1,607)	10,143
Net income (loss)	$46,918	$ 5,288	$2,296	$(3,959)	$50,543
Total assets	$4,895,732	$ 39,090	$30,117	$19,408	$4,984,347
Capital expenditures	$3,091	$ 45	$30	$201	$3,367
For the Year Ended December 31, 2017					
Interest income	$162,982	$ 8	$—	$25	$163,015
Interest expense	14,802	—	—	5,037	19,839
Net interest income (expense)	148,180	8	—	(5,012)	143,176
Provision for loan and lease losses	9,892	—	—	—	9,892
Noninterest income	21,838	21,707	15,320	375	59,240
Intangible expenses	1,507	674	401	—	2,582
Other noninterest expense	100,670	13,732	11,667	2,062	128,131
Intersegment (revenue) expense*	(1,059)	585	474	—	—
Income (expense) before income taxes	59,008	6,724	2,778	(6,699)	61,811
Income tax expense (benefit)	15,735	2,597	374	(989)	17,717
Net income (loss)	$43,273	$ 4,127	$2,404	$(5,710)	$44,094
Total assets	$4,466,301	$ 34,600	$27,846	$26,115	$4,554,862
Capital expenditures	$7,731	$ 38	$222	$612	$8,603

For the Year Ended December 31, 2016

Interest income	$126,571	$ 5	$ —	$31	$ 126,607
Interest expense	8,224	—	—	4,158	12,382
Net interest income (expense)	118,347	5	—	(4,127)	114,225
Provision for loan and lease losses	4,821	—	—	—	4,821
Noninterest income	21,296	19,318	15,150	199	55,963
Intangible expenses	932	3,132	1,464	—	5,528
Acquisition-related and integration costs and restructuring charges	16,096	—	—	1,559	17,655
Other noninterest expense	88,065	12,980	11,924	5,829	118,798
Intersegment (revenue) expense*	(1,766)	788	978	—	—
Income (expense) before income taxes	31,495	2,423	784	(11,316)	23,386
Income tax expense (benefit)	6,510	857	348	(3,834)	3,881
Net income (loss)	$24,985	$ 1,566	$ 436	$(7,482)	$ 19,505
Capital expenditures	$9,944	$ 29	$ 30	$1,660	$ 11,663

*Includes an allocation of general and administrative expenses from both the parent holding company and the Bank. These expenses are generally allocated based upon number of employees and square footage utilized.

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Note 23. Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequent related updates. The Corporation adopted the guidance effective January 1, 2018 using the modified retrospective method though no adjustments were made to retained earnings as a result of the adoption. The Corporation's revenue is the sum of net interest income and noninterest income. Revenues are recognized when obligations under the terms of contracts with customers are satisfied, including the transfer of control of the promised goods or services to customers, in an amount that reflects the consideration the Corporation expects to be entitled to in exchange for those goods or services. The Corporation provides services to customers which have related performance obligations that are completed to recognize revenue. The Corporation's revenues are generally recognized either immediately upon the completion of the services or over time as the services are performed. Any services performed over time generally require services to be rendered each period and therefore progress in completing these services is measured based upon the passage of time.

The following tables disaggregate the Corporation's revenue by major source for the years ended December 31, 2018, 2017 and 2016.

(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
For the Year Ended December 31, 2018					
Net interest income (1)	$163,042	$ 32	$—	$(5,012)	$ 158,062
Noninterest income:					
Trust fee income	—	7,882	—	—	7,882
Service charges on deposit accounts	5,632	—	—	—	5,632
Investment advisory commission and fee income	—	15,098	—	—	15,098
Insurance commission and fee income	—	—	15,658	—	15,658
Other service fee income (2)	8,347	199	786	—	9,332
Bank owned life insurance income (1)	3,284	—	—	(110)	3,174
Net gain on sales of investment securities (1)	10	—	—	—	10
Net gain on mortgage banking activities (1)	3,125	—	—	—	3,125
Other income (loss) (2)	417	—	(2)	(153)	262
Total noninterest income	$20,815	$ 23,179	$16,442	$(263)	$ 60,173

(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
For the Year Ended December 31, 2017					
Net interest income (1)	$148,180	$ 8	$—	$(5,012)	$ 143,176
Noninterest income:					
Trust fee income	—	8,055	—	—	8,055
Service charges on deposit accounts	5,482	—	—	—	5,482
Investment advisory commission and fee income	—	13,454	—	—	13,454
Insurance commission and fee income	—	—	14,788	—	14,788
Other service fee income (2)	7,927	198	531	—	8,656
Bank owned life insurance income (1)	3,616	—	—	372	3,988
Net gain on sales of investment securities (1)	45	—	—	3	48
Net gain on mortgage banking activities (1)	4,023	—	—	—	4,023
Other income (2)	745	—	1	—	746

Total noninterest income	$21,838	$ 21,707	$ 15,320	$375	$ 59,240

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(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
For the Year Ended December 31, 2016					
Net interest income (1)	$118,347	$ 5	$ —	$(4,127)	$ 114,225
Noninterest income:					
Trust fee income	—	7,741	—	—	7,741
Service charges on deposit accounts	4,691	—	—	—	4,691
Investment advisory commission and fee income	—	11,424	—	—	11,424
Insurance commission and fee income	—	—	14,603	—	14,603
Other service fee income (2)	7,160	153	533	(10)	7,836
Bank owned life insurance income (1)	2,749	—	—	182	2,931
Net gain on sales of investment securities (1)	494	—	—	24	518
Net gain on mortgage banking activities (1)	6,027	—	—	—	6,027
Other income (2)	175	—	14	3	192
Total noninterest income	$21,296	$ 19,318	$ 15,150	$199	$ 55,963

(1) Net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives are excluded from the scope of the standard. Noninterest income streams that are out-of-scope of the standard include bank owned life insurance income, sales of investment securities and mortgage banking activities.

(2) Other service fee income and other income include certain items that are in scope and certain items that are out of scope of the standard and are described further in the following paragraphs.

Banking Segment

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

Service charges on deposit accounts are generally earned on depository accounts for commercial and consumer customers and primarily includes fees for account services, overdraft and non-sufficient funds services, and cash management services for commercial customers. Account services include fees for event-driven services such as ATM transactions and fees for periodic account maintenance activities. Cash management services for commercial customers include fees for event-driven services such as lockbox processing and line sweep services and fees for periodic account maintenance activities. The Corporation's obligation for event-driven services is satisfied at the time of the event when the service is delivered, while the obligation for periodic services is satisfied over the course of each month. Obligations for overdraft services is satisfied at the time of the overdraft.

Other service fee income is earned from commercial and consumer customers and primarily includes credit and debit card interchange and merchant revenues, mortgage servicing income, which is out of scope of the standard, and other deposit related service fee income such as wire transfers, check services and safe deposit boxes. Interchange and merchant revenues are recognized concurrently with the delivery of services on a monthly basis. Other deposit related service fee income include fees for event-driven services, such as wire transfers and check services, and fees for periodic services such as safe deposit box services. The obligation for event-driven services is satisfied at the time of the event when the service is delivered, while the obligation for periodic services is satisfied over the course of each month.

Other income primarily includes net gains or losses from the sales of loans and leases, net gains or losses from the sales or disposition of fixed assets and net gains or losses on interest rate swaps, all of which are out of scope of the standard, and net gains or losses on sales and write-downs of other real estate owned. Net gains or losses on sales of other real estate owned are recognized at the point in time in which control of the other real estate owned is transferred.

Wealth Management Segment

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

Trust fee income is earned for providing trust, investment management and other related services. Obligations for trust and other related services are generally satisfied over time but may be satisfied at points in time for certain activities that are transactional in nature and obligations for investment management services are generally performed over time. Fees for trust fee income are

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typically based on a tiered scale relative to the market value of assets under management and are recognized in conjunction with the delivery of services.

Investment advisory commission and fee income include fees for financial planning, guardian and custodian of employee benefits, investment advisory, and brokerage services. Obligations for financial planning, guardian and custodian of employee benefits, and investment advisory services are generally satisfied over time and fees, typically based on a tiered scale relative to the market value of assets under management, are recognized in conjunction with the delivery of services. Brokerage services are typically event driven and are based on the size and number of transactions executed at the client's direction and recognized on the trade date.

Insurance Segment

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

Insurance commission and fee income is derived primarily from commissions from the sale of insurance policies, which are generally calculated as a percentage of the policy premium, and contingent income, which is calculated based on the performance of the policies held by each carrier. Obligations for the sale of insurance policies are generally satisfied at the point in time which the policy is executed and are recognized at the point in time in which the amounts are known and collection is reasonably assured. Obligations for contingent income are generally satisfied over time and are recognized at the point in time in which the amounts are known and collection is reasonably assured.

Other service fee income is earned from payroll and human resources consulting services. These obligations are generally satisfied over time and are recognized on a periodic basis.

Note 24. Condensed Financial Information - Parent Company Only

Condensed financial statements of the Corporation, parent company only, follow:

(Dollars in thousands)	At December 31,	
Balance Sheets	2018	2017
Assets:		
Cash	$78,897	$73,642
Interest-earning deposits with other banks	145	114
Cash and cash equivalents	79,042	73,756
Investments in securities	924	1,077
Investments in subsidiaries, at equity in net assets:		
Bank	638,500	612,045
Non-banks	—	—
Other assets	18,340	32,399
Total assets	$736,806	$719,277
Liabilities:		
Dividends payable	$5,863	$5,866
Subordinated notes	94,574	94,331
Other liabilities	12,236	15,706
Total liabilities	112,673	115,903
Shareholders' equity:	624,133	603,374
Total liabilities and shareholders' equity	$736,806	$719,277

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Explanation of Responses:

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(Dollars in thousands)	For the Years Ended December 31,		
Statements of Income	2018	2017	2016
Dividends from Bank	$22,359	$26,263	$94,042
Dividends from non-bank	—	—	—
Net gain on sales of securities	—	3	23
Other income	26,631	24,740	18,663
Total operating income	48,990	51,006	112,728
Interest expense	5,043	5,037	4,158
Operating expenses	27,155	26,405	25,843
Income before income tax benefit and equity in undistributed income (loss) of subsidiaries	16,792	19,564	82,727
Income tax benefit	(1,607)	(989)	(3,834)
Income before equity in undistributed income (loss) of subsidiaries	18,399	20,553	86,561
Equity in undistributed income (loss) of subsidiaries:			
Bank	32,144	23,541	(67,056)
Non-banks	—	—	—
Net income	$50,543	$44,094	$19,505

(Dollars in thousands)	For the Years Ended December 31,		
Statements of Cash Flows	2018	2017	2016
Cash flows from operating activities:			
Net income	$50,543	$44,094	$19,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net (income) loss of subsidiaries	(32,144)	(23,541)	67,056
Net gain on sales of securities	—	(3)	(23)
Bank owned life insurance income (expense)	109	(343)	(182)
Depreciation of premises and equipment	386	387	339
Stock based compensation	2,557	3,166	2,084
Contributions to pension and other postretirement benefit plans	(3,264)	(2,295)	(2,261)
Decrease (increase) in other assets	14,205	(3,384)	1,098
Increase in other liabilities	(865)	4,101	213
Net cash provided by operating activities	31,527	22,182	87,829
Cash flow from investing activities:			
Investments in subsidiaries	—	—	(40,000)
Proceeds from sales of securities	—	3	38
Outlays for business acquisitions	—	—	(87,683)
Proceeds from bank owned life insurance	—	183	—
Other, net	(188)	(364)	(1,619)
Net cash used in investing activities	(188)	(178)	(129,264)
Cash flows from financing activities:			
Net decrease in short-term borrowings	—	—	(253)
Proceeds from issuance of subordinated notes	—	—	44,515
Purchases of treasury stock	(5,984)	(3,519)	(8,359)
Proceeds from public offering of common stock	—	70,501	—
Stock issued under dividend reinvestment and employee stock purchase plans	2,295	2,413	2,472
Proceeds from exercise of stock options	1,131	1,676	4,968

Cash dividends paid	(23,495)	(21,299)	(17,024)
Net cash (used) provided by financing activities	(26,053)	49,772	26,319
Net increase (decrease) in cash and due from financial institutions	5,286	71,776	(15,116)
Cash and cash equivalents at beginning of year	73,756	1,980	17,096
Cash and cash equivalents at end of year	$79,042	$73,756	$1,980
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$4,800	$4,800	$3,956
Income tax, net of refunds received	643	11,600	6,675

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Note 25. Quarterly Financial Data (Unaudited)

The unaudited results of operations for the quarters for the years ended December 31, 2018 and 2017 were as follows:
(Dollars and shares in thousands)

2018 Quarterly Financial Data:	Fourth	Third	Second	First
Interest income	$51,239	$49,255	$46,460	$43,534
Interest expense	9,862	8,832	7,470	6,262
Net interest income	41,377	40,423	38,990	37,272
Provision for loan and lease losses	103	2,745	15,409	2,053
Net interest income after provision for loan and lease losses	41,274	37,678	23,581	35,219
Noninterest income	14,416	14,861	15,314	15,582
Noninterest expense	33,396	34,371	34,347	35,125
Income before income taxes	22,294	18,168	4,548	15,676
Income taxes	3,922	3,204	191	2,826
Net income	$18,372	$14,964	$4,357	$12,850
Per share data:				
Weighted average shares outstanding - basic earnings per share	29,161	29,232	29,176	29,140
Weighted average shares outstanding - diluted earnings per share	29,220	29,318	29,271	29,234
Basic earnings per share	$0.63	$0.51	$0.15	$0.44
Diluted earnings per share	$0.63	$0.51	$0.15	$0.44
Dividends per share	$0.20	$0.20	$0.20	$0.20

The financial results for the fourth quarter of 2018 included a loan recovery of $1.8 million (after-tax recovery of $1.5 million) which represented $0.05 diluted earnings per share. This recovery related to a loan the Corporation previously charged-off in the amount of $12.7 million (after-tax charge of $10.1 million), or $0.34 diluted earnings per share, in the second quarter of 2018.

2017 Quarterly Financial Data:	Fourth	Third	Second	First
Interest income	$42,417	$42,172	$40,030	$38,396
Interest expense	5,711	5,285	4,730	4,113
Net interest income	36,706	36,887	35,300	34,283
Provision for loan and lease losses	1,992	2,689	2,766	2,445
Net interest income after provision for loan and lease losses	34,714	34,198	32,534	31,838
Noninterest income	14,152	14,109	16,009	14,970
Noninterest expense	33,440	32,695	32,548	32,030
Income before income taxes	15,426	15,612	15,995	14,778
Income taxes	5,162	4,416	4,217	3,922
Net income	$10,264	$11,196	$11,778	$10,856
Per share data:				
Weighted average shares outstanding - basic earnings per share	27,254	26,437	26,380	26,345
Weighted average shares outstanding - diluted earnings per share	27,356	26,542	26,477	26,448
Basic earnings per share	$0.37	$0.42	$0.44	$0.41
Diluted earnings per share	$0.37	$0.42	$0.44	$0.41
Dividends per share	$0.20	$0.20	$0.20	$0.20

The financial results for the fourth quarter of 2017 included a revaluation of the Corporation's net deferred tax asset associated with the passage of the TCJA. The revaluation, which was recorded as additional income tax expense, was

$1.1 million, or $0.04 diluted earnings per share.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be so disclosed by an issuer is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2018.

Management's Report on Internal Control over Financial Reporting

The management of the Univest Financial Corporation (the Corporation) is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2018, using the criteria set forth in Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as of December 31, 2018, the Corporation's internal control over financial reporting is effective based on those criteria.

KPMG LLP, an independent registered public accounting firm, has audited the Corporation's consolidated financial statements as of and for the year ended December 31, 2018 and the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2018, as stated in their reports, which are included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Univest Financial Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Univest Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Philadelphia, Pennsylvania
February 28, 2019

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5), of Regulation S-K is incorporated herein by reference from the Corporation’s definitive proxy statement on Schedule 14A for the annual meeting of shareholders on April 16, 2019 (2019 Proxy), under the headings: “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “The Board, the Board’s Committees and Their Functions,” “Audit Committee,” “Code of Conduct,” and “Nominating and Governance Committee of the Board.”

The Corporation maintains in effect a Code of Conduct for Directors and a Code of Conduct for all officers and employees, which includes the CEO and senior financial officers. The codes of conduct are available on the Corporation’s website. The Corporation’s website also includes the charters for its audit committee, compensation committee, and nominating and governance committee as well as its corporate governance principles. These documents are located on the Corporation’s website at www.univest.net under “Investors Relations” in Governance Documents and are also available to any person without charge by sending a request to the Corporate Secretary at Univest Financial Corporation, P. O. Box 197, Souderton, PA 18964.

Item 11. Executive Compensation

Information required by Item 402 and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference from the Corporation’s 2019 Proxy under the headings: “The Board, the Board’s Committees and Their Functions,” “Executive Compensation,” “Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” and "Compensation Committee Report."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by Item 403 of Regulation S-K is incorporated herein by reference from the Corporation’s 2019 Proxy under the heading, “Security Ownership of Certain Beneficial Owners and Management."

Equity Compensation Plan Information

The Corporation has a shareholder approved Amended and Restated Univest 2013 Long-Term Incentive Plan (LTIP). Under the LTIP, the Corporation may grant options and share awards to employees and non-employee directors up to 3,698,974 shares of common stock, which includes 330,625 shares as a result of the Corporation's common stock issuance in 2017, 857,191 shares as a result of the completion of the acquisition of Fox Chase in 2016 and 473,483 shares as a result of the completion of the acquisition of Valley Green Bank in 2015. The number of shares of common stock available for issuance under the plan is subject to adjustment, as described in the plan. This includes, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the stock, substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the plan, in the number and option price of shares subject to outstanding options granted under the plan and in the number and price of shares subject to other awards, as described in the plan.

The following table sets forth information regarding outstanding options and shares under equity compensation plans at December 31, 2018:

Plan Category	(a)	(b)	(c)

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plan approved by security holders	597,405	$ 23.98	2,631,983
Equity compensation plan not approved by security holders	—	—	—
Total	597,405	$ 23.98	2,631,983

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Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference from the Corporation's 2019 Proxy under the headings, "The Board, the Board's Committees and Their Functions" and "Related Party Transactions."

Item 14. Principal Accounting Fees and Services

Information required by Item 9(e) of Schedule 14A is incorporated herein by reference from the Corporation's 2019 Proxy under the headings: "Audit Committee" and "Independent Registered Public Accounting Firm Fees."

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. & 2. Financial Statements and Schedules

The financial statements listed in the accompanying index to financial statements are filed as part of this annual report.

3. Listing of Exhibits

The exhibits listed on the accompanying index to exhibits are filed as part of this annual report.

(b) Exhibits - The response to this portion of Item 15 is submitted as separate section.

(c) Financial Statements Schedules - none.

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UNIVEST FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS SCHEDULES

[Item 15(a) 1. & 2.]

Annual Report of Shareholders

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Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2018	48
Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2018	49
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2018	50
Notes to Consolidated Financial Statements	52

Certain financial statement schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

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UNIVEST FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX OF EXHIBITS

[Item 15(a) 3. & 15(b)]

Description	
(3.1)	Amended and Restated Articles of Incorporation.
(3.2)	Amended By-Laws.
(4.1)*	Form of Fixed-to-Floating Subordinated Notes due 2026 is incorporated by reference to Exhibit 4.2 of Form 8-K, filed with the SEC on July 1, 2016.
(4.2)*	Form of Fixed-to-Floating Subordinated Notes due 2025 is incorporated by reference to Exhibit 4.2 of Form 8-K, filed with the SEC on March 30, 2015.
(10.1)*	Amended and Restated Univest 2013 Long-Term Incentive Plan.
(10.2)*	Form of Change in Control Agreement, dated February 22, 2017, entered into between Univest Corporation of Pennsylvania and Roger S. Deacon, is incorporated by reference to Exhibit 10.1 of Form 8-K, filed with the SEC on February 23, 2017.
(10.3)*	Form of Change in Control Agreement, dated February 26, 2016, entered into between Univest Corporation of Pennsylvania and each of Jeffrey M. Schweitzer, Michael S. Keim, Duane J. Brobst, and Eric W. Conner, is incorporated by reference to Exhibit 10.1 of Form 8-K, filed with the SEC on March 2, 2016.
(10.4)*	Form of Change in Control Agreement, dated February 26, 2016, entered into between Univest Corporation of Pennsylvania and Megan Duryea Santanta.
(10.5)*	Univest Corporation of Pennsylvania 2003 Long-term Incentive Plan is incorporated by reference to Exhibit 4 of the Registration Statement on Form S-8, filed with the SEC in March 8, 2005.
(21)	Subsidiaries of the Registrant.
(23.1)	Consent of independent registered public accounting firm, KPMG LLP.
(31.1)	Certification of Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Certification of Roger S. Deacon, Senior Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)**	Certification of Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)**	Certification of Roger S. Deacon, Senior Executive Vice President and Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
	Exhibit 101.INS XBRL Instance Document
	Exhibit 101.SCH XBRL Taxonomy Extension Schema Document
	Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
	Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document
	Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
	Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

* Denotes a compensatory plan or agreement.

** A certification furnished pursuant to this item will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVEST FINANCIAL CORPORATION
Registrant

By: /s/ Roger S. Deacon

Roger S. Deacon
Senior Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
February 28, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ WILLIAM S. AICHELE William S. Aichele	Chairman and Director	February 28, 2019
/s/ JEFFREY M. SCHWEITZER Jeffrey M. Schweitzer	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/s/ ROGER H. BALLOU Roger H. Ballou	Director	February 28, 2019
/s/ TODD S. BENNING Todd S. Benning	Director	February 28, 2019
/s/ GLENN E. MOYER Glenn E. Moyer	Director	February 28, 2019
/s/ K. LEON MOYER K. Leon Moyer	Director	February 28, 2019
/s/ NATALYE PAQUIN Natalye Paquin	Director	February 28, 2019
/s/ THOMAS M. PETRO Thomas M. Petro	Director	February 28, 2019
/s/ MICHAEL L. TURNER Michael L. Turner	Director	February 28, 2019
/s/ ROBERT C. WONDERLING Robert C. Wonderling	Director	February 28, 2019
/s/ CHARLES H. ZIMMERMAN III Charles H. Zimmerman III	Director	February 28, 2019

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Explanation of Responses: