2017 ANNUAL REPORT

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

At and For the Year Ended December 31, (Dollars in thousands, except per share amounts)	**2017**	**2016**	**2015**	**2014**	**2013**
Financial Condition Data:					
Total assets	$5,798,828	$5,738,593	$4,826,695	$4,751,522	$4,583,413
Cash and cash equivalents	557,615	287,046	233,920	534,015	355,683
Investment securities available-for-sale	310,308	451,544	655,162	757,834	1,034,180
Investment securities held-to-maturity	537,302	602,529	696,310	727,755	528,829
Loans and leases receivable, net	3,990,863	3,967,307	2,895,946	2,371,091	2,286,158
Deposits	4,150,493	4,158,188	3,451,923	3,879,709	3,660,016
Federal Home Loan Bank advances	515,000	465,000	165,000	165,000	195,000
Other borrowed funds	25,439	25,423	25,405	25,388	55,370
Noncontrolling Interest*	592	-	-	-	-
Beneficial Bancorp, Inc. stockholders' equity	1,034,298	1,013,756	1,115,546	610,894	615,146
Operating Data:					
Interest income	$197,868	$173,793	$143,339	$139,305	$149,376
Interest expense	28,000	22,876	19,117	21,881	25,640
Net interest income	169,868	150,917	124,222	117,424	123,736
Provision for loan and lease losses	3,118	485	(3,600)	200	13,000
Net interest income after provision for loan and lease losses	166,750	150,432	127,822	117,224	110,736
Non-interest income	28,765	27,805	24,284	24,783	25,125
Non-interest expenses	138,797	139,124	118,488	118,251	120,688
Income before income taxes	56,718	39,113	33,618	23,756	15,173
Income tax expense	32,794	13,644	10,725	5,723	2,595
Consolidated net income	23,924	25,469	22,893	18,033	12,578
Net Income attributable to noncontrolling interest*	(8)	-	-	-	-
Net income attributable to Beneficial Bancorp Inc.	$23,932	$25,469	$22,893	$18,033	$12,578
Average common shares outstanding – Basic	70,574,037	71,902,158	78,513,929	80,701,991	83,417,947
Average common shares outstanding – Diluted	71,167,475	72,632,437	79,276,984	81,379,981	83,686,329
Net income earnings per share - Basic	$0.33	$0.34	$0.29	$0.22	$0.15
Net income earnings per share – Diluted	$0.32	$0.34	$0.29	$0.22	$0.15
Dividends declared per share	$0.24	$0.12	$-	$-	$-

* - Noncontrolling interest relates to the majority owned subsidiary equipment leasing company, Neumann Finance Company, formed during the year ended December 31, 2017.

At and For the Year Ended December 31,	2017	2016	2015	2014	2013
Performance Ratios:					
Return on average assets	0.41%	0.47%	0.48%	0.40%	0.26%
Return on average equity	2.29	2.45	2.15	2.94	2.01
Interest rate spread (1)	2.97	2.86	2.64	2.72	2.70
Net interest margin (2)	3.12	3.00	2.80	2.82	2.81
Non-interest expense to average assets	2.39	2.58	2.50	2.64	2.54
Efficiency ratio (3)	69.93	77.84	79.79	83.15	81.07
Average interest-earning assets to average interest-bearing liabilities	129.32	131.34	136.26	119.91	117.50
Average equity to average assets	17.72	19.20	22.42	13.67	13.15
Capital Ratios (4):					
Tier 1 Leverage (to average assets)	14.46	14.76	16.86	11.05	10.15
Common Equity Tier 1 Capital (to risk weighted assets)	20.34	20.17	27.57	N/A	N/A
Tier 1 capital to risk-weighted assets	20.34	20.17	27.57	21.17	20.57
Total risk-based capital to risk-weighted assets	21.41	21.25	28.83	22.43	21.83
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans	1.07	1.08	1.55	2.09	2.38
Allowance for loan losses as a percent of non-performing loans	124.79	160.75	120.79	126.92	73.05
Net charge-offs to average outstanding loans during the period	0.08	0.08	0.06	0.22	0.63
Non-performing loans as a percent of total loans (5)	0.86	0.67	1.28	1.65	3.25
Non-performing assets as a percent of total assets (5)	0.60	0.48	0.81	0.87	1.79
Other Data:					
Number of offices (6)	61	63	55	58	60

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities.
(2) Represents net interest income as a percent of average interest-earning assets.
(3) Represents other non-interest expenses divided by the sum of net interest income and non-interest income.
(4) Ratios are for Beneficial Bank.
(5) Non-performing loans and assets include accruing government guaranteed student loans past due 90 days or more.
(6) During 2016, the increase in the number of offices was primarily due to the addition of nine branches as part of the acquisition of Conestoga Bank.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Note on Forward-Looking Statements

This section contains certain "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts, but rather are statements based on the Company's current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could affect actual results include interest rate trends, the general economic climate in our market area, as well as nationwide, our ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation and tax laws. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. The Company assumes no obligation to update any forward-looking statements.

Executive Summary

Our profitability is generally a function of the revenues we earn from our interest bearing assets less the cost of our interest bearing liabilities plus revenues we receive from non-interest income less our provision for loan losses and non-interest expenses.

Our primary source of revenue is net interest income. Net interest income, which comprises 85.5% of our revenue for the year ended December 31, 2017, is the difference between the income we earn on our loans and investments and the interest we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income.

A secondary source of revenue is non-interest income, which is income we receive from providing products and services. Traditionally, the majority of our non-interest income has come from service charges (mostly on deposit accounts), interchange income, mortgage banking and SBA income and from fee income from our insurance and wealth management services.

Provision for loan losses is the expense we incur to cover the estimated inherent losses in our portfolio at each reporting period.

The non-interest expense represents our operating costs and consists of salaries and employee benefits expenses, the cost of our equity plans, occupancy expenses, depreciation, amortization and maintenance expenses and other miscellaneous expenses, such as loan and owned real estate expenses, advertising, insurance, professional services and printing and supplies expenses. Our largest non-interest expense is salaries and employee benefits, which consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for health insurance, retirement plans and other employee benefits.

During the year ended December 31, 2017, the Company formed Neumann Finance Company ("Neumann"), a majority owned subsidiary equipment leasing company, named after the Bank's pioneering founder, Saint John Neumann. Neumann focuses on providing financing products and services to businesses nationwide and targets various equipment categories including technology, software, office, medical and other areas.

The Company completed the acquisition and integration of Conestoga Bank during the second quarter of 2016 which increased total loans by $518.6 million and total deposits by $588.4 million. The results of Conestoga Bank's operations have been included in the Company's financial statements beginning on April 15, 2016, the date of the consummation of the acquisition. Additionally, net organic loan growth coupled with the Conestoga Bank acquisition resulted in average interest earning assets increasing $411.1 million to $5.41 billion for the year ended December 31, 2017 from $5.00 billion for the same period one year ago. This growth in average earning assets drove higher levels of net interest income and profitability.

Overall economic activity slowed in our markets during 2017 resulting in reduced loan demand. During the year ended December 31, 2017, our loan portfolio increased $23.6 million primarily due to organic growth in our commercial loan portfolio of $93.4 million, or 3.8%, and residential loan portfolio of $49.1 million, or 5.5%, partially offset by decreases in our consumer loans due primarily to a decrease in indirect auto loans resulting from our planned run-off of this portfolio segment. As previously disclosed, we decided to exit the indirect lending business in the first quarter of 2017. We remain focused on growing our commercial loan portfolio and leveraging our infrastructure to drive improved financial performance.

We recorded net income for the year ended December 31, 2017 of $23.9 million, or $0.32 per diluted share, compared to net income of $25.5 million, or $0.34 per diluted share, for the year ended December 31, 2016. Net income for the year ended December 31, 2017 included a one- time $13.1 million charge, or $0.18 per diluted share, of additional income tax expense as a result of the enactment of H.R. 1 (originally known as the Tax Cuts and Jobs Act) and its impact on re-measuring of our net deferred tax assets (DTA) due to the reduction in the corporate income tax rate to 21% from 35%. Net income for year ended December 31, 2016 included $8.8 million of merger and restructuring charges related to the acquisition of Conestoga Bank ("Conestoga") and the Bank's expense management reduction program.

Following the passage of H.R. 1 (originally known as the Tax Cuts and Jobs Act) and the anticipated savings from lower future taxes, we announced a special $1,000 bonus paid to over 600 employees and enhanced our medical coverage to our entire employee base. We

also evaluated the compensation of our hourly employees and intend to raise our minimum hourly rate to $14.00 during the first quarter of 2018.

During 2017, we were able to improve our net interest margin, which totaled 3.12% for the year ended December 31, 2017 compared to 3.00% for the year ended December 31, 2016. Net interest margin year over year has benefited from organic loan growth, the impact of the Conestoga acquisition, and continued improvement in the mix of our balance sheet. The net interest margin for the year ended December 31, 2017 was benefited 7 basis points from loan prepayment adjustments.

Asset quality metrics continued to remain strong with a non-performing assets to total assets, excluding government guaranteed student loans, of 0.36% at December 31, 2017. Our allowance for loan losses totaled $43.3 million, or 1.07% of total loans, as of December 31, 2017, compared to $43.3 million, or 1.08% of total loans, as of December 31, 2016.

During the second quarter of 2016, the Company completed its first share repurchase program since completing its mutual-to-stock conversion and related stock offering in January 2015. Under the first program, Beneficial repurchased 8,291,859 shares of its common stock. On July 21, 2016, the Company adopted a second stock repurchase program for up to 10% of its outstanding common stock, or 7,770,978 shares. During the year ended December 31, 2017, the Company purchased 703,800 shares of its common stock under the second stock repurchase plan.

During the year ended December 31, 2017, the Company declared and paid cash dividends totaling $17.6 million. On January 25, 2018, the Company declared its seventh consecutive quarterly cash dividend of $0.06 per share. Additionally the Company declared a special dividend of $0.25 per share given our high capital levels and expected benefit to future earnings as a result of the enactment of H.R. 1. Both dividends were payable on or after February 15, 2018, to common shareholders of record at the close of business on February 5, 2018.

We continue to maintain strong levels of capital and our capital ratios are well in excess of the levels required to be considered well-capitalized under applicable federal regulations for both the Company and the Bank. Our capital levels have remained strong with tangible capital to tangible assets totaling 15.33% at December 31, 2017 compared to 15.10% at December 31, 2016.

We believe in working with our customers to help them save and use credit wisely. We dedicate financial and human capital to support organizations that share our sense of responsibility to do what's right for the communities we serve. We remain committed to the financial responsibility we have practiced throughout our 163-year history, and we are dedicated to providing financial education opportunities to our customers by providing the tools necessary to make wise financial decisions.

To further improve our operating returns, we continue to leverage our position as one of the largest and oldest banks headquartered in the Philadelphia metropolitan area. We are focused on acquiring and retaining customers, and then educating them by aligning our products and services to their financial needs. We also intend to deploy some of our excess capital to grow Beneficial Bank in our markets.

Business Strategy

Our business strategy is to continue to operate and grow a profitable community-oriented financial institution. We plan to achieve this by executing our strategy of:

- Differentiating Beneficial Bank as a community bank that educates its customers to "do the right thing" financially by utilizing the "Beneficial Conversation" to better understand our customers and their needs and offer more personalized products and services;
- Increasing profitability through an improved balance sheet mix by growing commercial and small business lending and reducing our cash and investments;
- Employing a shareholder-focused management of capital;
- Expanding our franchise by selectively pursuing acquisition opportunities in or adjacent to our market area;
- Enhancing earnings by increasing core deposits and emphasizing operational efficiencies; and
- Maintaining asset quality by using consistent, disciplined underwriting practices to maintain the quality of our loan portfolio.

Differentiating Beneficial Bank as a community bank that educates its customers to "do the right thing" financially by utilizing the "Beneficial Conversation" to better understand our customers and their needs and offer more personalized products and services

We are committed to educating our customers to "do the right thing" financially by providing them with the tools necessary to make wise financial decisions. To effect this, we seek to understand our customers' financial needs and goals through a conversational approach known as the "Beneficial Conversation," which allows us to build financial plans around each customer's needs, life stages and priorities. We have developed a sophisticated training program centered around the Beneficial Conversation that we have administered to our entire retail group in an effort to familiarize our employees with our broad array of financial products, including cash management, insurance and other related retail services we provide. We require that all of our employees become fluent and certified in this conversational approach to customer interaction, and we have implemented the "Beneficial Conversation" in our branch offices as well as through digital social media outlets. The Beneficial Conversation is a continuous, multi-step process that enables us to better understand a customer's

current financial state, future financial goals and the best path towards achieving those goals. Once we develop such an understanding, we then educate the customer on the products and services we offer that best help them attain their financial goals.

In addition to our branch offices, we maintain educational campuses that we believe provide the ideal setting for us to engage in the Beneficial Conversation with our customers. We opened our first two educational campuses in 2010 in Cherry Hill, New Jersey and have subsequently opened four additional educational campuses in Pennsylvania. Our educational campuses, which are strategically located within our branch network, exemplify our "knowledge bank" philosophy by providing educational workshops, where customers can receive helpful financial tips on a variety of topics from experts in their respective fields, in addition to traditional banking services. Each of our educational campuses also hosts a learning library that includes books for customers to read and borrow, offers a "knowledge bar" that allows customers to explore new technologies in banking and includes space that can be used by local community members free of charge for meetings or seminars.

We believe that this approach to understanding our customers' financial needs and providing customized product offerings will distinguish us from other regional and local community banks and increase products and services to our existing customers and acquire new customers.

Increasing profitability through an improved balance sheet mix by growing commercial and small business lending and leasing and reducing our cash and investments

We have a diversified loan portfolio, which includes commercial real estate and commercial and industrial loans made to middle market and small business customers. We are focused on improving the composition of our balance sheet by increasing loan production, particularly by originating commercial loans. Commercial loan customers provide us with an opportunity to offer a full range of our products and services including cash management, insurance, loan and deposit products. We have strengthened our infrastructure to support future growth by investing in highly-qualified employees in key areas, particularly with respect to our commercial banking business and by improving our technological capabilities and brand recognition. Specifically, in recent years, we have hired additional lenders with significant experience in our market area to expand our commercial real estate and commercial and industrial lending efforts. During the year ended December 31, 2017, our loan portfolio increased $23.6 million to $4.03 billion at December 31, 2017, from $4.01 billion at December 31, 2016. The increase in loans was primarily due to organic growth in our commercial loan portfolio and residential real estate loan portfolio of $93.4 million (3.8% growth) and $49.1 million (5.5% growth), respectively, partially offset by decreases in our consumer loan portfolio due primarily to a decrease in indirect auto loans resulting from our planned run-off of this portfolio segment. During 2017, we discontinued offering indirect auto loans as other lending channels provided higher levels of profitability and returns on capital.

We are also focused on increasing our small business lending. We currently offer a wide array of lending and deposit products that we can effectively market to our small business customers in an effort to increase our small business market share. To better capitalize on these opportunities, in recent years, our lending teams work with our branches and focus on small business lending. Also, by offering quicker decision making in the delivery of banking products and services, offering customized products where appropriate and providing access to senior officers, we can distinguish ourselves from the larger banks operating in our market area. In connection with the Conestoga acquisition we also acquired a small business equipment leasing and finance company that provides equipment finance to small businesses primarily focused on medical and veterinarian equipment. During the year, the Company formed Neumann Finance Company ("Neumann"), a majority owned equipment leasing company. Neumann will focus on providing financing products and services to businesses nationwide. Neumann will target various equipment categories including technology, software, office, medical and other areas. Our loans-to-deposits ratio increased to 97.2% at December 31, 2017 from 96.4% at December 31, 2016 which helped stabilize net interest margin and improve profitability.

Employing a shareholder-focused management of capital

Maintaining a strong capital base is critical to support our long-range business plan; however, we recognize that we will have a historically high level of capital following completion of the offering. Consequently, we intend to manage our capital position, using appropriate capital management tools to return excess capital to our stockholders, consistent with applicable regulations and policies. In accordance with the capital management strategy, on January 13, 2016, the Company's Board of Directors authorized a stock repurchase program to acquire up to 8,291,859 shares of the Company's outstanding common stock, or approximately 10% of outstanding shares. During the second quarter of 2016, the Company completed this share repurchase program. On July 21, 2016, the Company adopted a second stock repurchase program for up to 10% of its outstanding common stock, or 7,770,978 shares. During the year ended December 31, 2017, the Company purchased 703,800 shares under the second stock repurchase plan. The Company paid cash dividends on its common stock totaling $0.24 per share during the year ended December 31, 2017. On January 25, 2018, the Company declared its seventh consecutive quarterly cash dividend of $0.06 per share. Also on January 25, 2018, the Company declared a special dividend of $0.25 per share given our high capital levels and expected benefit to future earnings as a result of the enactment of H.R 1. Both dividends will be payable on or after February 15, 2018, to common shareholders of record at the close of business on February 5, 2018. We also intend to use our capital to support continued organic growth and to pursue acquisition opportunities.

Expanding our franchise by selectively pursuing acquisition opportunities in or adjacent to our market area

Our growth strategy also includes the acquisition of other financial institutions and other financial service corporations primarily in or adjacent to our existing market areas. The markets we operate in are considered to be some of the most attractive banking markets in the United States, and we believe they will continue to provide us with exceptional opportunities to grow and transform Beneficial Bank.

Since our initial public offering, we have expanded our franchise to include the suburbs of South Jersey. Additionally, we have strengthened our presence in our historic markets throughout Philadelphia and the surrounding counties, which has established Beneficial Bank as the oldest and largest bank headquartered in Philadelphia.

On April 14, 2016, the Company completed the acquisition of Conestoga Bank. Pursuant to the terms of the Stock Purchase Agreement, dated October 21, 2015, between the Company, Conestoga and Conestoga Bank, the Company acquired Conestoga's ownership interest in Conestoga Bank for a cash payment of $105.0 million and subsequently merged Conestoga Bank with and into Beneficial Bank. The acquisition increased total loans by $518.6 million and total deposits by $588.4 million. The results of Conestoga Bank's operations are included in the Company's unaudited condensed Consolidated Statements of Operations for the period beginning on April 15, 2016, the date of the acquisition, through December 31, 2017. The acquisition of Conestoga Bank increased the Company's market share in southeastern Pennsylvania and provided Beneficial with new branches in Blue Bell, Chester Springs, Feasterville, Media, Wayne and Philadelphia, Pennsylvania.

We continue to operate in a highly fragmented banking market, in which 72 of the 94 banking institutions in the Philadelphia metro area have less than 10 branches. We believe that this fragmented market will provide opportunities to deploy the capital raised from the second step conversion and grow both organically and through acquisition. We further believe that changes in the industry as well as continued economic challenges for the banking industry have created and will create acquisition opportunities for us. We believe that we are well positioned to execute on our growth strategies and to continue to pursue selective acquisitions of banking institutions and other financial services companies primarily in and adjacent to our existing market area due to our strong capital position. We will continue to ensure any acquisition opportunity meets our financial hurdles including earnings accretion, tangible book value dilution, earn-back period and internal rate of return.

Enhancing earnings by increasing core deposits and emphasizing operational efficiencies

Deposits are our primary source of funds for investing and lending. Deposits decreased $7.7 million, or 0.2%, to $4.15 billion at December 31, 2017 from $4.16 billion at December 31, 2016. The decrease in deposits was primarily due to decreases in interest bearing checking and money market accounts, partially offset by increases in interest retail checking and non-interest bearing business checking accounts. Core deposits, which include all deposit types except for certificates of deposit, comprised 79.0% of our total deposits at December 31, 2017, up from 76.4% of total deposits at December 31, 2011. We value our core deposits because they represent a lower cost of funding and are generally less sensitive to withdrawal when interest rates fluctuate as compared to certificate of deposit accounts. We will continue to customize existing deposit products and introduce new products to meet the needs of our customers while based on employing the Beneficial Conversation at our branch locations. In 2017, we launched a new online platform for our commercial and consumer customers, as well as a new cash management system for commercial accounts. We believe that these new tools help our commercial lending teams expand existing relationships and develop new ones to grow commercial deposits.

We also recognize that controlling operating expenses is essential to our long-term profitability. We are focused on leveraging our existing infrastructure as we grow organically and through acquisition. During 2017, our efficiency ratio improved to 69.93% from 83.15% in 2014. We intend to continue to focus on operational efficiencies and methods to identify cost savings opportunities, such as reviewing our current branch structure, reviewing key third-party contracts and evaluating certain other operating expenses. We also expect our efficiency ratio to further improve as we deploy our capital for organic growth and acquisitions.

Maintaining asset quality by using consistent, disciplined underwriting practices to maintain the quality of our loan portfolio

We believe that maintaining high asset quality is a key to long-term financial success. Over the past several years, in an effort to improve asset quality, we have strengthened and added additional resources to our lending and credit teams, who have continued to apply prudent and disciplined underwriting standards and have continued to diligently monitor collection efforts. As a result of these efforts, we have improved our asset quality over the past several years. Non-performing assets have decreased from $82.0 million at December 31, 2013 to $34.9 million at December 31, 2017. Additionally, non-performing loans to total loans have decreased from 3.25% at December 31, 2013 to 0.86% at December 31, 2017.

Current Interest Rate Environment

Net interest income represents a significant portion of our revenues. For the year ended December 31, 2017, net interest income was $169.9 million, an increase of $19.0 million, or 12.6%, from the year ended December 31, 2016. The increase in net interest income was primarily due to the acquisition of Conestoga during the second quarter of 2016 and organic loan growth, which resulted in higher interest earning assets of $411.1 million in 2017 compared to 2016 as well as prepayment income of $4.0 million. Our net interest margin increased to 3.12% for the year ended December 31, 2017, from 3.00% for the same period in 2016. For the year ended December 31, 2017, the net interest margin was benefited 7 basis points by loan prepayment income. We continue to focus on improving our balance sheet mix by reducing the percentage of our assets in cash and investments and growing our loan portfolio. Due to a slow-down in lending in our markets, the ratio of our total cash and cash equivalents and total investment securities to total assets remained consistent at 24.6% as of December 31, 2017 compared to 23.7% as of December 31, 2016. During 2017, our cash balances increased $270.1 million to $557.6 million. We will consider investing a portion of our excess liquidity sometime in 2018 depending on market conditions and interest rate levels. However, we believe current rates do not support taking duration risk. For now, we anticipate holding excess liquidity to fund future loan growth despite the pressure on short term earnings. Our loans-to-deposits ratio increased to 97.2% at

December 31, 2017 from 96.4% at December 31, 2016 which helped stabilize net interest margin and improve profitability. Net interest margin in future periods will be impacted by several factors such as, but not limited to, our ability to grow and retain low cost core deposits, the future interest rate environment, loan and investment prepayment rates, loan growth and changes in non-accrual loans.

Critical Accounting Policies

In the preparation of our consolidated financial statements, we have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and that conform to general practices within the banking industry. Our significant accounting policies are described in note 2 to the consolidated financial statements included in this Annual Report.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies, which are discussed below, to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Actual results could differ from these judgments and estimates under different conditions, resulting in a change that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan and Lease Losses. We consider the allowance for loan and lease losses to be a critical accounting policy. The allowance for loan and lease losses is determined by management based upon portfolio segment, past experience, evaluation of estimated loss and impairment in the loan or lease portfolio, current economic conditions and other pertinent factors. Management also considers risk characteristics by portfolio segments including, but not limited to, renewals and real estate valuations. The allowance for loan losses is maintained at a level that management considers adequate to provide for estimated losses and impairment based upon an evaluation of known and inherent risk in the loan portfolio. Loan impairment is evaluated based on the fair value of collateral or estimated net realizable value. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations.

The allowance for loan and lease losses is established through a provision for loan and lease losses charged to expense, which is based upon past loan loss experience and an evaluation of estimated losses in the current loan portfolio, including the evaluation of impaired loans. Determining the amount of the allowance for loan and lease losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: overall economic conditions; value of collateral; strength of guarantors; loss exposure at default; the amount and timing of future cash flows on impaired loans; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management regularly reviews the level of loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan and lease losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking and Securities, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on judgments about information available to them at the time of their examination.

Our financial results are affected by the changes in and the level of the allowance for loan and lease losses. This process involves our analysis of complex internal and external variables, and it requires that we exercise judgment to estimate an appropriate allowance for loan losses. As a result of the uncertainty associated with this subjectivity, we cannot assure the precision of the amount reserved, should we experience sizeable loan or lease losses in any particular period. For example, changes in the financial condition of individual borrowers, economic conditions, or the condition of various markets in which collateral may be sold could require us to significantly decrease or increase the level of the allowance for loan and lease losses. Such an adjustment could materially affect net income as a result of the change in provision for credit losses. For example, a change in the estimate resulting in a 10% to 20% difference in the allowance would have resulted in an additional provision for credit losses of $4.3 million to $8.7 million for the year ended December 31, 2017. We also have approximately $34.9 million in non-performing assets consisting of non-performing loans and other real estate owned. Most of these assets are collateral dependent loans where we have incurred significant credit losses to write the assets down to their current appraised value less selling costs. We continue to assess the realizability of these loans and update our appraisals on these loans each year. To the extent the property values continue to decline, there could be additional losses on these non-performing assets which may be material. For example, a 10% decrease in the collateral value supporting the non-performing assets could result in additional credit losses of $3.5 million. In recent periods, we experienced improvement in our asset quality metrics including delinquencies, net charge-offs and non-performing assets. Management considered market conditions in deriving the estimated allowance for loan losses; however, given the continued economic difficulties, the ultimate amount of loss could vary from that estimate.

In June 2016, the FASB issued ASU 2016-13: Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The Company is in the process of evaluating the impact of this guidance but expects that the impact will likely be material to the consolidated financial statements.

For additional discussion related to the determination of the allowance for loan losses, see *"—Risk Management—Analysis and Determination of the Allowance for Loan Losses"* and the notes to the consolidated financial statements included in this Annual Report.

Goodwill. The acquisition method of accounting for business combinations requires us to record assets acquired, liabilities assumed and consideration paid at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired represents goodwill. Goodwill totaled $169.0 million at December 31, 2017 compared to $169.1 million at December 31, 2016. The change in goodwill during the year ended December 31, 2017 was the result of adjustments to the final goodwill amount associated with the Company's acquisition of Conestoga Bank in 2016.

Goodwill and other indefinite lived intangible assets are not amortized on a recurring basis, but rather are subject to periodic impairment testing. The provisions of Accounting Standards Codification ("ASC") Topic 350 allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test.

During 2017, management reviewed qualitative factors for the banking unit, which represents $159.7 million of our goodwill balance, including financial performance, market changes and general economic conditions and noted there was not a significant change in any of these factors as compared to 2016. Accordingly, it was determined that it was more likely than not that the fair value of the banking unit continued to be in excess of its carrying amount as of December 31, 2017.

During 2016, the Company made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment, as it relates to Beneficial Insurance Services, LLC, from December 31st to September 30th. Management made this decision based on the time intensive nature of the goodwill impairment assessment for Beneficial Insurance Services, LLC. During 2017, we assessed the qualitative factors related to Beneficial Insurance Services, LLC, which represents $9.3 million of our goodwill balance and determined that the two-step quantitative goodwill impairment test was warranted. We performed a two-step quantitative goodwill impairment for Beneficial Insurance Services, LLC as of September 30, 2017 based on estimates of the fair value of equity using discounted cash flow analyses as well as guideline company information. The inputs and assumptions are incorporated in the valuations including projections of future cash flows, discount rates, the fair value of tangible and intangible assets and liabilities, and applicable valuation multiples based on the guideline information. Based on our latest annual impairment assessment of Beneficial Insurance Services, LLC and their current and projected financial results, we believe that the fair value is in excess of the carrying amount. As a result, management concluded that there was no impairment of goodwill as of September 30, 2017.

Income Taxes. We are subject to the income tax laws of the various jurisdictions where we conduct business and estimate income tax expense based on amounts expected to be owed to these various tax jurisdictions. The estimated income tax expense (benefit) is reported in the Consolidated Statements of Operations. The evaluation pertaining to the tax expense and related tax asset and liability balances involves a high degree of judgment and subjectivity around the ultimate measurement and resolution of these matters.

Accrued taxes represent the net estimated amount due to or to be received from tax jurisdictions either currently or in the future and are reported in other assets on our consolidated statements of financial condition. We assess the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other pertinent information and maintain tax accruals consistent with our evaluation. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations by the tax authorities and newly enacted statutory, judicial and regulatory guidance that could impact the relative merits of tax positions. These changes, when they occur, impact accrued taxes and can materially affect our operating results. We regularly evaluate our uncertain tax positions and estimate the appropriate level of reserves related to each of these positions.

As of December 31, 2017, we had net deferred tax assets totaling $23.0 million. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If currently available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require us to make projections of future taxable income. Management believes, based upon current facts, that it is more likely than not that there will be sufficient taxable income in future years to realize the deferred tax assets. The judgments and estimates we make in determining our deferred tax assets are inherently subjective and are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance that results in additional income tax expense in the period in which it is recognized would negatively affect earnings. The Company currently maintains a valuation allowance for certain state net operating losses that management believes it is more likely than not that such deferred tax assets will not be realized. Therefore, no valuation allowance is deemed necessary against our remaining federal or remaining state deferred tax assets as of December 31, 2017. Our net deferred tax asset of $23.0 million was determined based on the current enacted federal tax rate of 21%. Any possible future reduction in federal tax rates, would reduce the value of our net deferred tax assets and result in immediate write-down of the net deferred tax assets though our statement of operations, the effect of which would be material.

Balance Sheet Analysis

Total assets increased $60.2 million, or 1.0%, to $5.80 billion at December 31, 2017, compared to $5.74 billion at December 31, 2016. The increase in total assets was primarily due to an increase in cash and cash equivalents and loan growth, partially offset by a decline

in investment securities. Cash and cash equivalents increased $270.6 million to $557.6 million at December 31, 2017, from $287.0 million at December 31, 2016. Over the past few years, we have been focused on reducing our investments and increasing our loan portfolio. As growth slowed in the second half of 2017, investment maturities and repayments increased our cash levels. The excess cash that we are holding will be used to fund future loan growth.

Securities

Investments decreased $204.5 million, or 19.0%, to $870.8 million at December 31, 2017 compared to $1.08 billion at December 31, 2016, as we continued to focus on improving our balance sheet mix by reducing the percentage of our assets in cash and investments and growing our loan portfolio. We continue to focus on maintaining a high quality investment portfolio that provides a steady stream of cash flows both in the current and in rising interest rate environments.

At December 31, 2017, our investment portfolio, excluding Federal Home Loan Bank ("FHLB") stock, was $847.6 million, or 14.6% of total assets. At December 31, 2017, 94.3% of the investment portfolio was comprised of mortgage-backed securities issued by Freddie Mac and Fannie Mae and the Government National Mortgage Association ("Ginnie Mae"), including collateralized mortgage obligations ("CMO") securities issued by Freddie Mac, Fannie Mae, and the Ginnie Mae. At December 31, 2017, our investment portfolio also included 0.3% of municipal bonds, 2.8% of corporate bonds and 0.4% of government-sponsored enterprise ("GSE") notes. The remaining 2.2% of our investment portfolio consisted of foreign bonds, equities, mutual funds and money market funds.

In order to mitigate the credit risk related to the Company's held-to-maturity and available-for-sale portfolios, the Company monitors the ratings of its securities. As of December 31, 2017, approximately 94.0% of the Company's portfolio consisted of direct government obligations, government sponsored enterprise obligations or securities rated AAA by Moody's and/or S&P. In addition, at December 31, 2017, approximately 3.2% of the investment portfolio was non-agency securities, rated below AAA but rated investment grade by Moody's, S&P and/or Kroll and approximately 2.8% of the investment portfolio was not rated. Securities not rated consist primarily of private placement municipal bonds, equities, FHLB stock and mutual funds.

The following table sets forth the cost and fair value of investment securities at December 31, 2017, 2016 and 2015.

	2017		2016		2015	
December 31, (Dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Securities available-for-sale:						
GSE and agency notes	$3,488	$3,453	$4,649	$4,659	$6,107	$6,109
Mortgage-backed securities:						
Ginnie Mae guaranteed mortgage certificate	2,980	3,088	3,734	3,868	4,395	4,541
GSE mortgage-backed securities	245,926	246,140	374,593	376,534	543,687	547,271
Collateralized mortgage obligations	14,910	14,774	22,920	22,681	32,717	32,357
Total mortgage-backed securities	263,816	264,002	401,247	403,083	580,799	584,169
Municipal and other bonds						
Municipal bonds	1,792	1,866	2,320	2,402	30,146	31,656
Corporate securities	23,489	24,083	19,487	19,457	11,986	11,860
Total municipal and other bonds	25,281	25,949	21,807	21,859	42,132	43,516
Equity Securities	250	410				
Money market and mutual funds	16,498	16,494	21,952	21,943	21,401	21,368
Total securities available-for-sale	309,333	310,308	449,655	451,544	650,439	655,162
Securities held-to-maturity:						
Mortgage-backed securities:						
GSE mortgage-backed securities	472,259	469,268	569,319	564,647	654,803	653,510
Collateralized mortgage obligations	63,038	62,096	30,580	30,422	38,757	38,921
Total mortgage-backed securities	535,297	531,364	599,899	595,069	693,560	692,431
Municipal bonds	505	537	630	680	750	819
Foreign bonds	1,500	1,524	2,000	2,036	2,000	2,040
Total municipal and other bonds	2,055	2,061	2,630	2,716	2,750	2,859
Total securities held-to-maturity	537,302	533,425	602,529	597,785	696,310	695,290
Total investment securities	$846,635	$843,733	$1,052,184	$1,049,329	$1,346,749	$1,350,452

Mortgage-backed securities are a type of asset-backed security that is secured by a mortgage, or a collection of mortgages. These securities usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from regulated and authorized financial institutions. The contractual cash flows of investments in government sponsored enterprises' mortgage-backed securities are debt obligations of Freddie Mac and Fannie Mae, both of which are currently under the conservatorship of the

Federal Housing Finance Agency. The cash flows related to Ginnie Mae securities are direct obligations of the U.S. Government. Mortgage-backed securities are also known as mortgage pass-throughs. CMOs are a type of mortgage-backed security that create separate pools of pass-through rates for different classes of bondholders with varying cash flow structures, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectuses. At December 31, 2017, we had no investments in a single company or entity (other than United States government sponsored enterprise securities) that had an aggregate book value in excess of 10% of our equity.

At December 31, 2017, December 31, 2016 and December 31, 2015, securities totaling $634.4 million, $623.4 million and $754.8 million, respectively, were in an unrealized loss position and the unrealized losses on these securities totaled $7.0 million, $9.3 million and $7.6 million, respectively. At December 31, 2017 and 2016, the unrealized losses in the portfolio were mainly attributed to GSE mortgage-backed securities and CMOs. The unrealized losses are due to current interest rate levels relative to our cost and not credit quality. As we do not intend to sell the investments, and it is not likely we will be required to sell the investments before recovery, we do not consider the investments to be other than temporarily impaired at December 31, 2017. During the years ended December 31, 2017, and 2016, we did not record any impairment charges for securities.

The following table sets forth the stated maturities and weighted average yields of investment securities at December 31, 2017. Certain securities have adjustable interest rates and may reprice monthly, quarterly, semi-annually or annually within the various maturity ranges. Mutual funds, money market funds and equities are not included in the table based on lack of a maturity date.

December 31, 2017	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(Dollars in thousands)	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Securities available-for-sale:										
GSE and agency notes	$ -	-%	$ 3,453	1.9%	$ -	-%	$ -	-%	$ 3,453	1.9%
Mortgage-backed securities & CMOs	61	5.4	110,306	2.1	75,227	3.2	78,408	2.5	264,002	2.5
Municipal bonds	-	-	1,866	4.0	0	-	-	-	1,866	4.0
Corporates	-	-	-	-	24,083	4.6	-	-	24,083	4.6
Total available-for-sale	61	5.4	115,625	2.1	99,310	3.5	78,408	2.5	293,404	2.7
Securities held to maturity:										
Mortgage-backed securities & CMOs	43	4.0	120,272	2.2	102,050	2.6	312,933	2.7	535,298	2.5
Foreign bonds	-	-	1,500	3.0	-	-	-	-	1,500	3.0
Municipal bonds	125	5.1	380	5.7	-	-	-	-	505	5.5
Total held to maturity	168	4.8	122,152	2.2	102,050	2.6	312,933	2.7	537,303	2.6
Total	$ 229	5.0	$ 237,777	2.2	$ 201,360	3.0	$ 391,341	2.6	$ 830,707	2.6

Loans

Loans increased $23.6 million to $4.03 billion at December 31, 2017, from $4.01 billion at December 31, 2016. The increase in loans was primarily due to organic growth in our commercial loan portfolio and residential real estate loan portfolio of $93.4 million (3.8% growth) and $49.1 million (5.5% growth), respectively, partially offset by decreases in our consumer loan portfolio due primarily to a decrease in indirect auto loans resulting from our planned run-off of this portfolio segment. As previously disclosed, we decided to exit the indirect lending business in the first quarter of 2017.

The following table shows the loan portfolio at the dates indicated:

(Dollars in thousands)	December 31, 2017			
	Originated	**Acquired Non-Credit Impaired**	**Acquired Credit Impaired**	**Total**
Commercial:				
Commercial real estate	$1,448,226	$128,659	$5,037	$1,581,922
Commercial business loans	568,241	100,613	1,235	670,089
Commercial small business leases	92,632	48,622	-	141,254
Commercial construction	146,633	-	-	146,633
Total commercial loans	2,255,732	277,894	6,272	2,539,898
Residential:				
Residential real estate	897,052	46,414	107	943,573
Total residential loans	897,052	46,414	107	943,573
Consumer loans:				
Home equity & lines of credit	208,191	19,712	206	228,109
Personal	10,978	6,237	56	17,271
Education	147,582	-	-	147,582
Automobile	157,697	-	-	157,697
Total consumer loans	524,448	25,949	262	550,659
Total loans	3,677,232	350,257	6,641	4,034,130
Allowance for losses	(43,267)	-	-	(43,267)
Loans, net	$3,633,965	$350,257	$6,641	$3,990,863

(Dollars in thousands)	December 31, 2016			
	Originated	**Acquired Non-Credit Impaired**	**Acquired Credit Impaired**	**Total**
Commercial:				
Commercial real estate	$1,218,431	$164,569	$5,396	$1,388,396
Commercial business loans	563,047	125,915	5,284	694,246
Commercial small business leases	49,900	89,113	-	139,013
Commercial construction	224,731	101	-	224,832
Total commercial loans	2,056,109	379,698	10,680	2,446,487
Residential:				
Residential real estate	835,896	58,053	525	894,474
Total residential loans	835,896	58,053	525	894,474
Consumer loans:				
Home equity & lines of credit	223,060	25,477	416	248,953
Personal	14,458	7,263	142	21,863
Education	164,202	-	-	164,202
Automobile	234,584	5	-	234,589
Total consumer loans	636,304	32,745	558	669,607
Total loans	3,528,309	470,496	11,763	4,010,568
Allowance for losses	(43,261)	-	-	(43,261)
Loans, net	$3,485,048	$470,496	$11,763	$3,967,307

(Dollars in thousands)	December 31, 2015			
	Originated	Acquired Non-Credit Impaired	Acquired Credit Impaired	Total
Commercial:				
Commercial real estate	$954,689	$16,397	$-	$971,086
Commercial business loans	492,865	3,448	-	496,313
Commercial construction	116,452	-	-	116,452
Total commercial loans	1,564,006	19,845	-	1,583,851
Residential:				
Residential real estate	704,133	31,493	98	735,724
Total residential loans	704,133	31,493	98	735,724
Consumer loans:				
Home equity & lines of credit	226,848	4,960	-	231,808
Personal	20,640	-	-	20,640
Education	181,646	-	-	181,646
Automobile	187,777	-	-	187,777
Total consumer loans	616,911	4,960	-	621,871
Total loans	2,885,050	56,298	98	2,941,446
Allowance for losses	(45,500)	-	-	(45,500)
Loans, net	$2,839,550	$56,298	$98	$2,895,946

(Dollars in thousands)	December 31, 2014			
	Originated	Acquired Non-Credit Impaired	Acquired Credit Impaired	Total
Commercial:				
Commercial real estate	$584,751	$24,895	$-	$609,646
Commercial business loans	438,073	4,117	-	442,190
Commercial construction	69,083	-	57	69,140
Total commercial loans	1,091,907	29,012	57	1,120,976
Residential:				
Residential real estate	626,161	41,722	185	668,068
Total residential loans	626,161	41,722	185	668,068
Consumer loans:				
Home equity & lines of credit	220,770	6,285	-	227,055
Personal	28,648	20	-	28,668
Education	195,185	-	-	195,185
Automobile	181,793	-	-	181,793
Total consumer loans	626,396	6,305	-	632,701
Total loans	2,344,464	77,039	242	2,421,745
Allowance for losses	(50,654)	-	-	(50,654)
Loans, net	$2,293,810	$77,039	$242	$2,371,091

(Dollars in thousands)	December 31, 2013			
	Originated	Acquired Non-Credit Impaired	Acquired Credit Impaired	Total
Commercial:				
Commercial real estate	$550,439	$33,586	$108	$584,133
Commercial business loans	378,098	565	-	378,663
Commercial construction	37,862	-	205	38,067
Total commercial loans	966,399	34,151	313	1,000,863
Residential:				
Residential real estate	626,534	57,256	187	683,977
Total residential loans	626,534	57,256	187	683,977
Consumer loans:				
Home equity & lines of credit	225,930	8,224	-	234,154
Personal	40,865	27	-	40,892
Education	206,521	-	-	206,521
Automobile	175,400	-	-	175,400
Total consumer loans	648,716	8,251	-	656,967
Total loans	2,241,649	99,658	500	2,341,807
Allowance for losses	(55,649)	-	-	(55,649)
Loans, net	$2,186,000	$99,658	$500	$2,286,158

Loan Maturity

The following table sets forth certain information at December 31, 2017 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The tables do not include any estimate of prepayments that significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

December 31, 2017 (Dollars in thousands)	Commercial Real Estate	Commercial Business	Small Business Leases	Commercial Construction	Residential Real Estate	Home Equity & Lines of Credit	Personal	Education	Auto	Total Loans
Amounts due in:										
One year or less	$133,031	$91,518	$7,856	$21,426	$954	$27,868	$1,481	$618	$2,367	$287,119
More than 1-5 years	477,759	267,616	123,705	95,029	6,935	16,741	4,127	5,146	132,831	1,129,889
More than 5-10 years	829,176	229,599	9,693	30,178	55,840	46,937	5,419	19,464	22,499	1,248,805
More than 10 years	141,956	81,356	-	-	879,844	136,563	6,244	122,354	-	1,368,317
Total	$1,581,922	$670,089	$141,254	$146,633	$943,573	$228,109	$17,271	$147,582	$157,697	$4,034,130

The following table sets forth all loans at December 31, 2017 that are due after December 31, 2018, and have either fixed interest rates or floating or adjustable interest rates:

(Dollars in thousands)	Fixed Rates	Floating or Adjustable Rates	Total
Commercial real estate	$491,678	$957,213	$1,448,891
Commercial business	177,025	401,546	578,571
Small business leases	133,398	-	133,398
Commercial construction	30,055	95,152	125,207
Residential real estate	898,271	44,348	942,619
Home equity and lines of credit	111,593	88,648	200,241
Personal	15,740	50	15,790
Education	144,635	2,329	146,964
Automobile	155,330	-	155,330
Total	$2,157,725	$1,589,286	$3,747,011

Loan Activity

The following table shows loans originated, purchased and sold during the periods indicated:

Year Ended December 31, (Dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Total loans at beginning of period	$4,010,568	$2,941,446	$2,421,745	$2,341,807	$2,447,304
Originations:					
Commercial:					
Commercial real estate	248,943	233,318	123,844	131,223	59,278
Commercial business	462,298	347,973	315,301	285,165	163,937
Commercial small business leases	69,948	60,157	-	-	-
Commercial construction	165,478	200,691	104,306	53,886	23,535
Total commercial loans	946,667	842,139	543,451	470,274	246,750
Residential:					
Residential real estate	178,374	258,287	148,380	100,766	174,185
Total residential loans	178,374	258,287	148,380	100,766	174,185
Consumer:					
Home equity and lines of credit	76,519	89,503	82,519	68,506	58,175
Personal	8,920	1,450	1,063	1,187	1,478
Automobile	1,232	131,382	86,233	85,076	79,856
Total consumer loans	86,671	222,335	169,815	154,769	139,509
Total loans originated	1,211,712	1,322,761	861,646	725,809	560,444
Loans acquired in business combinations	-	518,562	-	-	-
Purchases	-	117,458	356,083	-	-
Less:					
Principal payments & repayments (net of charge-offs)	1,152,648	869,766	678,537	607,246	639,813
Loan sales	35,313	19,530	19,050	38,352	20,591
Transfers to foreclosed real estate	189	363	441	273	5,537
Total loans at end of period	$4,034,130	$4,010,568	$2,941,446	$2,421,745	$2,341,807

Deposits

Our primary source of funds is our deposits, which are comprised of demand deposits, money market and passbook accounts and certificates of deposit.

Deposits decreased $7.7 million, or 0.2%, to $4.15 billion at December 31, 2017, from $4.16 billion at December 31, 2016. The decrease in deposits was primarily due to decreases in interest bearing checking and money market accounts, partially offset by increases in interest retail checking and non-interest bearing business checking accounts. The following table sets forth the deposits as a percentage of total deposits for the dates indicated:

	2017		**2016**		**2015**	
At December 31, (Dollars in thousands)	**Amount**	**Percent of Total Deposits**	**Amount**	**Percent of Total Deposits**	**Amount**	**Percent of Total Deposits**
Non-interest bearing deposits	$ 563,185	13.6%	$ 518,294	12.5%	$ 409,233	11.8%
Interest-earning checking accounts	898,263	21.6	930,227	22.4	757,718	22.0
Municipal checking accounts	123,697	3.0	125,063	3.0	132,642	3.8
Money market accounts	419,773	10.1	444,226	10.7	389,403	11.3
Savings accounts	1,288,875	31.1	1,265,864	30.4	1,132,842	32.8
Certificates of deposit	856,700	20.6	874,514	21.0	630,085	18.3
Total	$4,150,493	100.0%	$4,158,188	100.0%	$3,451,923	100.0%

We are required to pledge securities to secure municipal deposits. At December 31, 2017 and 2016, we had pledged $78.1 million and $90.7 million, respectively, of securities to secure these deposits.

The following table sets forth the time remaining until maturity for certificate of deposits of $100,000 or more at December 31, 2017:

December 31, 2017 (Dollars in thousands)	**Certificates of Deposit**
Maturity Period:	
Three months or less	$ 35,590
Over three through six months	30,001
Over six through twelve months	56,369
Over twelve months	60,618
Total	$182,578

The following table sets forth the deposit activity for the periods indicated:

Year Ended December 31, (Dollars in thousands)	**2017**	**2016**	**2015**
Beginning balance	$4,158,188	$3,451,923	$3,879,709
(Decrease) increase before interest credited	(25,607)	102,299	40,348
Interest credited	17,912	15,580	14,002
Deposits acquired from Conestoga Bank	-	588,386	-
Stock subscription deposits received	-	-	(482,136)
Net (decrease) increase in deposits	(7,695)	706,265	(427,786)
Ending balance	$4,150,493	$4,158,188	$3,451,923

Stock subscription funds were reclassified to stockholders' equity upon the completion of the second-step conversion on January 12, 2015.

Borrowings

We have the ability to utilize advances from the Federal Home Loan Bank of Pittsburgh to supplement our liquidity. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain mortgage loans and other assets, provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. We also have the ability to utilize securities sold under agreements to repurchase and overnight repurchase agreements, along with the Federal Reserve Bank's discount window and Federal Funds lines with correspondent banks to supplement our supply of investable funds and to meet deposit withdrawal requirements. To secure our borrowings, we generally pledge securities and/or loans. The types of securities pledged for borrowings include, but are not limited to, GSE notes and GSE mortgage-backed securities. The types of loans pledged for borrowings include, but are not limited to, one- to four-family real estate mortgage loans. During 2017, borrowings increased $50.0 million to $540.4 million at December 31, 2017 and are being used as a low cost funding source to replace higher cost brokered CDs. During the year ended December 31, 2017, we executed a $200.0 million forward starting interest rate swap at 2.24% to lock in funding costs for a $200.0 million borrowing that matures in 2019.

The following table sets forth the outstanding borrowings and weighted averages at the dates or for the periods indicated:

Year Ended December 31, (Dollars in thousands)	**2017**	**2016**	**2015**
Maximum amount outstanding at any month-end during period:			
Federal Home Loan Bank advances	$515,000	$465,000	$165,000
Repurchase agreements	-	-	-
Federal Home Loan Bank overnight borrowings	-	-	-
Federal Reserve Bank of Philadelphia overnight borrowings	-	-	-
Statutory trust debenture	25,439	25,423	25,405
Other	-	-	-
Average outstanding balance during period:			
Federal Home Loan Bank advances	$510,753	$322,760	$165,000
Repurchase agreements	-	-	-
Federal Home Loan Bank overnight borrowings	5	5	5
Federal Reserve Bank of Philadelphia overnight borrowings	5	5	5
Statutory trust debenture	25,441	25,414	25,397
Other	16	16	19
Weighted average interest rate during period:			
Federal Home Loan Bank advances	1.72%	2.04%	2.76%
Repurchase agreements	-	-	-
Federal Home Loan Bank overnight borrowings	1.08	0.62	0.35
Federal Reserve Bank of Philadelphia overnight borrowings	1.50	1.01	0.75
Statutory trust debenture	2.92	2.40	2.00
Other	1.38	0.79	0.60
Balance outstanding at end of period:			
Federal Home Loan Bank advances	$515,000	$465,000	$165,000
Repurchase agreements	-	-	-
Federal Home Loan Bank overnight borrowings	-	-	-
Federal Reserve Bank of Philadelphia overnight borrowings	-	-	-
Statutory trust debenture	25,439	25,423	25,405
Other	-	-	-
Weighted average interest rate at end of period:			
Federal Home Loan Bank advances	1.68%	1.82%	2.72%
Repurchase agreements	-	-	-
Federal Home Loan Bank overnight borrowings	-	-	-
Federal Reserve Bank of Philadelphia overnight borrowings	-	-	-
Statutory trust debenture	3.17	2.54	2.09
Other	-	-	-

Results of Operations for the Years Ended December 31, 2017, 2016, and 2015

Financial Highlights

Net income was $23.9 million for the year ended December 31, 2017 compared to net income of $25.5 million for the year ended December 31, 2016 and net income of $22.9 million for the year ended December 31, 2015. Net income for the year ended December 31, 2017 included a one- time $13.1 million charge, or $0.18 per diluted share, of additional income tax expense related to the enactment of H.R. 1 and its impact on the re-measurement of our net deferred tax assets (DTA) due to the reduction in the corporate income tax rate to 21% from 35%. Net income for year ended December 31, 2016 included $8.8 million of merger and restructuring charges related to the acquisition of Conestoga Bank ("Conestoga") and the Bank's expense management reduction program. The increase in net income during 2016 compared to 2015 can be attributed to an increase in our average interesting earning assets of $411.1 million due to the acquisition of Conestoga Bank during the second quarter of 2016 as well as organic loan growth.

For the year ended December 31, 2017, net interest income was $169.9 million, an increase of $19.0 million, or 12.6%, from $150.9 million for the year ended December 31, 2016. The increase in net interest income was primarily due to the acquisition of Conestoga during the second quarter of 2016 and organic loan growth, which resulted in higher interest earning assets of $596.5 million in 2017 compared to 2016 as well as prepayment income of $4.0 million. For the year ended December 31, 2016, net interest income was $150.9 million, an increase of $26.7 million, or 21.5%, from $124.2 million for the year ended December 31, 2015. The increase in net interest income was primarily due to the acquisition of Conestoga Bank and organic loan growth.

As a result of loan growth and net charge-offs during 2017 and 2016, we recorded a $3.1 million and $485 thousand provision for loan losses during the years ended December 31, 2017 and December 31, 2016, respectively. Asset quality improvement and low net loan charge-offs resulted in a reduction in our provision of $3.6 million for the year ended December 31, 2015.

For the year ended December 31, 2017, non-interest expense totaled $138.8 million, a decrease of $327 thousand, or 0.2%, from the year ended December 31, 2016. The decrease in non-interest expense was primarily due to $8.8 million of merger and restructuring charges related to the acquisition of Conestoga and our April 2016 expense management reduction program recorded during the year ended December 31, 2016. This decrease to non-interest expense was partially offset by an increase in salaries and employee benefits of $6.7 million and a $2.0 million increase in board fees due primarily to increased costs associated with equity awards granted under the Company's 2016 Omnibus Incentive Plan. Following the enactment of H.R 1 and the anticipated savings from lower future taxes, we announced a special $1,000 bonus paid to over 600 employees and enhanced our medical coverage to our entire employee base. We also evaluated the compensation of our hourly employees and intend to raise our minimum hourly rate to $14.00 during the first quarter of 2018.

Income tax expense increased in 2017 compared to 2016 and 2015 primarily due to the passage of H.R. 1 on December 22, 2017, which lowered the federal corporate tax rate to 21% from 35% and resulted in $13.1 million of additional tax expense for the year ended December 31, 2017.

Summary Income Statements

The following table sets forth the income summary for the periods indicated:

Year Ended December 31, (Dollars in thousands)	**2017**	**2016**	**2015**	**Change 2017/2016** **$**	 **%**	**Change 2016/2015** **$**	 **%**
Net interest income	$169,868	$150,917	$124,222	$18,951	12,56%	$26,695	21.49%
Provision for loan losses	3,118	485	(3,600)	2,633	542.89%	4,085	(113.47%)
Non-interest income	28,765	27,805	24,284	960	3.45%	3,521	14.50%
Non-interest expense	138,797	139,124	118,488	(327)	(0.24%)	20,636	17.42%
Income tax expense	32,794	13,644	10,725	19,150	140.35%	2,919	27.22%
Net income	23,932	25,469	22,893	(1,537)	(6.03%)	2,576	11.25%
Return on average equity	2.29%	2.45%	2.15%				
Return on average assets	0.41%	0.47%	0.48%				

Net Interest Income

Average Balances and Yields

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average daily balances of assets or liabilities, respectively, for the periods presented. Loan fees are included in interest income on loans and are not material. Non-accrual loans are included in the average balances only. In addition, yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

Average Balance Tables

	Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
(Dollars in thousands)	Average Balance	Interest & Dividends	Yield / Cost	Average Balance	Interest & Dividends	Yield / Cost	Average Balance	Interest & Dividends	Yield / Cost
Interest Earning Assets:									
Investment Securities:									
Overnight Investments	$ 373,859	$ 4,330	1.14%	$ 177,493	$ 935	0.53%	$ 291,062	$ 758	0.26%
Stock	23,046	1,074	4.66%	15,515	707	4.56%	8,800	766	8.58%
Other Investment securities	962,872	20,060	2.08%	1,192,835	24,461	2.05%	1,438,770	29,936	2.08%
Total Investment securities	1,359,777	25,464	1.87%	1,385,843	26,103	1.88%	1,738,632	31,460	1.81%
Loans and leases:									
Real estate loans									
Residential	911,922	35,849	3.93%	803,490	32,553	4.05%	706,597	29,951	4.24%
Non-residential	1,664,726	71,600	4.26%	1,400,986	55,607	3.93%	828,044	35,748	4.28%
Total real estate	2,576,648	107,449	4.15%	2,204,476	88,160	3.97%	1,534,641	65,699	4.26%
Business loans	433,737	19,728	4.50%	344,104	15,450	4.43%	215,270	9,688	4.45%
Shared National Credits	191,288	5,976	3.09%	219,750	6,213	2.79%	204,544	5,574	2.69%
Small Business loans	99,294	5,134	5.11%	99,224	4,942	4.91%	85,694	4,747	5.48%
Small Business leases	137,480	7,704	5.60%	93,447	5,428	5.81%	81	4	4.85%
Total Business & Small Business loans and leases	861,799	38,542	4.43%	756,525	32,033	4.18%	505,589	20,013	3.92%
Total Business loans and leases	2,526,525	110,142	4.31%	2,157,511	87,640	4.01%	1,333,633	55,761	4.14%
Personal loans	611,730	26,413	4.32%	651,975	27,497	4.22%	623,426	26,167	4.20%
Total loans and leases, net of discount	4,050,177	172,404	4.23%	3,612,976	147,690	4.06%	2,663,656	111,879	4.18%
Total interest earning assets	5,409,954	$ 197,868	3.64%	4,998,819	$ 173,793	3.46%	4,402,288	$ 143,339	3.24%
Non-interest earning assets	400,897			401,307			341,758		
Total assets	$ 5,810,851			$ 5,400,126			$ 4,744,046		
Interest Bearing Liabilities:									
Interest bearing savings and demand deposits:									
Savings and club accounts	$ 1,297,543	$ 4,423	0.34%	$ 1,227,188	$ 4,179	0.34%	$ 1,132,869	$ 3,910	0.35%
Money market accounts	441,528	1,558	0.35%	452,515	1,572	0.35%	415,555	1,370	0.33%
Demand deposits	914,404	2,206	0.24%	851,847	2,009	0.24%	704,239	1,469	0.22%
Demand deposits - Municipals	122,636	236	0.19%	129,164	209	0.16%	131,905	146	0.11%
Certificates of deposit	871,167	9,698	1.11%	796,381	7,722	0.97%	655,762	7,156	1.09%
Total interest-bearing deposits	3,647,278	18,121	0.50%	3,457,095	15,691	0.45%	3,040,330	14,051	0.47%
Borrowings	536,222	9,879	1.82%	348,919	7,185	2.06%	190,427	5,066	2.66%
Total interest-bearing liabilities	4,183,500	28,000	0.67%	3,806,014	22,876	0.60%	3,230,757	19,117	0.60%
Non-interest-bearing deposits	525,209			478,694			377,910		
Other non-interest-bearing liabilities	72,217			78,632			71,618		
Total liabilities	4,780,926			4,363,340			3,680,285		
Total stockholders' equity	1,029,925			1,036,786			1,063,761		
Total liabilities and stockholders' equity	$ 5,810,851			$ 5,400,126			$ 4,744,046		
Net interest income		$ 169,868			$ 150,917			$ 124,222	
Interest rate spread		2.97			2.86			2.64	
Net interest margin		3.12			3.00			2.80	
Average interest-earning assets to average interest-bearing liabilities	129.32%			131.34%			136.26%		

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

(Dollars in thousands)	Year Ended 12/31/2017 Compared to Year Ended 12/31/2016 Increase (Decrease) Due to			Year Ended 12/31/2016 Compared to Year Ended 12/31/2015 Increase (Decrease) Due to		
	Volume	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Interest income:						
Loans receivable	$18,610	$6,104	$24,714	$38,806	($2,995)	$35,811
Overnight investments	2,274	1,121	3,395	(598)	775	177
Investment securities	(481)	(390)	(871)	364	(170)	194
Mortgage-backed securities	(4,325)	741	(3,584)	(4,820)	(527)	(5,347)
Collateralized mortgage obligations	(50)	104	54	(300)	(22)	(322)
Other interest-earning assets	351	16	367	306	(365)	(59)
Total interest-earning assets	16,379	7,696	24,075	33,758	(3,304)	30,454
Interest expense:						
Interest-earning checking accounts	132	92	224	328	275	603
Money market	(39)	25	(14)	128	74	202
Savings accounts	240	4	244	321	(52)	269
Time deposits	833	1,143	1,976	1,363	(797)	566
Total interest-bearing deposits	1,166	1,264	2,430	2,140	(500)	1,640
FHLB advances	3,240	(1,010)	2,230	3,212	(1,198)	2,014
Repurchase agreements	-	(1)	(1)	1	-	1
Statutory trust debenture	1	464	465	-	104	104
Total interest-bearing liabilities	4,407	717	5,124	5,353	(1,594)	3,759
Net change in net interest income	$11,972	$6,979	$18,951	$28,405	($1,710)	$26,695

2017 vs. 2016. For the year ended December 31, 2017, the Company reported net interest income of $169.9 million, an increase of $19.0 million, or 12.6%, from the year ended December 31, 2016. Total interest income increased $24.1 million, or 13.9%, to $197.9 million for the year ended December 31, 2017 from $173.8 million for the year ended December 31, 2016. The increase in interest income was primarily due to the acquisition of Conestoga Bank and organic loan growth with average loans increasing $437.2 million, or 12.1%, in 2017 compared to 2016. Total loans increased $23.6 million to $4.03 billion at December 31, 2017, from $4.01 billion at December 31, 2016. The increase in loans was primarily due to organic growth in our commercial loan portfolio and residential real estate loan portfolio of $93.4 million (3.8% growth) and $49.1 million (5.5% growth), respectively, partially offset by decreases in our consumer loan portfolio due primarily to a decrease in indirect auto loans resulting from our planned run-off of this portfolio segment. As previously disclosed, we decided to exit the indirect lending business in the first quarter of 2017. In addition to the increase in the average balance of loans, there was an increase in the average interest rate earned on loans to 4.23% in 2017 compared to 4.06% in 2016. For the year ended December 31, 2017, total interest expense increased $5.1 million, or 22.4%, to $28.0 million from $22.9 million for the year ended December 31, 2016 primarily due to an increase in the average balance of deposits driven by the acquisition of Conestoga Bank, as well as an increase in the average balance of borrowings, partially offset by a 24 basis point decrease in the rate on borrowings. During the year ended December 31, 2017, the Federal Reserve Board raised short term interest rates three times resulting in a FED Funds rate on overnight funds of 1.50%. Despite the movement in short term rates, long term rates did not rise by a comparable amount resulting in a flattening of the yield curve (10 year US treasuries were 2.60% at December 31, 2017). We believe that the current interest rate environment will put pressure on net interest margin in future periods until we continue to grow our loan portfolio and reduce the percentage of our balance sheet assets that are held in lower yielding cash and investments.

2016 vs. 2015. For the year ended December 31, 2016, the Company reported net interest income of $150.9 million, an increase of $26.7 million, or 21.5%, from the year ended December 31, 2015. Total interest income increased $30.5 million, or 21.2%, to $173.8 million for the year ended December 31, 2016 from $143.3 million for the year ended December 31, 2015. The increase in interest income was primarily due to the acquisition of Conestoga Bank and organic loan growth. Loans increased $1.1 billion, or 36.3%, to $4.01 billion at December 31, 2016 from $2.94 billion at December 31, 2015. The increase in loans was primarily due to acquired Conestoga Bank loans of $518.3 million, net organic growth of $433.3 million, and the purchase of $117.5 million of commercial real estate loans. The increase in the average balance of loans was partially offset by a reduction in the average interest rate earned on loans and investments. For the year ended December 31, 2016, total interest expense increased $3.8 million, or 19.7%, to $22.9 million from $19.1 million for the year ended December 31, 2015 primarily due to an increase in the average balance of deposits driven by the acquisition of Conestoga Bank, as well as an increase in the average balance of borrowings, partially offset by a 60 basis point decrease in the rate on borrowings.

Provision for Loan Losses

As a result of loan growth and net charge-offs during 2017 and 2016, we recorded a $3.1 million and $485 thousand provision for loan losses during the years ended December 31, 2017 and December 31, 2016, respectively. The provision for the year ended December 31, 2017 also included a $1.5 million specific valuation allowance for a shared national credit that was downgraded to doubtful and moved to non-accrual status during the first quarter of 2017. Asset quality improvement and low net loan charge-offs resulted in a reduction in our provision of $3.6 million for the year ended December 31, 2015. Net charge-offs for the year ended December 31, 2017 were $3.1 million, compared to $2.7 million and $1.6 million for the years ended December 31, 2016 and 2015, respectively. We charge-off any collateral or cash flow deficiency on all classified loans once they are 90 days delinquent. Government guaranteed student loans greater than 90 days delinquent continue to accrue interest as these loans are guaranteed by the government and have little risk of credit loss. The provision for loan losses was determined by management to be an amount necessary to maintain a balance of allowance for loan losses at a level that considers all known and current losses in the loan portfolio as well as potential losses due to unknown factors such as the economic environment. Changes in the provision were based on management's analysis of various factors such as: estimated fair value of underlying collateral, recent loss experience in particular segments of the portfolio, levels and trends in delinquent loans, and changes in general economic and business conditions.

At December 31, 2017, the allowance for loan losses totaled $43.3 million, or 1.07% of total loans outstanding, compared to $43.3 million, or 1.08% of total loans outstanding, as of December 31, 2016 and $45.5 million, or 1.55% of total loans outstanding, as of December 31, 2015. An analysis of the changes in the allowance for loan losses is presented under "*Risk Management—Analysis and Determination of the Allowance for Loan Losses"* below.

Non-Interest Income

The following table sets forth a summary of non-interest income for the periods indicated:

				Change 2017/2016		Change 2016/2015	
Year Ended December 31,	**2017**	**2016**	**2015**	**$**	**%**	**$**	**%**
(Dollars in thousands)							
Insurance commission income	$7,124	$6,719	$6,796	$405	6.0%	($77)	(1.1%)
Other services charges	14,096	13,699	11,957	397	2.9%	1,742	14.6%
Mortgage banking income	2,105	854	727	1,251	146.5%	127	17.5%
(Loss) gain on sale of investment securities available-for-sale	(7)	1,811	(19)	(1,818)	(100.4%)	1,830	9,631.6%
Limited partnership losses and amortization	(474)	(621)	(174)	147	23.7%	(447)	(256.9%)
Bank owned life insurance	1,876	1,606	1,349	270	16.8%	257	19.1%
Returned check charges	4,045	3,737	3,648	308	8.2%	89	2.4%
Total	$28,765	$27,805	$24,284	$960	3.5%	$3,521	14.5%

2017 vs. 2016. For the year ended December 31, 2017, non-interest income increased $960 thousand, or 3.5%, to $28.8 million from $27.8 million for the year ended December 31, 2016. The increase was primarily due to a $1.6 million net gain on the sale of $17.8 million of SBA loans recorded during the year ended December 31, 2017, a $765 thousand increase in interchange fees, and a $308 thousand increase in returned check charges, partially offset by a $1.8 million investment gain recorded during the year ended December 31, 2016 from the sale of stock that we held in a financial institution that was acquired.

2016 vs. 2015. For the year ended December 31, 2016, non-interest income increased $3.5 million, or 14.5%, to $27.8 million from $24.3 million for the year ended December 31, 2015. The increase during the year ended December 31, 2016 was primarily due to a $1.8 million investment gain from the sale of stock that we held in a financial institution that was acquired, a $688 thousand increase in interchange fees, a $493 thousand swap fee earned on a commercial real estate loan and a $257 thousand increase in income on bank owned life insurance.

Non-Interest Expense

The following table sets forth an analysis of non-interest expense for the periods indicated:

				Change 2017/2016		Change 2016/2015	
(Dollars in thousands)	**2017**	**2016**	**2015**	**$**	**%**	**$**	**%**
Salaries and employee benefits	$75,225	$68,515	$62,970	$6,710	9.8%	$5,545	8.8%
Occupancy expense	10,336	9,786	9,201	550	5.6	585	6.4
Depreciation, amortization and maintenance	9,507	9,942	9,026	(435)	(4.4)	916	10.1
Marketing expense	4,684	4,404	3,806	280	6.4	598	15.7
Amortization of intangibles	1,563	2,190	1,883	(627)	(28.6)	307	16.3
FDIC insurance	1,744	2,055	2,142	(311)	(15.1)	(87)	(4.1)
Merger and restructuring charges	-	8,765	753	(8,765)	(100.0)	8,012	1,064.0
Professional fees	4,606	5,342	4,449	(736)	(13.8)	893	20.1
Insurance expense	1,791	1,871	1,672	(80)	(4.3)	199	11.9
Printing and supplies	864	1,283	1,284	(419)	(32.7)	(1)	(0.1)
Correspondent bank charges	2,887	2,752	2,850	135	4.9	(98)	(3.4)
Postage expense	1,379	1,418	1,402	(39)	(2.8)	16	1.1
Internet banking	2,771	2,865	2,427	(94)	(3.3)	438	18.0
Debit card rewards	465	510	(237)	(45)	(8.8)	747	315.2
Real estate owned expenses	89	242	322	(153)	(63.2)	(80)	(24.8)
Real estate owned losses (gains)	122	(164)	(228)	286	174.4	64	28.1
Classified loan expenses	925	1,025	1,098	(100)	(9.8)	(73)	(6.6)
Other loan expenses	1,778	1,978	1,316	(200)	(10.1)	662	50.3
Other	18,061	14,345	12,352	3,716	25.9	1,993	16.1
Total	$138,797	$139,124	$118,488	($327)	(0.2%)	$20,636	17.4%

2017 vs. 2016. For the year ended December 31, 2017, non-interest expense decreased $327 thousand, or 0.2%, to $138.8 million from $139.1 million for the year ended December 31, 2016. The decrease in non-interest expense was primarily due to $8.8 million of merger and restructuring charges related to the acquisition of Conestoga and our April 2016 expense management reduction program recorded during the year ended December 31, 2016. This decrease to non-interest expense was partially offset by an increase in salaries and employee benefits of $6.7 million and other expense of $2.0 million due primarily to increases in stock based compensation and board fees associated with equity awards granted under the Company's 2016 Omnibus Incentive Plan. For the year ended December 31, 2017, our efficiency ratio was 69.93% compared to 77.84% for the year ended December 31, 2016.

2016 vs. 2015. For the year ended December 31, 2016, non-interest expense increased $20.6 million, or 17.4%, to $139.1 million from $118.5 million for the year ended December 31, 2015. The increase in non-interest expense was primarily due to $7.2 million of merger and restructuring charges related to the acquisition of Conestoga Bank and $1.6 million related to our previously announced April 2016 expense management reduction program. In addition, salaries and employee benefits increased $4.1 million and board fees increased $1.8 million primarily due to compensation associated with equity awards granted under the Company's 2016 Omnibus Incentive Plan. The increase in non-interest expense can also be attributed to an $893 thousand increase in professional fees primarily related to an online banking technology upgrade and new cash management system, a $747 thousand increase in debit card rewards expense, a $662 thousand increase in loan expenses primarily due to commercial loan servicing, and a $598 thousand increase in marketing expense as a result of the launch of our new advertising campaign. For the year ended December 31, 2016, our efficiency ratio was 77.84% compared to 79.79% for the year ended December 31, 2015.

Income Tax Expense

2017 vs. 2016. We recorded a provision for income taxes of $32.8 million for 2017, reflecting an effective rate of 57.8%, compared to a provision for income taxes of $13.6 million for 2016, reflecting an effective rate of 34.9%. Income tax expense increased $13.1 million, related to the enactment of H.R. 1 (originally known as the Tax Cuts and Jobs Act) and its impact on re-measuring our net deferred tax assets (DTA) due to the reduction in the federal corporate income tax rate to 21% from 35%.

2016 vs. 2015. We recorded a provision for income taxes of $13.6 million for 2016, reflecting an effective rate of 34.9%, compared to a provision for income taxes of $10.7 million for 2015, reflecting an effective rate of 31.9%. The increase in income tax expense and the effective tax is due to higher pre-tax income and a lower ratio of tax exempt income compared to pre-tax income. The tax rates differ from the statutory rate of 35% principally because of tax-exempt investments, non-taxable income related to bank-owned life insurance, and tax credits received on affordable housing partnerships, offset by non-deductible compensation and state income tax expense. These

tax credits relate to investments maintained by the Company as a limited partner in partnerships that sponsor affordable housing projects utilizing low-income housing credits pursuant to Section 42 of the Internal Revenue Code.

As of December 31, 2017 and 2016, the Company had net deferred tax assets totaling $23.0 million and $44.8 million, respectively. The decrease for 2017 is primarily the result of the re-measurement of our net deferred tax assets at the current enacted 21% corporate federal tax rate, which was lowered from 35% as a result of the passage of H.R. 1. Deferred tax assets can only be realized if the Company generates taxable income in the future. The Company regularly evaluates the realizability of deferred tax asset positions. In determining whether a valuation allowance is necessary, the Company considers the level of taxable income in prior years to the extent that carrybacks are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. The Company currently maintains a valuation allowance for certain state net operating losses that management believes it is more likely than not that such deferred tax assets will not be realized. The Company expects to realize the remaining deferred tax assets over the allowable carryforward periods. Therefore, no valuation allowance is deemed necessary against its remaining federal or state deferred tax assets as of December 31, 2017 and 2016. However, if an unanticipated event occurred that materially changed pre-tax book income and taxable income in future periods, an increase in the valuation allowance may become necessary and it could be material to the Company’s financial statements.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for at fair value. Other risks that we face are operational risk, liquidity risk and reputation risk. Operational risk includes risks related to fraud, regulatory compliance, processing errors, technology, cyber-security and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management. The objective of our credit risk management strategy is to quantify and manage credit risk and to limit the risk of loss resulting from an individual customer default. Our credit risk management strategy focuses on conservatism, diversification within the loan portfolio and monitoring. Our lending practices include conservative exposure limits and underwriting, documentation and collection standards. Our credit risk management strategy also emphasizes diversification on an industry and customer level as well as regular credit examinations and monthly management reviews of large credit exposures and credits experiencing deterioration of credit quality. Underwriting activities are centralized. Our credit risk review function provides objective assessments of the quality of underwriting and documentation, the accuracy of risk grades and the charge-off, non-accrual and reserve analysis process. Our credit review process and overall assessment of required allowances is based on quarterly assessments of the probable estimated losses inherent in the loan portfolio. We use these assessments to identify potential problem loans within the portfolio, maintain an adequate reserve and take any necessary charge-offs. Further, we have strengthened our oversight of problem assets through the formation of a special assets committee. The committee, which consists of our Chief Credit Officer, Chief Financial Officer and other members of senior management, increase the frequency with which classified and watch list credits are reviewed and aggressively acts to resolve problem assets.

When a borrower fails to make a required payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. Generally, our collection department follows the guidelines for servicing loans as prescribed by the appropriate investor, state or federal law. Collection activities include, but are not limited to, phone calls to borrowers and collection letters, which include a late charge notice based on the contractual requirements of the specific loan. Additional calls and notices are mailed in compliance with state and federal regulations including, but not limited to, the Fair Debt Collection Practices Act. After the 90th day of delinquency, or on a different date as allowable by state law, the collection department will forward the account to counsel and begin the foreclosure proceedings. If a foreclosure action is instituted and the loan is not in at least the early stages of a workout by the scheduled sale date, the real property securing the loan generally is sold at a foreclosure sale. If we determine that there is a possibility of a settlement, pay-off or reinstatement, the foreclosure sale may be postponed. If there is a failure to cure the delinquency, the foreclosure sale would proceed.

We charge-off the collateral or cash flow deficiency on all loans once they become 90 days delinquent. Generally, all consumer loans are charged-off once they become 90 days delinquent except for education loans as they are guaranteed by the government and there is little risk of loss. In addition to the individual review of larger commercial loans that exhibit probable or observed credit weaknesses, the commercial credit review process includes the use of an enhanced risk grading system. This risk grading system is consistent with Basel II expectations and allows for precision in the analysis of commercial credit risk. Historical portfolio performance metrics, current economic conditions and delinquency monitoring are factors used to assess the credit risk in our homogenous commercial, residential and consumer loan portfolio.

Analysis of Non-performing, Troubled Debt Restructurings and Classified Assets. We consider repossessed assets and loans that are 90 days or more past due, except guaranteed student loans, to be non-performing assets. Generally, all loans are placed on non-accrual status when they become 90 days delinquent at which time the accrual of interest ceases and any collateral deficiency is charged-off. Typically, payments received on a non-accrual loan are applied to the outstanding principal balance of the loan.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired, it is recorded at the lower of its cost or fair market value less estimated costs to sell. Holding costs and declines in fair value after acquisition of the property result in charges against income.

We consider a loan a troubled debt restructuring, or “TDR,” when the borrower is experiencing financial difficulty and we grant a concession that we would not otherwise consider but for the borrower’s financial difficulties. A TDR includes a modification of debt terms or assets received in satisfaction of the debt (which may include foreclosure or deed in lieu of foreclosure) or a combination of types. We evaluate selective criteria to determine if a borrower is experiencing financial difficulty including the ability of the borrower to obtain funds from sources other than Beneficial Bank at market rates. We consider all TDRs that are on non-accrual status to be impaired loans. We will not consider the loan a TDR if the loan modification was made for customer retention purposes and the modification is consistent with prevailing market conditions.

Once a loan has been classified as a TDR and has been put on non-accrual status, it will only be put back on accruing status when certain criteria are met. Our policy for returning a loan to accruing status requires the preparation of a well-documented credit evaluation, which includes the following:

- A review of the borrower’s current financial condition in which the borrower must demonstrate sufficient cash flows to support the repayment of all principal and interest including any amounts previously charged-off;
- An updated appraisal or home valuation, which must demonstrates sufficient collateral value to support the debt;
- Sustained performance based on the restructured terms for at least six consecutive months;
- Approval by the special assets committee, which consists of senior management including the Chief Credit Officer and the Chief Financial Officer.

The following table sets forth information with respect to our non-performing assets at the dates indicated.

December 31, (Dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Non-accrual loans:					
Real estate loans:					
Residential	$5,829	$7,740	$9,685	$8,768	$11,523
Commercial real estate	3,273	1,472	2,070	2,123	23,131
Total real estate loans	9,102	9,212	11,755	10,891	34,654
Commercial business loans	9,828	1,768	1,378	1,755	15,900
Consumer loans:					
Home equity lines of credit	1,246	1,009	1,635	1,858	953
Automobile loans	-	-	-	-	151
Other consumer loans	345	80	-	111	107
Total consumer loans	1,591	1,089	1,635	1,969	1,211
Total non-accrual loans (1)	20,521	12,069	14,768	14,615	51,765
Accruing loans past due 90 days or more:					
Consumer loans:					
Education loans (2)	14,152	14,843	22,900	25,296	24,410
Total consumer loans	14,152	14,843	22,900	25,296	24,410
Total accruing loans past due 90 days or more	14,152	14,843	22,900	25,296	24,410
Total non-performing loans	34,673	26,912	37,668	39,911	76,175
Real estate owned	189	821	1,276	1,578	5,861
Total non-performing assets	$34,862	$27,733	$38,944	$41,489	$82,036
Total non-performing loans to total loans	0.86%	0.67%	1.28%	1.65%	3.25%
Total non-performing assets to total assets	0.60%	0.48%	0.81%	0.87%	1.79%

(1) Includes $8.4 million, $1.1 million, $731 thousand, $1.1 million, and $18.3 million of TDRs on non-accrual status as of December 31, 2017, 2016, 2015, 2014, and 2013, respectively.
(2) Education loans are 98% government guaranteed.

Non-performing assets increased $7.1 million to $34.9 million, or 0.60% of total assets, at December 31, 2017 from $27.7 million, or 0.48% of total assets, at December 31, 2016. This increase was primarily the result of the downgrade to doubtful and change to non-accrual of a shared national credit of $9.6 million in the first quarter of 2017. This loan continued to make payments in 2017 and at December 31, 2017 had an $8.0 million outstanding balance. Net charge-offs for the year ended December 31, 2017 were $3.1 million compared to $2.7 million for the year ended December 31, 2016. We charge-off the collateral or cash flow deficiency on all classified loans once they are 90 days delinquent. Non-performing assets at December 31, 2017 included $14.2 million, or 40.6%, of government

guaranteed student loans where we have little risk of credit loss. We continue to rigorously review our loan portfolio to ensure that the collateral values remain sufficient to support the outstanding balances.

Interest income that would have been recorded for the years ended December 31, 2017 and 2016, had non-accrual loans been current according to their original terms, amounted to approximately $1.3 million and $724 thousand, respectively. There was no interest income recorded on non-accrual loans during the years ended December 31, 2017 and 2016, respectively.

The tables below include impaired loans and the average impaired loan balance as of December 31, 2017 and 2016.

Impaired Loans
As of December 31, 2017
(Dollars in thousands)

	Unpaid Principal Balance	Life-to-Date Charge-offs	Carrying Amount of Impaired Loans	Charge-off % of UPB	Number of Loans	Average Impaired Loan Balance	Related Allowance
Impaired loans with no related specific allowance recorded:							
Commercial Real Estate	$ 4,548	$ 33	$ 4,515	0.7%	24	$ 188	$ -
Commercial Business	2,272	160	2,112	1.6%	17	592	-
Commercial Construction	-	-	-	-	-	-	-
Residential Real Estate	6,546	717	5,829	11.0%	116	50	-
Home Equity and Lines of Credit	1,276	30	1,246	2.4%	30	42	-
Personal	345	-	345	-	13	27	-
Education	-	-	-	-	-	-	-
Auto	-	-	-	-	-	-	-
Total impaired loans with no related specific allowance recorded:	$ 14,987	$ 940	$ 14,047	6.3%	198	$ 71	$ -
Impaired loans with a related specific allowance recorded:							
Commercial Business	$ 7,953	$ -	$ 7,953	0.0%	2	$ 3,977	$ 1,500
Impaired loans with a related specific allowance recorded:	$ 7,953	$ -	$ 7,953	0.0%	2	$ 3,977	$ 1,500
Total Impaired Loans	$ 22,940	$ 940	$ 22,000	4.1%	200	$ 4,047	$ 1,500

Impaired Loans
As of December 31, 2016
(Dollars in thousands)

	Unpaid Principal Balance	Life-to-Date Charge-offs	Carrying Amount of Impaired Loans	Charge-off % of UPB	Number of Loans	Average Impaired Loan Balance	Related Allowance
Impaired loans with no related specific allowance recorded:							
Commercial Real Estate	$ 1,472	$ -	$ 1,472	-	11	$ 134	$ -
Commercial Business	3,772	63	3,709	1.7%	15	247	
Commercial Construction	-	-	-	-	-	-	
Residential Real Estate	8,672	932	7,740	10.7%	135	57	
Home Equity and Lines of Credit	1,050	41	1,009	3.9%	22	46	
Personal	80	-	80	-	6	13	
Education	-	-	-	-	-	-	
Auto	-	-	-	-	-	-	
Total Impaired Loans	$ 15,046	$ 1,036	$ 14,010	6.9%	189	$ 74	$ -

Federal regulations require us to review and classify our assets on a regular basis. In addition, the Federal Deposit Insurance Corporation has the authority to identify problem assets and, if appropriate, require them to be classified. Our credit review process includes a risk classification of all commercial and residential loans that includes pass, special mention, substandard and doubtful. A loan is classified as pass when payments are current and it is performing under the original contractual terms. A loan is classified as special mention when the borrower exhibits potential credit weakness or a downward trend which, if not checked or corrected, will weaken the asset or inadequately protect Beneficial Bank's position. While potentially weak, the borrower is currently marginally acceptable; no loss of principal or interest is envisioned. A loan is classified as substandard when the borrower has a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt. A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor, normal repayment from this borrower is in jeopardy, and there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. A loan is classified as doubtful when a borrower has all weaknesses inherent in a substandard loan with the added provision that: (1) the weaknesses make collection of debt in full on the basis of currently existing facts, conditions and values highly questionable and improbable; (2) serious problems exist to the point where a partial loss of principal is likely; and (3) the possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may

be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens and additional refinancing plans. We charge-off the collateral deficiency on all loans classified as substandard. In all cases, loans are placed on non-accrual when 90 days past due or earlier if collection of principal or interest is considered doubtful.

The following table summarizes classified assets of all portfolio types at the dates indicated:

At December 31, (Dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Special mention assets	$12,510	$14,914	$15,190	$19,423	$ 49,526
Substandard assets	28,772	36,089	33,199	43,704	98,275
Doubtful assets	7,953	-	-	-	-
Total classified assets	$49,235	$51,003	$48,389	$63,127	$147,801

For all loans classified as substandard and doubtful, we generally charge-off the collateral deficiency on all collateral dependent classified loans that are 90 days past due. During the first quarter of 2017, one shared national credit for $9.6 million was downgraded to doubtful and changed to non-accrual status based on the results of a shared national credit examination performed by regulators. This loan continued to make payments in 2017 and, at December 31, 2017, had an $8.0 million outstanding balance. Management has established a $1.5 million specific valuation allowance to cover risk associated with this loan as of December 31, 2017.

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings. As of December 31, 2017 and 2016, our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific valuation allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. The allowance for loan losses methodology includes review of the nine interagency qualitative factors that are assessed to adjust the allowance based on the incremental risk of drivers not adequately reflected in the quantitative component of the allowance. The appropriate allowance level is estimated based upon factors and trends identified by the Company at the time the consolidated financial statements are prepared. Management continuously evaluates its allowance methodology to reflect changes in the portfolio and current economic conditions.

Specific Allowance. Management regularly monitors the condition of borrowers and assesses both internal and external factors in determining whether any relationships have deteriorated considering factors such as historical loss experience, trends in delinquency and non-performing loans, changes in risk composition and underwriting standards, the experience and ability of staff and regional and national economic conditions and trends.

Our Chief Credit Officer supervises the workout department and identifies, manages and works through non-performing assets. Our credit officers and workout group identify and manage potential problem loans for our commercial loan portfolios. Changes in management, financial and operating performance, company behavior, industry factors and external events and circumstances are evaluated on an ongoing basis to determine whether potential impairment is evident and additional analysis is needed. For our commercial loan portfolios, risk ratings are assigned to each individual loan to differentiate risk within the portfolio and are reviewed on an ongoing basis by credit risk management and revised, if needed, to reflect the borrowers' current risk profiles and the related collateral positions. The risk ratings consider factors such as financial condition, debt capacity and coverage ratios, market presence and quality of management. When a credit's risk rating is downgraded to a certain level, the relationship must be reviewed and detailed reports completed that document risk management strategies for the credit going forward, and the appropriate accounting actions to take in accordance with generally accepted accounting principles in the United States. When credits are downgraded beyond a certain level, our workout department becomes responsible for managing the credit risk.

Risk rating actions are generally reviewed formally by one or more credit committees depending on the size of the loan and the type of risk rating action being taken. Our commercial, consumer and residential loans are monitored for credit risk and deterioration considering factors such as delinquency, loan to value ratios, and credit scores.

When problem loans are identified that are secured with collateral, management examines the loan files to evaluate the nature and type of collateral supporting the loans. Management documents the collateral type, date of the most recent valuation, and whether any liens exist, to determine the value to compare against the committed loan amount. If a loan is identified as impaired and is collateral dependent, an updated appraisal is obtained to provide a baseline in determining the property's fair market value. We also consider costs to sell the property and use the appraisal less selling costs to determine if a charge-off is required for the collateral dependent problem loan. If the collateral value is subject to significant volatility (due to location of asset, obsolescence, etc.) an appraisal is obtained more frequently. In-house revaluations are typically performed on a quarterly basis and updated appraisals are obtained annually, if determined necessary.

When we determine that the value of an impaired loan is less than its carrying amount, we recognize impairment through a charge-off to the allowance. We perform these assessments on at least a quarterly basis. For commercial loans, a charge-off is recorded when management determines we will not collect 100% of a loan based on the fair value of the collateral, less costs to sell the property, or the

net present value of expected future cash flows. Charge-offs are recorded on a monthly basis and partially charged-off loans continue to be evaluated on a monthly basis. The collateral deficiency on consumer loans and residential loans are generally charged-off when deemed to be uncollectible or delinquent 90 days or more, whichever comes first, unless it can be clearly demonstrated that repayment will occur regardless of the delinquency status. Examples that would demonstrate repayment include a loan that is secured by adequate collateral and is in the process of collection, a loan supported by a valid guarantee or insurance, or a loan supported by a valid claim against a solvent estate.

Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available to absorb losses in the loan portfolio. We generally charge-off the collateral or discounted cash flow deficiency on all loans at 90 days past due. During the first quarter of 2017, one shared national credit for $9.6 million was downgraded to doubtful and changed to non-accrual status based on the results of a shared national credit examination performed by regulators. This loan continued to make payments in 2017 and, at December 31, 2017, had an $8.0 million outstanding balance. Management has established a $1.5 million specific valuation allowance to cover risk associated with this loan as of December 31, 2017. There was no specific valuation allowance at December 31, 2016 for non-performing loans.

General Allowance. Additionally, we reserve for certain inherent, but undetected, losses that are probable within the loan portfolio. This is due to several factors, such as, but not limited to, inherent delays in obtaining information regarding a customer’s financial condition or changes in their unique business conditions and economic trends. While this analysis is conducted at least quarterly, we have the ability to revise the allowance factors whenever necessary to address improving or deteriorating credit quality trends or specific risks associated with a given loan pool classification.

A comprehensive analysis of the allowance for loan losses is performed on a quarterly basis. The factors supporting the allowance for loan losses do not diminish that the entire allowance for loan losses is available to absorb losses in the loan portfolio. Our principal focus, therefore, is on the appropriateness of the total allowance for loan losses.

The allowance for loan losses is subject to review by banking regulators. Our primary bank regulators regularly conduct examinations of the allowance for loan losses and make assessments regarding their adequacy and the methodology employed in their determination. Our regulators may require the allowance for loan losses to be increased based on their review of information available to them at the time of their examination.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated:

(Dollars in thousands)	2017		2016		2015		2014		2013	
General valuation allowance:	Allowance Allocated to Loan Portfolio	Loan Category as a % of Total Loans	Allowance Allocated to Loan Portfolio	Loan Category as a % of Total Loans	Allowance Allocated to Loan Portfolio	Loan Category as a % of Total Loans	Allowance Allocated to Loan Portfolio	Loan Category as a % of Total Loans	Allowance Allocated to Loan Portfolio	Loan Category as a % of Total Loans
Commercial:										
Commercial real estate	$28,205	39.2%	$23,395	34.6%	$22,640	33.0%	$18,016	25.2%	$22,089	24.9%
Commercial business loans	9,019	16.4	9,923	17.3	11,856	16.9	18,264	18.2	19,301	16.2
Small business leases	961	3.5	536	3.5	-	-	-	-	-	-
Commercial construction	963	3.6	3,579	5.6	2,335	4.0	2,343	2.9	3,188	1.6
Total Commercial	39,148	62.9	37,433	61.0	36,831	53.9	38,623	46.3	44,578	42.7
Residential:										
Residential real estate	838	23.4	1,493	22.3	1,644	25.0	1,960	27.6	2,200	29.2
Total real estate loans	838	23.4	1,493	22.3	1,644	25.0	1,960	27.6	2,200	29.2
Consumer:										
Home equity & lines of credit	491	5.7	1,185	6.2	2,356	7.9	2,669	9.3	3,133	10.0
Personal	255	0.4	372	0.6	436	0.7	1,957	1.3	2,687	1.8
Education	121	3.7	129	4.1	125	6.1	285	8.1	306	8.8
Automobile	914	3.9	2,649	5.8	4,108	6.4	4,610	7.4	2,195	7.5
Total consumer	1,781	13.7	4,335	16.7	7,025	21.1	9,521	26.1	8,321	28.1
Unallocated	-		-		-		550		550	
Total general valuation allowance	$41,767	99.8%	$43,261	100.0%	$45,500	100.0%	$50,654	100.0%	$55,649	100.0%
Specific valuation allowance:										
Commercial:										
Commercial business loans	$1,500	0.2%	$-	-%	$-	-%	$-	-%	$-	-%
Total Commercial	1,500	-	-	-	-	-	-	-	-	-
Total specific valuation allowance	$1,500	-%	$-	-%	$-	-%	$-	-%	$-	-%
Total allowance for loan and lease losses	$43,267	100.0%	$-	100.0%	$-	100.0%	$-	100.0%	$-	100.0%

Commercial Loans. The allowance for the commercial portfolio totaled $39.1 million at December 31, 2017 compared to $37.4 million at December 31, 2016. The increase in the allowance was the result of organic loan growth in the commercial portfolio coupled with an increase in net charge-offs and delinquencies in the commercial loan portfolio during the year ended December 31, 2017. The allowance for loan losses related to the commercial portfolio was 1.6% of commercial loans at December 31, 2017 compared to 1.5% of commercial loans at December 31, 2016. We believe the commercial reserves are adequate given the continued improvement in credit quality metrics during the year ended December 31, 2017.

Residential Loans. The allowance for the residential loan portfolio was $838 thousand, or 0.09% of residential loans at December 31, 2017 compared to $1.5 million, or 0.17%, at December 31, 2016. The decrease in the allowance was primarily the result of a decrease in delinquencies during the year ended December 31, 2017 and continued low levels of net charge-offs. We continue to experience consistently low levels of net charge-offs and delinquencies within this portfolio with annual loss rates of 0.02% and 0.04% during the year ended December 31, 2017 and 2016, respectively. We believe the balance of residential reserves is appropriate given the continued low net charge-off levels.

Consumer Loans. The allowance for the consumer loan portfolio was $1.8 million, or 0.32% of consumer loans, at December 31, 2017 compared to $4.3 million, or 0.65% of consumer loans, at December 31, 2016. The decrease in the allowance for loan losses within this portfolio is primarily due to a decline in the balance of consumer loans and continued low levels of net charge-offs. For the year ended December 31, 2017, net charge-offs totaled $592 thousand compared to $2.2 million for the year ended December 31, 2016. We believe the balance of consumer reserves is appropriate given continued low levels of charges-offs.

Specific Allowance. Management established a $1.5 million specific valuation allowance to cover the risk associated with one shared national credit for $8.0 million that was downgraded to doubtful and changed to non-accrual status during the year based on the results of a shared national credit examination performed by regulators.

The appropriate allowance level is estimated based upon factors and trends identified by Beneficial Bancorp at the time the consolidated financial statements are prepared. Management continuously evaluates its allowance methodology.

The allowance for loan losses is maintained at levels that management considers appropriate to provide for losses based upon an evaluation of known and inherent risks in the loan portfolio. Management's evaluation takes into consideration the risks inherent in the loan portfolio, past loan loss experience, specific loans with loss potential, geographic and industry concentrations, delinquency trends, economic conditions, the level of originations and other relevant factors. While management uses the best information available to make such evaluations, future adjustments to the allowance for credit losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be sufficient should the quality of loans deteriorate as a result of the factors described above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

The following table sets forth an analysis of the activity in the allowance for loan losses for the periods indicated:

Year Ended December 31, (Dollars in thousands)	2017	2016	2015	2014	2013
Allowance at beginning of period	$43,261	$45,500	$50,654	$55,649	$57,649
General provision for loan losses	1,618	485	(3,600)	200	13,000
Specific valuation allowance	1,500	-	-	-	-
Charge-offs:					
Real estate loans:					
Residential	246	379	283	702	1,051
Commercial real estate	470	134	2,333	5,804	11,334
Total real estate loans	716	513	2,616	6,506	12,385
Commercial business loans	525	536	703	5,338	5,340
Commercial small business leases	1,776	292	-	-	-
Consumer:					
Home equity & lines of credit	356	411	584	180	740
Automobile	1,816	2,170	1,774	1,682	1,113
Other consumer loans	287	892	625	823	759
Total consumer loans	2,459	3,474	2,983	2,685	2,612
Total charge-offs	5,476	4,814	6,302	14,529	20,337
Recoveries:					
Real estate loans:					
Residential	28	1	16	88	430
Commercial real estate	25	425	749	3,845	2,843
Total real estate loans	53	426	765	3,933	3,273
Commercial business	38	203	2,759	4,499	902
Commercial small business leases	444	95	-	-	-
Consumer:					
Home equity& lines of credit	311	273	173	198	255
Automobile	1,189	823	898	601	725
Other consumer loans	330	270	153	103	182
Total consumer loans	1,828	1,366	1,224	902	1,162
Total recoveries	2,364	2,090	4,748	9,334	5,337
Net charge-offs	3,112	2,724	1,554	5,195	15,000
General allowance at end of period	41,767	43,261	45,500	50,654	55,649
Specific allowance at end of period	$1,500	$ -	$ -	$ -	$ -
Allowance to non-performing loans	124.79%	160.75%	120.79%	126.92%	73.05%
Allowance to total loans	1.07%	1.08%	1.55%	2.09%	2.38%
Net charge-offs to average loans	0.08%	0.08%	0.06%	0.22%	0.63%

Interest Rate Risk Management. Interest rate risk is defined as the exposure to current and future earnings, and capital that arises from adverse movements in interest rates. Depending on a bank's asset/liability structure, adverse movements in interest rates could be either rising or falling interest rates. For example, a bank with predominantly long-term fixed-rate loans, and short-term deposits could have an adverse earnings exposure to a rising rate environment. Conversely, a short-term or variable-rate asset base funded by longer-term liabilities could be negatively affected by falling rates. This is referred to as re-pricing or maturity mismatch risk.

Interest rate risk also arises from changes in the slope of the yield curve (yield curve risk), from imperfect correlations in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics (basis risk), and from interest rate related options embedded in our assets and liabilities (option risk).

Our goal is to manage our interest rate risk by determining whether a given movement in interest rates affects our net income and the market value of our portfolio equity in a positive or negative way, and to execute strategies to maintain interest rate risk within established limits. The results at December 31, 2017 indicate an acceptable level of risk.

Model Simulation Analysis. We view interest rate risk from two different perspectives. The traditional accounting perspective, which defines and measures interest rate risk as the change in net interest income and earnings caused by a change in interest rates, provides

the best view of short-term interest rate risk exposure. We also view interest rate risk from an economic perspective, which defines and measures interest rate risk as the change in the market value of portfolio equity caused by changes in the values of assets and liabilities, which fluctuate due to changes in interest rates. The market value of portfolio equity, also referred to as the economic value of equity, is defined as the present value of future cash flows from existing assets, minus the present value of future cash flows from existing liabilities.

These two perspectives give rise to income simulation and economic value simulation, each of which presents a unique picture of our risk of any movement in interest rates. Income simulation identifies the timing and magnitude of changes in income resulting from changes in prevailing interest rates over a short-term time horizon (usually one year). Economic value simulation reflects the interest rate sensitivity of assets and liabilities in a more comprehensive fashion, reflecting all future time periods. It can identify the quantity of interest rate risk as a function of the changes in the economic values of assets and liabilities, and the equity of Beneficial Bancorp. Both types of simulation assist in identifying, measuring, monitoring and controlling interest rate risk and are employed by management to ensure that variations in interest rate risk exposure will be maintained within policy guidelines.

Our asset/liability management committee ("ALCO") produces reports on a quarterly basis, which compare baseline (no interest rate change) current positions showing forecasted net income, the economic value of equity and the duration of individual asset and liability classes, and of equity. Duration is defined as the weighted average time to the receipt of the present value of future cash flows. These baseline forecasts are subjected to a series of interest rate changes, to demonstrate or model the specific impact of the interest rate scenario tested on income, equity and duration. The model, which incorporates all asset and liability rate information, simulates the effect of various interest rate movements on income and equity value. The reports identify and measure our interest rate risk exposure present in our current asset/liability structure. If the results produce quantifiable interest rate risk exposure beyond our limits, then the testing will have served as a monitoring mechanism to allow us to initiate asset/liability strategies designed to reduce and therefore control interest rate risk.

The tables below set forth an approximation of our interest rate risk exposure. The simulation uses projected repricing of assets and liabilities at December 31, 2017 and December 31, 2016. The primary interest rate exposure measurement applied to the entire balance sheet is the effect on net interest income of a change in market interest rates of plus or minus 200 basis points over a one year time horizon, and the effect on economic value of equity of a change in market interest rates of plus or minus 200 basis points for all projected future cash flows. Various assumptions are made regarding the prepayment speed and optionality of loans, investments and deposits, which are based on analysis and market information. The assumptions regarding optionality, such as prepayments of loans and the effective maturity of non-maturity deposit products, are documented periodically through evaluation under varying interest rate scenarios.

Because the prospective effects of hypothetical interest rate changes are based on a number of assumptions, these computations should not be relied upon as indicative of actual results. While we believe such assumptions to be reasonable, assumed prepayment rates may not approximate actual future prepayment activity on mortgage-backed securities, collateralized mortgage obligations and loans. Further, the computation does not reflect any actions that management may undertake in response to changes in interest rates. Management periodically reviews the rate assumptions based on existing and projected economic conditions.

As of December 31, 2017 (Dollars in thousands):

Basis point change in rates	**-200**	**Base Forecast**	**+200**
Net Interest Income at Risk:			
Net Interest Income	$153,783	$167,781	$175,152
% change	(8.34%)		4.39%
Economic Value at Risk:			
Equity	$1,026,313	$1,107,750	$1,107,238
% change	(7.35%)		(0.05%)

As of December 31, 2016 (Dollars in thousands):

Basis point change in rates	**-200**	**Base Forecast**	**+200**
Net Interest Income at Risk:			
Net Interest Income	$149,221	$159,482	$165,265
% change	(6.43%)		3.63%
Economic Value at Risk:			
Equity	$1,071,486	$1,170,057	$1,152,158
% change	(8.42%)		(1.53%)

As of December 31, 2017, based on the scenarios above, net interest income at risk would be positively affected over a one-year time horizon in a rising interest rate environment and negatively affected in a declining interest rate environment. The economic value at risk would be negatively affected over a one-year time horizon in both a rising and a declining interest rate environment. As of December 31, 2016, based on the scenarios above, net interest income at risk would be positively affected over a one-year time horizon in a rising interest rate environment and negatively affected in a declining interest rate environment. The economic value at risk would be negatively

affected over a one-year time horizon in both a rising and a declining interest rate environment. The current historically low interest rate environment reduces the reliability of the measurement of a 200 basis point decline in interest rates, as such a decline would result in negative interest rates. We have established an interest rate floor of zero percent for measuring interest rate risk. Such a floor in our income simulation results in a reduction in our net interest margin as more of our liabilities than our assets are impacted by the zero percent floor. In addition, economic value of equity is also reduced in a declining rate environment due to the negative impact to deposit premium values.

Overall, our December 31, 2017 results indicate that we are adequately positioned with limited net interest income and economic value at risk and that all interest rate risk results continue to be within our policy guidelines.

Liquidity Risk

Liquidity risk is the risk of being unable to meet obligations as they come due at a reasonable funding cost. We mitigate this risk by attempting to structure our balance sheet prudently and by maintaining diverse borrowing resources to fund potential cash needs. For example, we structure our balance sheet so that we fund less liquid assets, such as loans, with stable funding sources, such as retail deposits, long-term debt, wholesale deposits, and capital. We assess liquidity needs arising from asset growth, maturing obligations, and deposit withdrawals, considering operations in both the normal course of business and times of unusual events. In addition, we consider our off-balance sheet arrangements and commitments that may impact liquidity in certain business environments.

Our ALCO measures liquidity risks, sets policies to manage these risks, and reviews adherence to those policies at its quarterly meetings. For example, we manage the use of short-term unsecured borrowings as well as total wholesale funding through policies established and reviewed by our ALCO. In addition, the director risk committee of our board of directors sets liquidity limits and reviews current and forecasted liquidity positions at each of its regularly scheduled meetings.

We have contingency funding plans that assess liquidity needs that may arise from certain stress events such as rapid asset growth and financial market disruptions. Our contingency plans also provide for continuous monitoring of net borrowed funds dependence and available sources of contingent liquidity. These sources of contingent liquidity include cash and cash equivalents, capacity to borrow at the Federal Reserve discount window and the Federal Home Loan Bank system, fed funds purchased from other banks and the ability to sell, pledge or borrow against unencumbered securities in our investment portfolio. As of December 31, 2017, the potential liquidity from these sources totaled $3.0 billion, which is an amount we believe currently exceeds any contingent liquidity needs.

Uses of Funds. Our primary uses of funds include the extension of loans and credit, the purchase of investment securities, working capital, and debt and capital management. In addition, contingent uses of funds may arise from events such as financial market disruptions.

We regularly adjust our investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, (4) repayment of borrowings and (5) the objectives of our asset/liability management program. Excess liquid assets are invested generally in short to intermediate-term U.S. Government agency obligations.

Sources of Funds. Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2017, cash and cash equivalents totaled $557.6 million, including overnight investments of $512.6 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $310.3 million at December 31, 2017. On December 31, 2017, we had $515.0 million in Federal Home Loan Bank advances outstanding. In addition, if Beneficial Bank requires funds beyond its ability to generate them internally, it can borrow funds under an overnight advance program up to Beneficial Bank's maximum borrowing capacity based on its ability to collateralize such borrowings.

Our primary sources of funds include a large, stable deposit base. Core deposits, primarily gathered from our retail branch network, are our largest and most cost-effective source of funding. Core deposits totaled $3.28 billion at December 31, 2017, compared to $3.27 billion at December 31, 2016. In addition, we use brokered certificates of deposit as a funding source of our asset base. The Company primarily relies on its retail and commercial deposit base to fund the balance sheet as these deposits are typically a lower cost and more stable funding source than brokered deposits. However, the Company also utilizes brokered certificates of deposit to fund a portion of the balance sheet subject to policy limits approved by the Company's Board of Directors. As of December 31, 2017 and December 31, 2016, the Company had $285.6 million, or 4.9% of total assets, and $285.8 million, or 5.0% of total assets, of brokered certificates of deposit, respectively. For the years ended December 31, 2017 and December 31, 2016, the cost of brokered certificates of deposit totaled 1.56% and 1.68%, respectively.

The Company utilizes different terms for the brokered certificates of deposit to minimize the refinancing risk that exists in any given year. The Company has structured its brokered certificates of deposit to mature over a five year period. The following table summarizes the outstanding balance of brokered certificates of deposit by calendar year of maturity for the period presented:

(Dollars in thousands)		December 31, 2017
Amounts mature in:		
2018	$	75,770
2019		45,000
2020		99,790
2021		50,000
2022		15,000
Total	**$**	**285,560**

The Company may be restricted in its ability to accept, renew or roll over brokered deposits, depending on its capital classification. Only "well-capitalized" banks are permitted to accept, renew or roll over brokered deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. Undercapitalized banks generally may not accept, renew or roll over brokered deposits. Should the Bank be restricted from the brokered deposit market, we could replace these deposits with a diversified base of wholesale funding sources. These uncommitted sources may include fed funds purchased from other banks, securities sold under agreements to repurchase, and FHLB advances.

As of December 31, 2017 and December 31, 2016, aggregate wholesale funding totaled $790.9 million and $743.6 million, respectively. In addition, at December 31, 2017, we had arrangements to borrow up to $2.1 billion from the FHLB of Pittsburgh and the Federal Reserve Bank of Philadelphia. On December 31, 2017, we had $515.0 million of advances outstanding and $20.0 million of future dated advances outstanding with the FHLB of Pittsburgh that will fund in the first quarter of 2018. During the year ended December 31, 2017, we executed a $200.0 million forward starting interest rate swap at 2.24% to lock in lower funding costs for a $200.0 million borrowing that matures in 2019.

A significant use of our liquidity is the funding of loan originations. At December 31, 2017, Beneficial Bank had $661.2 million in loan and lease commitments outstanding, which consisted of $20.6 million, $1.7 million and $7.1 million in commercial loan commitments, consumer loan commitments, and commercial small business lease commitments, respectively, $159.3 million in commercial construction and other advances, $443.1 million in commercial and consumer unused lines of credit, and $29.4 million in standby letters of credit. Another significant use of Beneficial Bank's liquidity is the funding of deposit withdrawals. Certificates of deposit due within one year of December 31, 2017 totaled $446.9 million, or 52.2% of certificates of deposit. The large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit, brokered deposits and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2017. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The following tables present certain of our contractual obligations at December 31, 2017:

		Payments due by period			
(Dollars in thousands)	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More Than Five Years**
Borrowed funds	$540,439	$20,000	$295,000	$200,000	$25,439
Commitments to fund new					
Commercial loans	20,618	20,618	-	-	-
Consumer-Mortgage loans	1,749	1,749	-	-	-
Commercial small business leases	7,054	7,054	-	-	-
Commitments to fund commercial construction and other advances	159,322	3,366	99,355	21,078	35,523
Unused lines of credit	443,134	205,673	83,183	35,283	118,995
Standby letters of credit	29,364	25,123	3,186	41	1,014
Operating lease obligations	57,233	6,200	12,418	10,725	27,890
Total	$1,258,913	$289,783	$493,142	$267,127	$208,861

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and borrowings. Deposit flows are affected by the overall level of interest rates, the interest rates and products

offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Beneficial Bancorp is a separate legal entity from Beneficial Bank and must provide for its own liquidity in addition to its operating expenses. Beneficial Bancorp's primary source of income is dividends received from Beneficial Bank. The amount of dividends that Beneficial Bank may declare and pay to Beneficial Bancorp is generally restricted under Pennsylvania law to the retained earnings of Beneficial Bank. At December 31, 2017, Beneficial Bancorp (stand-alone) had liquid assets of $90.0 million. During the year ended December 31, 2017, the Company used cash of $15.1 million to repurchase stock and $17.6 million to pay cash dividends to shareholders.

Capital Management. We are subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation, including a risk-based capital measure. 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. At December 31, 2017, we exceeded all of our regulatory capital requirements. We are considered "well capitalized" under regulatory guidelines. See note 15 in the notes to the consolidated financial statements included in this Annual Report.

At December 31, 2017, Beneficial Bank's ratio of Tier 1 capital to risk-weighted assets equaled 20.34%, well above the ratio necessary to be considered well capitalized under applicable federal regulations. We strive to manage our capital for maximum shareholder benefit. While the significant increase in equity that resulted from our second-step conversion completed on January 12, 2015 adversely impacted our return on equity, our financial condition and results of operations have been enhanced by the capital from the offering, resulting in increased net interest-earning assets and net income. Further, our strong capital position leaves us well-positioned to meet our customers' needs and to execute on our growth strategies both organically and through acquisitions. For example, the Company acquired Conestoga Bank during the second quarter of 2016. We will also use capital management tools, such as common share repurchases, to improve our capital position.

On January 13, 2016, the Company announced that its Board of Directors had authorized its first share repurchase program since completing its mutual-to-stock conversion and related stock offering in January 2015 to acquire up to 8,291,859 shares of the Company's outstanding common stock, or approximately 10% of outstanding shares. During the second quarter of 2016, Beneficial completed this first share repurchase program.

On July 21, 2016, the Company adopted a second stock repurchase program for up to 10% of its outstanding common stock, or 7,770,978 shares. During the year ended December 31, 2017, the Company purchased 703,800 shares under the second stock repurchase plan.

The Company paid cash dividends on its common stock totaling $0.24 per share during the year ended December 31, 2017. Additionally the Company declared a special dividend of $0.25 per share given our high capital levels and expected benefit to future earnings as a result of H.R 1. The dividend is payable on or after February 15, 2018, to common shareholders of record at the close of business on February 5, 2018.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our consolidated financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit, see note 21 to the consolidated financial statements. For the year ended December 31, 2017 we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

During the year, the Bank entered into one future borrowing arrangements with the FHLB of Pittsburgh to borrow $20.0 million at a fixed interest rate during the period from January 2018 through January 2022 to replace existing borrowings that will mature during this period, as well as, to manage future interest rate volatility by locking into fixed borrowing rates. There was no impact to the Company's financial condition, results of operations or cash flows for the year ended December 31, 2017.

Derivative Financial Instruments. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. These derivatives are not designated as hedges and are not speculative. Rather, these derivatives result from a service the Company provides to certain customers. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2017, the Company had interest rate swaps with an aggregate notional amount of $137.6 million related to this program. During the year ended December 31, 2017, the Company recognized a net loss of $39 thousand compared to a net gain of $798 thousand during the year ended December 31, 2016 and a net loss of $4 thousand during the year ended December 31, 2015, related to interest rate swap agreements that are included as a component of services charges and other non-interest income in the Company's consolidated statements of income. The increase in income associated with our interest rate swap agreements during 2016 can be attributed to a $493 thousand swap fee earned on a commercial real estate loan.

Additionally, during the year ended December 31, 2017, the Company entered into an interest rate swap with a separate financial institution with the objective to add stability to interest income and expense and to manage its exposure to interest rate movements

associated with its FHLB borrowings. This interest rate swap has a $200.0 million notional value and is designated as a cash flow hedge and involves the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed interest payments.

For this interest rate swap that is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the year ended December 31, 2017.

Recent Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see note 2 in the notes to the consolidated financial statements included in this Annual Report.

Effect of Inflation and Changing Prices

The consolidated financial statements and related consolidated financial data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services because such prices are affected by inflation to a larger extent than interest rates.

Consolidated Summary of Quarterly Earnings (Unaudited)

(Dollars in thousands, except per share amounts)

The following table presents summarized quarterly data for 2017 and 2016:

2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
Total interest income	$47,394	$48,542	$49,446	$52,486	$197,868
Total interest expense	6,620	6,785	7,060	7,535	28,000
Net interest income	40,774	41,757	42,386	44,951	169,868
Provision for loan and lease losses	600	750	750	1,018	3,118
Net interest income after provision for loan and lease losses	40,174	41,007	41,636	43,933	166,750
Total non-interest income	7,068	7,420	7,112	7,165	28,765
Total non-interest expense	35,367	34,214	33,838	35,378	138,797
Income before income taxes	11,875	14,213	14,910	15,720	56,718
Income tax expense	3,520	4,728	5,482	19,064	32,794
Consolidated net income	8,355	9,485	9,428	(3,344)	23,924
Net income attributable to noncontrolling interest	-	-	-	(8)	(8)
Net income attributable to Beneficial Bancorp Inc.	$8,355	$9,485	$9,428	($3,336)	$23,932
Basic earnings per common share (1)	$0.11	$0.13	$0.13	($0.05)	$0.33
Diluted earnings per common share (1)	$0.11	$0.13	$0.13	($0.05)	$0.32
Dividends declared per share	$0.06	$0.06	$0.06	$0.06	$0.24

2016	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
Total interest income	$36,934	$44,395	$46,037	$46,427	$173,793
Total interest expense	4,694	5,619	6,028	6,535	22,876
Net interest income	32,240	38,776	40,009	39,892	150,917
Provision for loan losses	-	-	-	485	485
Net interest income after provision for loan losses	32,240	38,776	40,009	39,407	150,432
Total non-interest income	5,343	6,019	8,246	8,197	27,805
Total non-interest expense	30,333	40,053	33,262	35,476	139,124
Income before income taxes	7,250	4,742	14,993	12,128	39,113
Income tax expense	2,227	1,994	4,917	4,506	13,644
Net income	$5,023	$2,748	$10,076	$7,622	$25,469
Basic earnings per common share (1)	$0.07	$0.04	$0.14	$0.10	$0.34
Diluted earnings per common share (1)	$0.07	$0.04	$0.14	$0.10	$0.34
Dividends declared per share	$-	$-	$0.06	$0.06	$0.12

(1) Earnings per share is computed independently for each period. The sum of the individual quarters may not equal the annual earnings per share.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors Beneficial
Bancorp, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Beneficial Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 2012.

Philadelphia, Pennsylvania
February 28, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors Beneficial
Bancorp, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Beneficial Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, 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, 2017, 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 statements of financial condition of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2018 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.

KPMG LLP

Philadelphia, Pennsylvania
February 28, 2018

BENEFICIAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except share and per share amounts)
As of December 31, 2017 and 2016

ASSETS	**2017**	**2016**
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 45,048	$ 45,791
Overnight Investments	512,567	241,255
Total cash and cash equivalents	557,615	287,046
INVESTMENT SECURITIES:		
Available-for-sale, at fair value (amortized cost of $309,333 and $449,655 at December 31, 2017 and 2016, respectively)	310,308	451,544
Held-to-maturity (estimated fair value of $533,425 and $597,785 at December 31, 2017 and 2016, respectively)	537,302	602,529
Federal Home Loan Bank stock, at cost	23,210	21,231
Total investment securities	870,820	1,075,304
LOANS AND LEASES:	4,034,130	4,010,568
Allowance for loan and lease losses	(43,267)	(43,261)
Net loans and leases	3,990,863	3,967,307
ACCRUED INTEREST RECEIVABLE	17,512	16,635
BANK PREMISES AND EQUIPMENT, Net	70,573	75,444
OTHER ASSETS:		
Goodwill	169,002	169,125
Bank owned life insurance	80,172	80,664
Other intangibles	2,884	4,446
Other assets	39,387	62,622
Total other assets	291,445	316,857
TOTAL ASSETS	$5,798,828	$5,738,593
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest bearing deposits	$ 563,185	$ 518,294
Interest-bearing deposits	3,587,308	3,639,894
Total deposits	4,150,493	4,158,188
Borrowed funds	540,439	490,423
Other liabilities	73,006	76,226
Total liabilities	4,763,938	4,724,837
COMMITMENTS AND CONTINGENCIES (Note 21)		
STOCKHOLDERS' EQUITY:		
Preferred Stock - $.01 par value; 100,000,000 shares authorized, None issued or outstanding as of December 31, 2017 and December 31, 2016	-	-
Common Stock - $.01 par value 500,000,000 shares authorized, 84,503,580 and 83,383,917 issued and 75,829,537 and 75,637,684 outstanding, as of December 31, 2017 and 2016, respectively	845	834
Additional paid-in capital	799,658	772,925
Unearned common stock held by employee savings and stock ownership plan	(27,078)	(29,546)
Retained earnings (partially restricted)	405,497	399,620
Accumulated other comprehensive loss	(26,127)	(25,833)
Treasury Stock at cost, 8,674,043 shares and 7,746,233 shares at December 31, 2017 and 2016, respectively	(118,497)	(104,244)
Total Beneficial Bancorp Inc. stockholders' equity	1,034,298	1,013,756
Noncontrolling Interest	592	-
Total Equity	1,034,890	1,013,756
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,798,828	$5,738,593

See accompanying notes to consolidated financial statements.

BENEFICIAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except share and per share amounts)

For the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
INTEREST INCOME:			
Interest and fees on loans and leases	$172,404	$147,690	$111,879
Interest on overnight investments	4,330	935	758
Interest and dividends on investment securities:			
Taxable	21,058	24,002	29,151
Tax-exempt	76	1,166	1,551
Total interest income	197,868	173,793	143,339
INTEREST EXPENSE:			
Interest on deposits:			
Interest bearing checking accounts	2,442	2,218	1,615
Money market and savings deposits	5,981	5,751	5,280
Time deposits	9,698	7,722	7,156
Total	18,121	15,691	14,051
Interest on borrowed funds	9,879	7,185	5,066
Total interest expense	28,000	22,876	19,117
Net interest income	169,868	150,917	124,222
Provision for loan and lease losses	3,118	485	(3,600)
Net interest income after provision for loan and lease losses	166,750	150,432	127,822
NON-INTEREST INCOME:			
Insurance and advisory commission and fee income	7,124	6,719	6,796
Service charges and other income	19,543	18,421	16,780
Mortgage banking and SBA income	2,105	854	727
Net (loss) gain on sale of investment securities	(7)	1,811	(19)
Total non-interest income	28,765	27,805	24,284
NON-INTEREST EXPENSE:			
Salaries and employee benefits	75,225	68,515	62,970
Occupancy expense	10,336	9,786	9,201
Depreciation, amortization and maintenance	9,507	9,942	9,026
Marketing expense	4,684	4,404	3,806
Intangible amortization expense	1,563	2,190	1,883
FDIC insurance	1,744	2,055	2,142
Merger and restructuring charges	-	8,765	753
Professional fees	4,606	5,342	4,449
Classified loan & other real estate owned related expense	1,136	1,103	1,192
Other	29,996	27,022	23,066
Total non-interest expense	138,797	139,124	118,488
Income before income taxes	56,718	39,113	33,618
Income tax expense	32,794	13,644	10,725
CONSOLIDATED NET INCOME	23,924	25,469	22,893
Less: Net income attributable to noncontrolling interest	(8)	-	-
NET INCOME ATTRIBUTABLE TO BENEFICIAL BANCORP INC.	$23,932	$25,469	$22,893
NET EARNINGS PER SHARE - Basic	$0.33	$0.34	$0.29
NET EARNINGS PER SHARE – Diluted	$0.32	$0.34	$0.29
DIVIDENDS DECLARED PER SHARE	$0.24	$0.12	$-
Average common shares outstanding - Basic	70,574,037	71,902,158	78,513,929
Average common shares outstanding - Diluted	71,301,286	72,632,437	79,276,984

See accompanying notes to consolidated financial statements.

BENEFICIAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
For the Years Ended December 31, 2017, 2016 and 2015

	For the Year Ended December 31,		
	2017	**2016**	**2015**
Consolidated Net Income	$23,924	$25,469	$22,893
Less: Net loss attributable to noncontrolling interest	(8)	-	-
Net Income attributable to Beneficial Bancorp, Inc.	23,932	25,469	22,893
Other comprehensive income, net of tax:			
Securities available for sale and transferred securities:			
Unrealized holding losses on available for sale securities arising during the period (net of deferred tax of $336, $1,048, and $1,564 for the years ended December 31, 2017, 2016, and 2015, respectively)	(585)	(1,804)	(2,705)
Accretion of unrealized losses on available-for-sale securities transferred to held-to-maturity (net of deferred tax of $291, $303, and $303 for the years ended December 31, 2017, 2016, and 2015, respectively)	501	506	524
Reclassification adjustment for net losses on available for sale securities included in net income (net of tax of $2, $5, and $7 for the years ended December 31, 2017, 2016, and 2015, respectively)	5	9	12
Cash flow hedge:			
Unrealized gain on cash flow hedge arising during the period (net of deferred tax of $335 for the year ended December 31, 2017)	587	-	-
Defined benefit pension plans:			
Pension (losses) gains, other postretirement and postemployment benefit plan adjustments (net of tax of $436, $201, and $936 for the years ended December 31, 2017, 2016, and 2015, respectively)	(802)	(1,170)	1,458
Total other comprehensive loss	(294)	(2,459)	(711)
Comprehensive income	$23,638	$23,010	$22,182

See accompanying notes to the consolidated financial statements.

BENEFICIAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share amounts)

For the Years Ended December 31, 2017, 2016 and 2015

	Number of Shares	Common Stock	Additional Paid in Capital	Common Stock held by KSOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Beneficial Bancorp Inc. Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
BALANCE, JANUARY 1, 2017	83,383,917	$834	$772,925	($29,546)	$399,620	($104,244)	($25,833)	$1,013,756	$-	$1,013,756
Net Income					23,932			23,932	(8)	23,924
Dividends Declared ($0.24 per share)					(17,555)			(17,555)		(17,555)
KSOP shares committed to be released			1,778	2,468				4,246		4,246
Stock option expense			965					965		965
Restricted stock expense			14,196					14,196		14,196
Effect of change in accounting principle adoption of ASU 2016-09 stock based compensation					(500)			(500)		(500)
Stock options exercised	1,119,663	11	10,668					10,679		10,679
Purchase of treasury stock including shares withheld to cover tax liabilities						(15,127)		(15,127)		(15,127)
Omnibus Equity Plan shares granted from treasury stock, net			(874)			874		-		-
Contribution from noncontrolling shareholders								-	600	600
Net unrealized losses on AFS securities arising during the year (net of deferred tax of $336)							(585)	(585)		(585)
Accretion of unrealized losses on AFS securities transferred to HTM during the year (net of deferred tax of $291)							501	501		501
Reclassification adjustment for net losses on AFS securities included in net income (net of tax of $2)							5	5		5
Unrealized gain on cash flow hedge arising during the period (net of deferred tax of $335)							587	587		587
Pension, other postretirement and postemployment benefit plan adjustments (net of tax of $436)							(802)	(802)		(802)
BALANCE, DECEMBER 31, 2017	84,503,580	$845	$799,658	($27,078)	$405,497	($118,497)	($26,127)	$1,034,298	$592	$1,034,890

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share amounts)

	Number of Shares	Common Stock	Additional Paid in Capital	Common Stock held by KSOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Beneficial Bancorp Inc. Stockholders' Equity
BALANCE, JANUARY 1, 2016	82,949,191	$829	$787,503	($32,014)	$382,951	($349)	($23,374)	$1,115,546
Net Income					25,469			25,469
Dividends Declared ($0.12 per share)					(8,800)			(8,800)
KSOP shares committed to be released			1,303	2,468				3,771
Stock option expense (includes tax benefit of $191)			1,555					1,555
Restricted stock expense (includes tax benefit of $170)			7,694					7,694
Stock options exercised	434,726	5	4,147					4,152
Purchase of treasury stock including shares withheld to cover tax liabilities						(133,172)		(133,172)
Omnibus Equity Plan shares granted from treasury stock, net			(29,277)			29,277		-
Net unrealized losses on AFS securities arising during the year (net of deferred tax of $1,048)							(1,804)	(1,804)
Accretion of unrealized losses on AFS securities transferred to HTM during the year (net of deferred tax of $303)							506	506
Reclassification adjustment for net gains on AFS securities included in net income (net of tax of $5)							9	9
Pension, other postretirement and postemployment benefit plan adjustments (net of tax of $201)							(1,170)	(1,170)
BALANCE, DECEMBER 31, 2016	83,383,917	$834	$772,925	($29,546)	$399,620	($104,244)	($25,833)	$1,013,756

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share amounts)

	Number of Shares	Common Stock	Additional Paid in Capital	Common Stock held by KSOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Beneficial Bancorp Inc. Stockholders' Equity
BALANCE, JANUARY 1, 2015	90,809,621	$826	$362,685	($14,306)	$360,058	($75,706)	($22,663)	$610,894
Net Income					22,893			22,893
KSOP shares committed to be released (includes net tax liability of $186)			626	2,445				3,071
Stock option expense (includes tax benefit of $119)			1,602					1,602
Restricted stock expense (includes tax benefit of $8)			1,442					1,442
Stock options exercised	236,518	2	2,304					2,306
Purchase of treasury stock including shares withheld to cover tax liabilities						(349)		(349)
Net unrealized losses on AFS securities arising during the year (net of deferred tax of $1,564)							(2,705)	(2,705)
Accretion of unrealized losses on AFS securities transferred to HTM during the year (net of deferred tax of $303)							524	524
Reclassification adjustment for net gains on AFS securities included in net income (net of tax of $7)							12	12
Pension, other postretirement and postemployment benefit plan adjustments (net of tax of $936)							1,458	1,458
Second-step conversion and stock offering:								
Beneficial Mutual Savings Bank MHC shares sold in public offering, including 2,015,352 shares purchased by the ESOP, net of offering costs	50,383,817	1	494,550	(20,153)				474,398
Retirement of MHC shares	(50,367,473)							-
Fractional shares resulting from conversion of existing shares at 1.0999 exchange ratio	(2,063)							-
Treasury stock retired	(8,111,229)		(75,706)			75,706		-
BALANCE, DECEMBER 31, 2015	82,949,191	$829	$787,503	($32,014)	$382,951	($349)	($23,374)	$1,115,546

See accompanying notes to consolidated financial statements

BENEFICIAL BANCORP, INC. AND SUBSIDIAIRIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Dollars in thousands)
For the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
OPERATING ACTIVITIES:			
Consolidated net income	$23,924	$25,469	$22,893
Net loss attributable to noncontrolling interest	(8)	-	-
Net income attributable to Beneficial Bancorp, Inc.	23,932	25,469	22,893
Adjustment to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	3,118	485	(3,600)
Depreciation and amortization	6,132	6,482	6,079
Intangible amortization and impairment	1,563	2,190	1,883
Net loss (gain) on sale of investments	7	(1,811)	19
Accretion of discount on investments	(197)	(369)	(463)
Amortization of premium on investments	3,891	5,633	5,979
Gain on sale of residential loans held for sale	(1,917)	(305)	(360)
Accretion of acquired loans and lease marks	4,353	1,112	735
Deferred income taxes	20,996	6,064	6,184
Net loss from disposition of premises and equipment	417	987	314
Proceeds from the sale of fixed assets held for sale	524	535	(146)
Other real estate impairment	146	16	4
Net gain on sale of other real estate	(24)	(180)	(232)
Amortization of KSOP	4,246	3,771	3,257
Decrease (increase) in bank owned life insurance	492	(1,507)	(1,478)
Stock based compensation expense	14,661	8,888	2,917
Origination of loans held for sale	(15,823)	(21,507)	(18,412)
Proceeds from sale of loans	37,230	19,836	19,050
Changes in assets and liabilities:			
Accrued interest receivable	(877)	(1,216)	(915)
Accrued interest payable	276	1,034	(15)
Income taxes (receivable) payable	(839)	(808)	2,256
Other liabilities	(3,761)	5,395	(400)
Other assets	841	4,072	(3,901)
Net cash provided by operating activities	99,387	64,266	41,648
INVESTING ACTIVITIES:			
Loans originated or acquired	(1,195,889)	(1,418,712)	(1,199,318)
Principal repayment on loans	1,145,137	865,716	676,610
Purchases of investment securities available for sale	(4,000)	(7,500)	(11,985)
Proceeds from sales of investment securities available for sale	-	61,248	-
Proceeds from maturities, calls or repayments of investment securities available for sale	137,690	206,637	125,758
Purchases of investment securities held to maturity	(40,031)	(23,808)	(70,247)
Proceeds from maturities, calls or repayments of investment securities held to maturity	103,785	115,329	99,596
Net sales (purchases) of money market and mutual funds	5,447	(565)	(17,962)
(Purchase) redemption of Federal Home Loan Bank stock	(1,979)	(12,138)	44
Proceeds from the sale of other securities	-	2,584	-
Acquisition of Conestoga, net of cash acquired	-	(79,610)	-
Acquisition of Pye Karr Ambler & Co., Inc., net of cash acquired	-	-	(135)
Proceeds from sale other real estate owned	959	2,116	1,008
Purchases of premises and equipment	(1,678)	(3,328)	(4,548)
Proceeds from sale of premises and equipment	-	21	2,870
Cash provided by other investing activities	832	432	162
Net cash provided by (used in) investing activities	150,273	(291,578)	(398,147)
FINANCING ACTIVITIES:			
Increase in borrowed funds	135,000	495,993	11,000
Repayment of borrowed funds	(84,984)	(195,975)	(10,983)
Net increase in checking, savings and demand accounts	10,119	114,505	107,787
Net (decrease) increase in time deposits	(17,814)	3,374	(53,484)
Cash dividend paid to stockholders	(17,555)	(8,800)	-
Contribution from non-controlling shareholders, net	592	-	-
Proceeds from the exercise of stock options	13,198	4,683	2,442
Excess tax benefit related to stock based compensation awards	-	361	127
Cash paid to tax authorities related to stock based compensation awards	(7,297)	(1,051)	(485)
Purchase of treasury stock	(10,350)	(132,652)	-
Net cash provided by financing activities	20,909	280,438	56,404
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	270,569	53,126	(300,095)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	287,046	233,920	534,015
CASH AND CASH EQUIVALENTS, END OF YEAR	$557,615	$287,046	$233,920
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NON-CASH INFORMATION:			
Cash payments for interest	$27,724	$21,842	$19,132
Cash payments for income taxes	12,637	7,771	2,304
Transfers of loans to other real estate owned	189	363	441
Transfers of bank branches to fixed assets held for sale	-	-	744
Contribution to pension plan	-	351	351
Acquisition of noncash assets and liabilities			
Assets acquired	-	649,880	-
Liabilities acquired	-	589,255	-
Issuance of common stock funded by stock subscriptions received prior to January 1, 2015, net of offering costs	-	-	474,398

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015
(All dollar amounts are presented in thousands, except per share data)

1. NATURE OF OPERATIONS

The Company is a Maryland corporation and owns 100% of the outstanding common stock of the Bank, a Pennsylvania chartered savings bank. The Bank offers a variety of consumer and commercial banking services to individuals, businesses, and nonprofit organizations through 61 offices throughout the Philadelphia and Southern New Jersey area. The Bank is supervised and regulated by the Department and the FDIC. The Company is regulated by the Federal Reserve Board. The deposits of the Bank are insured up to the applicable legal limits by the Deposit Insurance Fund of the FDIC.

The Company that was incorporated in August 2014 to be the successor to Beneficial Mutual Bancorp upon completion of the second-step conversion of the Bank from the two-tier mutual holding company structure to the stock holding company structure. Beneficial Savings Bank MHC was the former mutual holding company for Beneficial Mutual Bancorp prior to completion of the second-step conversion. In conjunction with the second-step conversion, each of Beneficial Savings Bank MHC and Beneficial Mutual Bancorp ceased to exist. The second-step conversion was completed on January 12, 2015, at which time the Company sold, for gross proceeds of $503.8 million, a total of 50,383,817 shares of common stock at $10.00 per share, including 2,015,352 shares purchased by the Bank's employee savings and stock ownership plan. As part of the second-step conversion, each of the existing 29,394,417 outstanding shares of Beneficial Mutual Bancorp common stock owned by persons other than Beneficial Savings Bank MHC was converted into 1.0999 of a share of Company common stock. As a result of the second-step conversion, all share information prior to January 12, 2015 has been subsequently revised to reflect the 1.0999 exchange ratio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Specifically, the financial statements include the accounts of the Bank, the Company's wholly owned subsidiary, and the Bank's wholly owned subsidiaries. The Bank's wholly owned subsidiaries are: (i) Beneficial Advisors, LLC, which offers wealth management services and non-deposit investment products, (ii) Neumann Corporation, a Delaware corporation formed to manage certain investments, (iii) Beneficial Insurance Services, LLC, which provides insurance services to individual and business customers (iv) Beneficial Equipment Finance Corporation, a business equipment leasing company and (v) Neumann Finance Company, a majority owned subsidiary, formed to originate small business leases. Additionally, the Company has subsidiaries that hold other real estate acquired in foreclosure or transferred from the commercial real estate loan portfolio. All significant intercompany accounts and transactions have been eliminated. The various services and products support each other and are interrelated. Management makes significant operating decisions based upon the analysis of the entire Company and financial performance is evaluated on a company-wide basis. Accordingly, the various financial services and products offered are aggregated into one reportable operating segment: community banking as under guidance in the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC" or "codification") Topic 280 for Segment Reporting.

Use of Estimates in the Preparation of Financial Statements – These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The significant estimates include the allowance for loan losses, goodwill, other intangible assets, income taxes, postretirement benefits, and the fair value of investment securities. Actual results could differ from those estimates and assumptions.

Investment Securities – The Company classifies and accounts for debt and equity securities as follows:

Held-to-Maturity – Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and are recorded at amortized cost. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available-for-Sale – Debt securities that will be held for indefinite periods of time, including equity securities with readily determinable fair values, that may be sold in response to changes to market interest or prepayment rates, needs for liquidity, and changes in the availability of and the yield of alternative investments, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of trade date and reported in the consolidated statements of income and determined using the adjusted cost of the specific security sold.

The Company determines whether any unrealized losses are temporary in accordance with guidance under *FASB ASC Topic 320 for Investments – Debt and Equity Securities*. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment ("OTTI") condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

In accordance with accounting guidance for equity securities, the Company evaluates its securities portfolio for other-than-temporary impairment throughout the year. Each investment that has an estimated fair value less than the book value is reviewed on a quarterly basis by management. Management considers at a minimum the following factors that, both individually or in combination, could indicate that the decline is other-than-temporary: (1) the length of time and the extent to which the fair value has been less than book value, (2) the financial condition and the near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Among other factors that are considered in determining the Company's intent and ability to maintain an investment is a review of the capital adequacy, interest rate risk profile and liquidity position of the Company. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses.

Accounting guidance for debt securities requires the Company to assess whether the loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery, or (3) it does not expect to recover the entire amortized cost basis of the security. The guidance requires the Company to bifurcate the impact on securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The difference between the fair market value and the credit loss is recognized in other comprehensive income.

The Company invests in Federal Home Loan Bank of Pittsburgh ("FHLB") stock as required to support borrowing activities, as detailed in Note 14 to these consolidated financial statements. Although FHLB stock is an equity interest in a FHLB, it does not have a readily determinable fair value because its ownership is restricted and it lacks a market. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLBs or to another member institution. The Company evaluates this investment for impairment on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company reports its investment in FHLB stock at cost in the consolidated statements of financial condition. The Company reviews FHLB stock for impairment based on guidance from *FASB ASC Topic 320 for Investments – Debt and Equity Securities* and *FASB ASC Topic 942 for Financial Services – Depository and Lending* and has concluded that its investment is not impaired.

Loans and Leases – The Company's loan and lease portfolio consists of commercial loans and leases, residential loans and consumer loans. Commercial loans and leases include commercial real estate loans, commercial construction loans, commercial business loans, shared national credits and small business commercial leases. Residential loans include residential mortgage loans secured primarily by first liens on one-to four-family residential properties. Consumer loans consist primarily of home equity loans and lines of credit, personal loans, automobile loans and education loans. Loan balances are stated at their principal balances, net of unamortized fees and costs.

Interest on loans is calculated based upon the principal amount outstanding. Loan fees and certain direct loan origination costs are deferred and recognized as a yield adjustment over the life of the loans using the interest method.

Generally, loans are placed on non-accrual status when the loan becomes 90 days delinquent and any collateral or discounted cash flow deficiency is charged-off. Unsecured consumer loans are typically charged-off when they become 90 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Government guaranteed student loans greater than 90 days continue to accrue interest as they are government guaranteed with little risk of credit loss.

When a loan is determined to be impaired, it is placed on non-accrual status and all interest that had been accrued and not collected is reversed against interest income. Payments received on non-accrual loans are applied to principal balances until paid in full and then to interest income. The Bank's policy for returning a loan to accruing status requires the preparation of a well documented credit evaluation which includes the following:

- A review of the borrower's current financial condition in which the borrower must demonstrate sufficient cash flow to support the repayment of all principal and interest including any amounts previously charged-off;
- An updated appraisal or home valuation which must demonstrate sufficient collateral value to support the debt;
- Sustained performance based on the restructured terms for at least six consecutive months;
- Approval by the Special Assets Committee which consists of the Chief Credit Officer, the Chief Financial Officer and other members of senior management.

Allowance for Loan and Lease Losses – The allowance for loan and lease losses is determined by management based upon portfolio segment, past experience, evaluation of estimated loss and impairment in the loan portfolio, current economic conditions and other pertinent factors. Management also considers risk characteristics by portfolio segments including, but not limited to, renewals and real estate valuations. The allowance for loan and lease losses is maintained at a level that management considers appropriate to provide for estimated losses and impairment based upon an evaluation of known and inherent risk in the loan portfolio. Loan impairment is evaluated based on the fair value of collateral or estimated net realizable value. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. The allowance for loan and lease losses is established through a provision for loan losses charged to expense which is based upon past loan and loss experience and an evaluation of estimated losses in the current loan portfolio, including the evaluation of impaired loans. In addition, the FDIC and the Department, as an integral part of their examination process, periodically

review our allowance for loan and lease losses and may require us to increase our provision for loan losses or recognize further loan charge-offs.

Under the accounting guidance *FASB ASC Topic 310 for Receivables*, a loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired. When all or a portion of the loan is deemed uncollectible, the uncollectible portion is charged-off. The measurement is based either on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. Impairment losses are included in the provision for loan losses.

Troubled Debt Restructurings – The Company considers a loan a TDR when the borrower is experiencing financial difficulty and the Company has granted a concession that it would not otherwise consider but for the borrower's financial difficulties. A TDR includes a modification of debt terms or assets received in satisfaction of the debt (which may include foreclosure or deed in lieu of foreclosure) or a combination of types. The Company evaluates selective criteria to determine if a borrower is experiencing financial difficulty including the ability of the borrower to obtain funds from sources other than the Bank at market rates. The Company considers all TDR loans that are on non-accrual status to be impaired loans. The Company evaluates all TDR loans for impairment on an individual basis in accordance with ASC 310. We will not consider a loan a TDR if the loan modification was a result of a customer retention program.

Loans Acquired With Deteriorated Credit Quality – The Company accounts for loans acquired with deteriorated credit quality in accordance with the provisions included in *FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality*. For these loans, the Company determined that there is evidence of deterioration in credit quality since the origination of the loan and that it was probable, at the acquisition date, that the Company will be unable to collect all contractually required payments receivable. These loans are recorded at fair value, at the acquisition date, reflecting the present value of the amounts expected to be collected. Subsequently, the Company evaluates loans acquired with deteriorated credit quality individually for further impairment on a quarterly basis.

Loans Acquired Without Deteriorated Credit Quality – The Company accounts for loans acquired without deteriorated credit quality in accordance with the provisions included in *FASB ASC 310-20 Receivables.* These loans are recorded at fair value, at the acquisition date, and are subsequently reviewed on a quarterly basis to evaluate whether the remaining fair value mark is sufficient to cover expected losses over the remaining life of the loan portfolios.

Mortgage Banking Activities – The Company originates mortgage loans held for investment and for sale. At origination, mortgage loans are identified as either held for sale or held for investment. Mortgage loans held for sale are carried at the lower of cost or market, determined on a net aggregate basis.

The Company originates residential mortgage loans for sale primarily to institutional investors, such as Fannie Mae. The Company retains the mortgage servicing rights ("MSRs") for the loans sold to Fannie Mae. The Company elected the fair value measurement method to value its existing MSRs at fair value in accordance with *ASC 860-50*. Under the fair value measurement method, the Company measures its MSRs at fair value at each reporting date and reports changes in the fair value of its MSRs in earnings in the period in which the changes occur.

SBA Loan Servicing – The Company sells guaranteed portion of certain Small Business Administration ("SBA") loans to third parties and retains servicing rights and receives servicing fees. All such transfers are accounted for as sales. While the Company may retain a portion of certain sold SBA loans, its continuing involvement in the portion of the loan that was sold is limited to certain servicing responsibilities. When the contractual servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized. The Company accounts for the transfers and servicing of financial assets in accordance with ASC 860, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.

Bank Premises and Equipment – Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using a straight-line method over the estimated useful lives of 10 to 40 years for buildings and three to 20 years for furniture, fixtures and equipment. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or the useful lives of the respective assets, whichever is less.

Real Estate Owned – Real estate owned includes properties acquired by foreclosure or deed in-lieu of foreclosure and premises no longer used in operations. These assets are initially recorded at the lower of carrying value of the loan or estimated fair value less selling costs at the time of foreclosure and at the lower of the new cost basis or fair value less selling costs thereafter. Losses arising from foreclosure transactions are charged against the allowance for loan losses. The amounts recoverable from real estate owned could differ materially from the amounts used in arriving at the net carrying value of the assets at the time of foreclosure because of future market factors beyond the control of the Company. Costs relating to the development and improvement of real estate owned properties are capitalized to the extent realizable and supported by the fair value of the property less selling costs and other costs relating to holding the property that are charged to expense. Real estate owned is periodically evaluated for impairment and reductions in carrying value are recognized in the Company's consolidated statements of operations as "classified loan and other real estate owned related expense."

Income Taxes – Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A deferred tax liability is recognized for temporary differences that will result in taxable amounts in future years. A deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company accounts for uncertain tax positions in accordance with *FASB ASC Topic 740 for Income Taxes*. The guidance clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. The FASB prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The uncertain tax liability for uncertain tax positions was zero at December 31, 2017 and December 31, 2016.

The passage of H.R. 1 on December 22, 2017 lowered the federal corporate tax rate to 21% from 35%. Under ASC 740, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense related to continuing operations for the period in which the law was enacted, even if the assets and liabilities related to items of accumulated other comprehensive income. The Company re-measured its net deferred tax assets at the current 21% federal corporate tax rate and, as a result, the Company recorded a one-time charge of $13.1 million of income tax expense during the year ended December 31, 2017. In addition, the FASB recently added a narrow-scope project on the reclassification of certain tax effects stranded in accumulated OCI and instructed the FASB staff to draft an exposure draft that would require the amounts to be reclassified to retained earnings. As of December 31, 2017, the Company had $5.0 million of tax effects stranded in accumulated OCI as a result of the passage of H.R. 1. The Company intends to comply with the final FASB guidance and will reclassify the amount stranded in accumulated OCI to retained earnings in the period the new guidance become effective.

Goodwill and Other Intangibles – Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition and, as such, the historical cost basis of individual assets and liabilities are adjusted to reflect their fair value. Finite lived intangibles are amortized on an accelerated or straight-line basis over the period benefited. In accordance with *FASB ASC Topic 350 for Intangibles – Goodwill and Other*, goodwill is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. The Company's review for impairment includes an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill, the first step of the two-step quantitative goodwill impairment test is performed, which compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

Other intangible assets subject to amortization are evaluated for impairment in accordance with applicable accounting guidance. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. The other intangibles are amortizing intangibles, which primarily consist of core deposit intangibles which are amortized over an estimated useful life of ten years.

Cash Surrender Value of Life Insurance – The Company funds the purchase of insurance policies on the lives of certain officers and employees of the Company. The Company has recognized any change in cash surrender value of life insurance in non-interest income in the Company's consolidated statements of operations. The Company has recognized insurance costs in non-interest expense in the Company's consolidated statements of operations.

Comprehensive Income – The Company presents a separate financial statement of comprehensive income that includes amounts from transactions and other events excluded from the Company's consolidated statements of operations and recorded directly to retained earnings.

Pension and Other Postretirement Benefits – The Company currently provides certain postretirement benefits to qualified retired employees. These postretirement benefits principally pertain to health insurance coverage and life insurance. The cost of such benefits is accrued during the years the employee provides service. The Bank has noncontributory defined benefit pension plans covering many of its employees. Additionally, the Company sponsors nonqualified supplemental employee retirement plans for certain participants. The benefits associated with these arrangements and plans are earned over a service period, and the Company estimates the amount of expense applicable to each plan or contract. The estimated obligations for the plans and contracts are reflected as liabilities on the Company's consolidated statements of condition.

Employee Savings and Stock Ownership Plan ("KSOP") – The Company accounts for its KSOP based on guidance set forth in *FASB ASC Topic 715 for Compensation – Retirement Benefits*. Shares are released to participants proportionately as the loan is repaid. If the Company declares a dividend, the dividends on the allocated shares would be recorded as dividends and charged to retained earnings. Dividends declared on common stock held by the KSOP and not allocated to the account of a participant can be used to repay the loan. Allocation of shares to the KSOP participants is contingent upon the repayment of the loan to the Company.

Stock Based Compensation – The Company accounts for stock awards and stock options granted to employees and directors based on guidance set forth in *FASB ASC Topic 718 for Compensation – Stock Compensation*. The Company recognizes the related expense for the options and awards over the service period using the straight-line method.

Earnings Per Share – The Company uses the two-class method to calculate earnings per share as the unvested restricted stock issued under the Company's equity incentive plans are participating shares with nonforfeitable rights to dividends. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the number of weighted average shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if options on common shares had been exercised, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method. The effects of options to issue common stock are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest bearing deposits and federal funds sold.

Recent Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-02: Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the passage of H.R. 1. The amendments in this update also require certain disclosures about stranded tax effects. Upon adoption of the ASU, an entity will be required to disclose a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in H.R. 1 is recognized. As of December 31, 2017, the Company had $5.0 million of tax benefits stranded in accumulated OCI as a result of the passage of H.R. 1. The Company intends to comply with the amendments in this update and will reclassify the amount stranded in accumulated OCI to retained earnings in the first quarter of 2018.

In August 2017, the FASB issued ASU 2017-12: Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company plans to adopt ASU 2017-12 on January 1, 2019. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. While the Company continues to assess all potential impacts of the standard, the Company currently expects adoption to have an immaterial impact to the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09: Compensation —Stock Compensation (Topic 718): Scope of Modification Accounting. The Board is issuing this update to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update affect any entity that changes the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. To date, the Company has not changed the terms or conditions of a share-based payment award. As a result, the Company does not anticipate an impact to the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08: Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This Accounting Standards update amends guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, the amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not currently hold any callable debt securities with a premium. As a result, the Company does not anticipate an impact to the consolidated financial statements.

Also in March 2017, the FASB issued ASU 2017-07: Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Topic 715, Compensation–Retirement Benefits, requires an entity

to present net periodic pension cost and net periodic postretirement benefit cost as a net amount that may be capitalized as part of an asset where appropriate. Users have communicated that the service cost component generally is analyzed differently from the other components of net periodic pension cost and net periodic postretirement benefit cost. To improve the consistency, transparency, and usefulness of financial information for users, the amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments in this update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company's current accounting treatment and presentation of net periodic pension cost and net periodic postretirement benefit cost is consistent with the provisions in ASU-2017. As a result, the Company does not anticipate an impact to the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04: Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, this update eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate a material impact to the consolidated financial statements at this time.

In June 2016, the FASB issued ASU 2016-13: Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The Company is in the process of evaluating the impact of this guidance but expects that the impact will likely be material to the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09: Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The Board is issuing this update as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this update involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition, the amendments in this update eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted the provisions of this update during the quarter ended March 31, 2017. The Company evaluated the impact of this guidance and determined there was no significant impact to the consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02: Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is in the process of evaluating the impact of this guidance and anticipates an impact to the consolidated financial statements with regard to the Company's operating lease agreements.

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606) and subsequent updates. This ASU clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that requires an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the guidance effective January 1, 2018 using the modified

retrospective method. The Company's revenue is the sum of net interest income and non-interest income. The scope of the guidance excludes nearly all net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. The Company completed its review and determined that the majority of non-interest income revenue streams are within the scope of the new standard. Non-interest income streams that are out of scope of the new standard include BOLI, sales of investment securities, mortgage banking activities, and certain items within service charges and other income. Management reviewed contracts related to service charges on deposits, investment advisory commissions and fee income, insurance commission and fee income and certain items within other service charges and other income. The Company evaluated the impact of this ASU on the Company's various revenue streams and, upon adoption on January 1, 2018 and going forward, does not anticipate a material impact to the consolidated financial statements. The Company is in the process of evaluating changes that may be necessary to applicable disclosures of disaggregation of total revenue, information about performance obligations, information about key judgments and estimates and policy decisions regarding revenue recognition.

3. ACQUISITION OF CONESTOGA BANK

On April 14, 2016, Beneficial completed the acquisition of Conestoga Bank. Pursuant to the terms of the Stock Purchase Agreement, dated October 21, 2015, between the Company, Conestoga Bancorp, Inc. ("Conestoga") and Conestoga Bank, the Company acquired Conestoga's ownership interest in Conestoga Bank for a cash payment of $105.0 million and Conestoga Bank subsequently merged with and into Beneficial Bank. The results of Conestoga Bank's operations are included in the Company's unaudited condensed Consolidated Statements of Operations for the period beginning on April 15, 2016, the date of the acquisition, through December 31, 2017. During the year ended December 31, 2016, the Company recorded $7.2 million of merger and other restructuring charges as a result of the completion of the transaction.

The acquisition of Conestoga Bank increased the Company's market share in southeastern Pennsylvania and provided Beneficial with a number of new branches.

The acquisition of Conestoga Bank was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill in the amount of approximately $47.0 million, which will not be amortizable and is not deductible for tax purposes. The Company allocated the total balance of goodwill to its banking segment.

The fair values listed below are preliminary estimates and are subject to adjustment. While they are not expected to be materially different than those shown, any material adjustments to the estimates will be reflected, retroactively, as of the date of the acquisition. In connection with the acquisition of Conestoga Bank, the consideration paid, and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

(In thousands)	
Consideration Paid	
Cash paid to Conestoga Bank	$105,000
Change in control payments	2,777
Value of consideration	**107,777**
Assets acquired:	
Cash and due from banks	$28,167
Investment securities	59,424
FHLB stock	307
Loans and leases	518,562
Premises and equipment	6,979
Bank owned life insurance	14,330
Core deposit intangible	2,247
Real estate owned	1,087
Accrued interest receivable	1,121
Deferred tax asset	12,445
Other assets	5,334
Total assets	650,003
Liabilities assumed:	
Deposits	$588,386
Accrued interest payable	131
Other liabilities	738
Total liabilities	589,255
Net assets acquired	60,748
Goodwill resulting from acquisition of Conestoga Bank	**$47,029**

During the three months ended March 31, 2017, the Company finalized its fair value estimates related to the acquisition of Conestoga Bank. The following table details the changes in fair value of the net assets acquired and liabilities assumed as of April 14, 2016 from the amounts originally reported in the Company's Form 10-K for the year ended December 31, 2016:

Goodwill Conestoga Bank reported as of December 31, 2016	$47,152
Effect of adjustments to:	
Loans and leases	(214)
Deferred tax asset	91
Total adjustments	(123)
Adjusted goodwill Conestoga Bank as of December 31, 2017	$47,029

The changes to goodwill during 2017 were primarily due to final market values received on assets acquired and adjustments to deferred tax assets recorded during the quarter ended March 31, 2017. There were no changes to goodwill recorded during the quarters ended June 30, 2017, September 30, 2017, or December 31, 2017.

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was acquired loans. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB ASC 310-20.

Certain loans, for which specific credit-related deterioration was identified, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation of the timing and amount of cash flows to be collected. The timing of the sale of loan collateral was estimated for acquired loans deemed impaired and considered collateral dependent. For these collateral dependent impaired loans, the excess of the future expected cash flow over the present value of the future expected cash flow represents the accretable yield, which will be accreted into interest income over the estimated liquidation period using the effective interest method.

The following table details the loans that are accounted for in accordance with FASB ASC 310-30 as of April 14, 2016:

(Dollars in thousands)	
Contractually required principal and interest at acquisition	$20,975
Contractual cash flows not expected to be collected (nonaccretable difference)	5,952
Expected cash flows at acquisition	15,023
Interest component of expected cash flows (accretable discount)	1,235
Fair value of acquired loans accounted for under FASB ASC 310-30	$13,788

Acquired loans not subject to the requirements of FASB ASC 310-30 are recorded at fair value. The fair value mark on each of these loans will be accreted into interest income over the remaining life of the loan. The following table details loans that are not accounted for in accordance with FASB ASC 310-30 as of April 14, 2016:

(Dollars in thousands)	
Contractually required principal and interest at acquisition	$507,815
Contractual cash flows not expected to be collected (credit mark)	8,046
Expected cash flows at acquisition	499,769
Interest rate premium mark	5,005
Fair value of acquired loans not accounted for under FASB ASC 310-30	$504,774

In accordance with GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by Conestoga Bank.

In connection with the acquisition of Conestoga Bank, the Company acquired an investment portfolio with a fair value of $59.4 million. All investment securities were subsequently sold at fair value.

In connection with the acquisition of Conestoga Bank, the Company recorded a net deferred income tax asset of $12.4 million, which was prior to the passage of H.R. 1, related to Conestoga Bank's net operating loss carryforward, as well as other tax attributes of the acquired company, along with the tax effects of fair value adjustments resulting from applying the acquisition method of accounting.

The fair value of savings and transaction deposit accounts acquired from Conestoga Bank provide value to the Company as a source of stable and low cost funds. The fair value of the core deposit intangible ("CDI") was determined based on a discounted cash flow analysis. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available to the Company. The life of the deposit base and projected deposit attrition rates were determined using Beneficial's historical deposit data. The CDI was valued at $2.2 million or 0.65% of deposits. The intangible asset is being amortized on an accelerated basis over ten years. Amortization for the year ended December 31, 2017 was $380 thousand.

Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an alternative deposit portfolio bearing current market rates. The portfolio was segregated into pools based on remaining maturity. For each pool, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each pool is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment was valued at $588 thousand and is being amortized in line with the expected cash flows driven by maturities of these deposits over the next five years. Amortization for the year ended December 31, 2017 was $114 thousand.

Direct costs related to the acquisition of Conestoga Bank were expensed as incurred. During the year ended December 31, 2016, the Company incurred $7.2 million in acquisition integration expenses related to the acquisition, including $3.3 million of professional fees and third party vendor contract termination expenses, $1.6 million of facility expenses, $1.2 million of severance expenses, and $1.1 million of other acquisition expenses.

The following table presents actual operating results attributable to Conestoga Bank since the April 14, 2016 acquisition date through December 31, 2016. This information does not include purchase accounting adjustments or acquisition integration costs.

	Conestoga Bank April 14, 2016 to December 31, 2016
(Dollars in thousands)	
Net interest income	$ 16,697
Non-interest income	963
Non-interest expense	(6,511)
Income taxes	(3,902)
Net income	$ 7,247

The following table presents unaudited pro forma information as if the acquisition of Conestoga Bank had occurred on January 1, 2015. This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments, amortization of core deposit and other intangibles and related income tax effects. Acquisition costs expensed by Beneficial Bank of $7.2 million and Conestoga Bank of $947 thousand were estimated to have been incurred during the year ended December 31, 2016.

The pro forma information does not necessarily reflect the results of operations that would have occurred had the acquisition of Conestoga Bank occurred at the beginning of 2015. Expected cost savings are not reflected in the pro forma amounts.

	Pro forma For the Year Ended	
	December 31, 2016	December 31, 2015
(Dollars in thousands)		
Net interest income	$ 157,396	$ 149,264
Provision for loan loss	(572)	2,300
Non-interest income	29,769	29,879
Non-interest expense	(138,700)	(148,219)
Income taxes	(16,763)	(11,628)
Net income	$ 31,130	$ 21,596
Net earnings per share		
Basic	$ 0.42	$ 0.28
Diluted	$ 0.42	$ 0.27
Net earnings per share		
Basic	71,902,158	78,513,929
Diluted	72,632,437	79,276,984

4. CHANGES IN AND RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME LOSS

The following tables present the changes in the balances of each component of accumulated other comprehensive income ("AOCI") for the year ended December 31, 2017. All amounts are presented net of tax.

(Dollars in thousands)	Net unrealized holding gains (losses) on available-for-sale securities	Defined benefit pension plan items	Cash Flow Hedge	Total
Beginning balance, January 1, 2017	($747)	($25,086)	$ -	($25,833)
Changes in other comprehensive loss before reclassifications:				
Unrealized holding losses on AFS securities	(585)	-	-	(585)
Accretion of unrealized losses on AFS securities transferred to HTM	501	-	-	501
Pension, other postretirement and postemployment benefit plan adjustments	-	(2,142)	-	(2,142)
Unrealized gain on cash flow hedge	-	-	587	587
Amount reclassified from accumulated other comprehensive loss	5	1,340	-	1,345
Net current-period other comprehensive (loss) income	(79)	(802)	587	(294)
Ending balance, December 31, 2017	($826)	($25,888)	$587	($26,127)

The following table presents reclassifications out of AOCI by component for the year ended December 31, 2017:

For the Year Ended December 31, 2017			
(Dollars in thousands)			
Details about accumulated other comprehensive loss components	**Amount reclassified from accumulated other comprehensive loss**		**Affected line item in the consolidated statements of operations**
Unrealized gains and losses on available-for-sale securities			
	$7		Net loss on sale of investment securities
	(2)		Income tax benefit
	$5		Net of tax
Amortization of defined benefit pension items			
Transition obligation	$ 73	(1)	Other non-interest expense
Prior service costs	(486)	(1)	Other non-interest expense
Net recognized actuarial losses	2,481	(1)	Other non-interest expense
	$2,068		Total before tax
	(728)		Income tax benefit
	$1,340		Net of tax

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. See Note 18 - Pension and Other Postretirement Benefits for additional details.

The following table presents the changes in the balances of each component of AOCI for the year ended December 31, 2016. All amounts are presented net of tax.

(Dollars in thousands)	Net unrealized holding gains (losses) on available-for-sale securities	Defined benefit pension plan items	Total
Beginning balance, January 1, 2016	$542	($23,916)	($23,374)
Changes in other comprehensive loss before reclassifications:			
Unrealized holding losses on AFS securities	(1,804)	-	(1,804)
Accretion of unrealized losses on AFS securities transferred to HTM	506	-	506
Pension, other postretirement and postemployment benefit plan adjustments	-	(2,926)	(2,926)
Amount reclassified from accumulated other comprehensive loss	9	1,756	1,765
Net current-period other comprehensive loss	(1,289)	(1,170)	(2,459)
Ending balance, December 31, 2016	($747)	($25,086)	($25,833)

The following table presents reclassifications out of AOCI by component for the year ended December 31, 2016:

For the Year Ended December 31, 2016 (Dollars in thousands)			
Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss		Affected line item in the consolidated statements of operations
Unrealized gains and losses on available-for-sale securities			
	$14		Net loss on sale of investment securities
	(5)		Income tax benefit
	$ 9		Net of tax
Amortization of defined benefit pension items			
Transition obligation	$ 17	(1)	Other non-interest expense
Prior service costs	(485)	(1)	Other non-interest expense
Net recognized actuarial losses	2,526	(1)	Other non-interest expense
	2,058		Total before tax
	(302)		Income tax benefit
	$1,756		Net of tax

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. See Note 18 - Pension and Other Postretirement Benefits for additional details.

The following table presents the changes in the balances of each component of AOCI for the year ended December 31, 2015. All amounts are presented net of tax.

(Dollars in thousands)	Net unrealized holding gains (losses) on available-for-sale securities	Defined benefit pension plan items	Total
Beginning balance, January 1, 2015	$2,711	($25,374)	($22,663)
Changes in other comprehensive loss before reclassifications:			
Unrealized holding gains on AFS securities	(2,705)	-	(2,705)
Unrealized losses on AFS securities transferred to HTM			
Accretion of unrealized losses on AFS securities transferred to HTM	524	-	524
Pension, other postretirement and postemployment benefit plan adjustments	-	165	165
Amount reclassified from accumulated other comprehensive loss	12	1,293	1,305
Net current-period other comprehensive income (loss)	(2,169)	1,458	(711)
Ending balance, December 31, 2015	$ 542	($23,916)	($23,374)

The following table presents reclassifications out of AOCI by component for the year ended December 31, 2015:

For the Year Ended December 31, 2015			
(Dollars in thousands)			
Details about accumulated other comprehensive loss components	**Amount reclassified from accumulated other comprehensive loss**		**Affected line item in the consolidated statements of operations**
Unrealized gains and losses on available-for-sale securities			
	$19		Net loss on sale of investment securities
	(7)		Income tax benefit
	$12		Net of tax
Amortization of defined benefit pension items			
Transition obligation	$ 208	[1]	Other non-interest expense
Prior service costs	(518)	[1]	Other non-interest expense
Net recognized actuarial losses	2,433	[1]	Other non-interest expense
	2,123		Total before tax
	(830)		Income tax benefit
	$1,293		Net of tax

[1] These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. See Note 18 - Pension and Other Postretirement Benefits for additional details.

5. EARNINGS PER SHARE

The following table presents a calculation of basic and diluted earnings per share for the years ended December 31, 2017, 2016, and 2015. Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding. The difference between common shares issued and basic average common shares outstanding, for purposes of calculating basic earnings per share, is a result of subtracting unallocated employee stock ownership plan ("KSOP") shares and unvested restricted stock shares. Since the Company paid dividends during the years ended December 31, 2017 and 2016, the Company was required to use the two-class method for 2017 and 2016 to calculate earnings per share as the unvested restricted stock issued under the Company's equity incentive plans are participating shares with nonforfeitable rights to dividends. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the number of weighted average shares outstanding during the period. Net earnings per share for both common shares and participating securities is the same for the years ended December 31, 2017, 2016, and 2015. See Note 20 to these consolidated financial statements for further discussion of stock grants.

	For the Year Ended December 31,		
	2017	2016	2015
(Dollars in thousands, except share and per share amounts)			
Basic and diluted earnings per share:			
Net income attributable to Beneficial Bancorp, Inc.	$23,932	$25,469	$22,893
Net income allocated to unvested restricted stock	(827)	(812)	-
Net income allocated to common shares	$23,105	$24,657	$22,893
Basic average common shares outstanding	70,574,037	71,902,158	78,513,929
Effect of dilutive securities [1]	727,249	730,279	763,055
Dilutive average shares outstanding	71,301,286	72,632,437	79,276,984
Net earnings per share			
Basic	$0.33	$0.34	$0.29
Diluted	$0.32	$0.34	$0.29

(1) - Dilutive securities for the years ended December 31, 2017 and 2016 do not include unvested restricted stock awards.

Anti-dilutive shares are common stock equivalents with weighted average exercise prices in excess of the weighted average market value for the periods presented. For the year ended December 31, 2017, there were no outstanding options that were anti-dilutive. For the year ended December 31, 2016, there were 2,750 outstanding options that were anti-dilutive and therefore excluded from the earnings per share calculation. For the year ended December 31, 2015, there were 687 restricted stock grants and 863,172 outstanding options that were anti-dilutive and therefore excluded from the earnings per share calculation.

6. CASH AND DUE FROM BANKS

The Bank is required to maintain average reserve balances in accordance with federal requirements. Cash and due from banks in the consolidated statements of financial condition include $22.1 million and $21.5 million at December 31, 2017 and 2016, respectively, relating to this requirement. Cash and due from banks includes fiduciary funds of $422 thousand and $584 thousand at December 31, 2017 and 2016, respectively, relating to insurance services.

7. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investments in debt and equity securities at December 31, 2017, and 2016 are as follows:

(Dollars in thousands)	December 31, 2017 Investment Securities Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities	$ 250	$ 160	$ -	$ 410
U.S. Government Sponsored Enterprise ("GSE") and Agency Notes	3,488	-	35	3,453
Ginnie Mae guaranteed mortgage securities	2,980	108	-	3,088
GSE mortgage-backed securities	245,926	2,378	2,164	246,140
GSE collateralized mortgage obligations	14,910	17	153	14,774
Municipal bonds	1,792	74	-	1,866
Corporate Securities	23,489	594	-	24,083
Money markets and mutual funds	16,498	-	4	16,494
Total	$309,333	$3,331	$2,356	$310,308

	December 31, 2017 Investment Securities Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
GSE mortgage-backed securities	$472,259	$677	$3,668	$469,268
GSE & Agency collateralized mortgage obligations	63,038	-	942	62,096
Municipal bonds	505	32	-	537
Foreign bonds	1,500	24	-	1,524
Total	$537,302	$733	$4,610	$533,425

(Dollars in thousands)	December 31, 2016 Investment Securities Available-for-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Sponsored Enterprise ("GSE") and Agency Notes	$ 4,649	$ 10	$ -	$ 4,659
Ginnie Mae guaranteed mortgage securities	3,734	134	-	3,868
GSE mortgage-backed securities	374,593	3,967	2,026	376,534
Collateralized mortgage obligations	22,920	20	259	22,681
Municipal bonds	2,320	82	-	2,402
Corporate Securities	19,487	155	185	19,457
Money market, mutual funds and certificates of deposit	21,952	-	9	21,943
Total	$449,655	$4,368	$2,479	$451,544

	December 31, 2016			
	Investment Securities Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
GSE mortgage-backed securities	$569,319	$1,850	$6,522	$564,647
Collateralized mortgage obligations	30,580	110	268	30,422
Municipal bonds	630	50	-	680
Foreign bonds	2,000	36	-	2,036
Total	$602,529	$2,046	$6,790	$597,785

During the year ended December 31, 2017, the Bank received proceeds from the sale of $795 thousand of mutual funds that resulted in a loss of $7 thousand. During the year ended December 31, 2016, the Company sold its investment in stock held in a financial institution that was acquired and recorded a $1.8 million gain and also received proceeds from the sale of $356 thousand of mutual funds that resulted in a loss of $14 thousand. During 2015, the Bank received proceeds from the sale of $360 thousand of mutual funds that resulted in a loss of $19 thousand.

The following tables provide information on the gross unrealized losses and fair market value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

(Dollars in thousands)	At December 31, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Sponsored Enterprise ("GSE") and Agency Notes	$ 3,453	$ 35	$ -	$ -	$ 3,453	$ 35
Mortgage-backed securities	378,645	2,488	175,947	3,344	554,592	5,832
Collateralized mortgage obligations	55,928	770	20,065	325	75,993	1,095
Subtotal, debt securities	$438,026	$3,293	$196,012	$3,669	$634,038	$6,962
Mutual Funds	408	4	-	-	408	4
Total temporarily impaired securities	$438,434	$3,297	$196,012	$3,669	$634,446	$6,966

(Dollars in thousands)	At December 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$546,662	$8,300	$37,672	$248	$584,334	$8,548
Corporate Securities	9,802	185	-	-	9,802	185
Collateralized mortgage obligations	2,622	17	26,471	510	29,093	527
Subtotal, debt securities	$559,086	$8,502	$64,143	$758	$623,229	$9,260
Mutual Funds	-	-	201	9	201	9
Total temporarily impaired securities	$559,086	$8,502	$64,344	$767	$623,430	$9,269

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis or as economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary in accordance with guidance under FASB ASC Topic 320 for Investments - Debt and Equity Securities. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer. The likelihood of recovering the Company's investment, whether the Company has the intent to sell the investment or that it is more likely than not that the Company will be required to sell the investment before recovery is also used to determine the nature of the decline in market value of the securities.

The Company records the credit portion of OTTI through earnings based on the credit impairment estimates generally derived from cash flow analyses. The remaining unrealized loss, due to factors other than credit, is recorded in other comprehensive income ("OCI"). The Company had an unrealized loss of $5.8 million related to its GSE mortgage-backed securities as of December 31, 2017. Additionally, the Company had an unrealized loss of $1.1 million on GSE & Agency collateralized mortgage obligations, an unrealized loss of $35 thousand on GSE Notes and an unrealized loss of $4 thousand on mutual funds as of December 31, 2017.

Mortgage-Backed Securities

The Company's investments that were in a loss position for greater than 12 months included GSE mortgage-backed securities with an unrealized loss of 1.9% as of December 31, 2017. The Company's investments that were in a loss position for less than 12 months included GSE mortgage-backed securities with an unrealized loss of 0.7% as of December 31, 2017. The unrealized loss is due to current interest rate levels relative to the Company's cost. Because the unrealized losses are due to current interest rate levels relative to the Company's cost and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell these investments before recovery of its amortized cost, which may be at maturity, the Company does not consider these investments to be other-than temporarily impaired at December 31, 2017.

Collateralized Mortgage Obligations (CMOs)

The Company's investments that were in a loss position for greater than 12 months included GSE CMOs with an unrealized loss of 1.6% as of December 31, 2017. The Company's investments that were in a loss position for less than 12 months included GSE & Agency CMOs with an unrealized loss of 1.4%. The unrealized loss is due to current interest rate levels relative to the Company's cost. Because the unrealized losses are due to current interest rate levels relative to the Company's cost and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell these investments before recovery of its amortized cost, which may be at maturity, the Company does not consider these investments to be other-than temporarily impaired at December 31, 2017.

US GSE & Agency Notes

The Company's investments that were in a loss position for less than 12 months included GSE Notes with an unrealized loss of 1.0% as of December 31, 2017. The unrealized loss is due to current interest rate levels relative to the Company's cost. Because the unrealized losses are due to current interest rate levels relative to the Company's cost and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell these investments before recovery of its amortized cost, which may be at maturity, the Company does not consider these investments to be other-than temporarily impaired at December 31, 2017.

The following table sets forth the stated maturities of the investment securities at December 31, 2017 and 2016. Maturities for mortgage-backed securities are dependent upon the rate environment and prepayments of the underlying loans. For purposes of this table they are presented separately.

(Dollars are in thousands)	December 31, 2017		December 31, 2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available-for-sale:				
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	5,280	5,319	2,320	2,402
Due after five years through ten years	23,489	24,083	24,136	24,116
Due after ten years	-	-	-	-
Mortgage-backed securities	263,816	264,002	401,247	403,083
Equity Securities	250	410		
Money market and mutual funds	16,498	16,494	21,952	21,943
Total	$309,333	$310,308	$449,655	$451,544
Held-to-maturity:				
Due in one year or less	$ 125	$ 127	$ 625	$ 630
Due after one year through five years	1,880	1,934	2,005	2,086
Due after five years through ten years	-	-	-	-
Due after ten years	-	-	-	-
Mortgage-backed securities	535,297	531,364	599,899	595,069
Total	$537,302	$533,425	$602,529	$597,785

At December 31, 2017 and December 31, 2016, $78.1 million and $90.7 million, respectively, of securities were pledged to secure municipal deposits. At December 31, 2017 the Company had no securities pledged as collateral on interest rate swaps and at December 31, 2016, the Company had $500 thousand of securities pledged as collateral on interest rate swaps.

8. LOANS

Major classifications of loans at December 31, 2017 and 2016 are summarized as follows:

(Dollars in thousands)	December 31, 2017			
	Originated	Acquired Non-Credit Impaired	Acquired Credit Impaired	Total
Commercial:				
Commercial real estate	$1,448,226	$128,659	$5,037	$1,581,922
Commercial business loans	568,241	100,613	1,235	670,089
Commercial small business leases	92,632	48,622	-	141,254
Commercial construction	146,633	-	-	146,633
Total commercial loans	2,255,732	277,894	6,272	2,539,898
Residential:				
Residential real estate	897,052	46,414	107	943,573
Total residential loans	897,052	46,414	107	943,573
Consumer loans:				
Home equity & lines of credit	208,191	19,712	206	228,109
Personal	10,978	6,237	56	17,271
Education	147,582	-	-	147,582
Automobile	157,697	-	-	157,697
Total consumer loans	524,448	25,949	262	550,659
Total loans	3,677,232	350,257	6,641	4,034,130
Allowance for losses	(43,267)	-	-	(43,267)
Loans, net	$3,633,965	$350,257	$6,641	$3,990,863

(Dollars in thousands)	December 31, 2016			
	Originated	Acquired Non-Credit Impaired	Acquired Credit Impaired	Total
Commercial:				
Commercial real estate	$1,218,431	$164,569	$5,396	$1,388,396
Commercial business loans	563,047	125,915	5,284	694,246
Commercial small business leases	49,900	89,113	-	139,013
Commercial construction	224,731	101	-	224,832
Total commercial loans	2,056,109	379,698	10,680	2,446,487
Residential:				
Residential real estate	835,896	58,053	525	894,474
Total residential loans	835,896	58,053	525	894,474
Consumer loans:				
Home equity & lines of credit	223,060	25,477	416	248,953
Personal	14,458	7,263	142	21,863
Education	164,202	-	-	164,202
Automobile	234,584	5	-	234,589
Total consumer loans	636,304	32,745	558	669,607
Total loans	3,528,309	470,496	11,763	4,010,568
Allowance for losses	(43,261)	-	-	(43,261)
Loans, net	$3,485,048	$470,496	$11,763	$3,967,307

During the year ended December 31, 2017, the Company recorded a $1.6 million net gain on the sale of $17.8 million of guaranteed Small Business Administration ("SBA") loans that is included in "mortgage banking and SBA income" on the consolidated statements of income. As of September 30, 2017, the Bank retained the $5.6 million outstanding unguaranteed portion of the loans and the related servicing rights for the loans and receives a 1.0% servicing fee from the purchaser of the loans.

Included in the balance of residential loans are approximately $245 thousand and $2.0 million of loans held for sale at December 31, 2017, and December 31, 2016, respectively. These loans are carried at the lower of cost or estimated fair value, on an aggregate basis. Residential loans held for sale are loans originated by the Bank to be sold to a third party under contractual obligation to purchase the loans from the Bank. For the years ended December 31, 2017 and December 31, 2016, the Bank sold residential mortgage loans with an unpaid principal balance of approximately $17.6 million and $19.5 million, respectively, and recorded mortgage banking income of approximately $734 thousand and $854 thousand, respectively. The Bank retained the related servicing rights for the loans that were sold to Fannie Mae and receives a 25 basis point servicing fee from the purchaser of the loans.

Commercial business loans include shared national credits, which are participations in loans or loan commitments of at least $20.0 million that are shared by three or more banks. Included in the shared national credit portfolio are purchased participations and assignments in leveraged lending transactions. Leveraged lending transactions are generally used to support a merger- or acquisition-related transaction, to back a recapitalization of a company's balance sheet or to refinance debt. When considering a participation in the leveraged lending market, the Company will participate only in first lien senior secured term loans that are highly rated (investment grade) by the rating agencies and that trade in active secondary markets. The Company actively monitors the secondary market for these types of loans to ensure that it maintains flexibility to sell such loans in the event of deteriorating credit quality. To further minimize risk and based on our current capital levels and loan portfolio, the Company has limited the total amount of leveraged loans to $150.0 million with no single obligor exceeding $15.0 million while maintaining single industry concentrations below 30%. The Company may reevaluate these limits in future periods.

The shared national credit loans are typically variable rate with terms ranging from one to seven years. At December 31, 2017, shared national credits totaled $199.5 million, which included $77.3 million of leveraged lending transactions. During the first quarter of 2017, one shared national credit for $9.6 million was downgraded to doubtful and changed to non-accrual status based on the results of a shared national credit examination performed by regulators. This loan continued to make payments in 2017 and, at December 31, 2017, had an $8.0 million outstanding balance. Management has established a $1.5 million specific valuation allowance to cover risk associated with this loan as of December 31, 2017. All other shared national credits were classified as pass rated as of December 31, 2017 as all payments are current and the loans are performing in accordance with their contractual terms.

The Company's accounting policies for shared national credits, including our charge off and reserve policy, are consistent with the significant accounting policies disclosed in our financial statements for our total loan portfolio. The Company underwrites all shared national credits consistent with our underwriting guidelines. All shared national credits are subject to annual reviews where the risk rating of the loan is evaluated. Additionally, the Company obtains quarterly financial information and performs a financial analysis on a regular basis to ensure that the borrower can comply with the financial terms of the loan. The information used in the analysis is provided by the borrower through the agent bank.

In the ordinary course of business, the Company has granted loans to executive officers and directors and their affiliates amounting to $255 thousand and $263 thousand at December 31, 2017 and 2016, respectively. The amount of payoffs and repayments with respect to such loans during both the years ended December 31, 2017, and 2016 totaled $8 thousand. There was one related party loan granted during the year ended December 31, 2016.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. The Company evaluates the appropriateness of the allowance for loan losses balance on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings and, when less allowances are necessary, a credit is taken. As of December 31, 2017, the Company's methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific valuation allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. The appropriate allowance level is estimated based upon factors and trends identified by the Company at the time the consolidated financial statements are prepared. Management continuously evaluates its allowance methodology.

The Company generally charges-off the collateral or discounted cash flow deficiency on all loans at 90 days past due, except government guaranteed student loans, and all loans rated substandard or worse that are 90 days past due. As of December 31, 2017, the Company maintained a $1.5 million specific valuation allowance for the previously mentioned shared national credit. No specific valuation allowance was maintained at December 31, 2016.

The following tables set forth the activity in the allowance for loan losses by portfolio for the years ended December 31, 2017, 2016 and 2015:

December 31, 2017 (Dollars in thousands)	COMMERCIAL				RESIDENTIAL		CONSUMER			
	Real Estate	Business	Small Business Leases	Construction	Real Estate	Home Equity & Equity Lines	Personal	Education	Auto	Total
Allowance for loan losses:										
Beginning balance	$23,395	$9,923	$536	$3,579	$1,493	$1,185	$372	$129	$2,649	$43,261
Charge-offs	(470)	(525)	(1,776)	-	(246)	(356)	(167)	(120)	(1,816)	(5,476)
Recoveries	24	38	444	1	28	311	330	-	1,188	2,364
Provision (credit)	5,256	1,083	1,757	(2,617)	(437)	(649)	(280)	112	(1,107)	3,118
Allowance ending balance	$28,205	$10,519	$961	$963	$838	$491	$255	$121	$914	$43,267
Allowance ending balance										
Individually evaluated for impairment	$-	$1,500	$-	$-	$-	$-	$-	$-	$-	$1,500
Collectively evaluated for impairment	28,205	9,019	961	963	838	491	255	121	914	41,767
Total Allowance	$28,205	$10,519	$961	$963	$838	$491	$255	$121	$914	$43,267
Financing receivable:										
Ending balance										
Individually evaluated for impairment	$19,336	$13,091	$-	$-	$6,062	$1,375	$100	$-	$-	$39,964
Collectively evaluated for impairment	1,428,890	555,150	92,632	146,633	890,990	206,816	10,878	147,582	157,697	3,637,268
Acquired non-credit impaired loans (2)	128,659	100,613	48,622	-	46,414	19,712	6,237	-	-	350,257
Acquired credit impaired loans (1)	5,037	1,235	-	-	107	206	56	-	-	6,641
Total Portfolio	$1,581,922	$670,089	$141,254	$146,633	$943,573	$228,109	$17,271	$147,582	$157,697	$4,034,130

(1) Acquired credit impaired loans are evaluated on an individual basis.

(2) Acquired non-credit impaired loans are evaluated collectively, excluding loans that have subsequently moved to non-accrual status which are individually evaluated for impairment.

December 31, 2016 (Dollars in thousands)		COMMERCIAL		RESIDENTIAL			CONSUMER			
	Real Estate	Business	Small Business Leases	Construction	Real Estate	Home Equity & Equity Lines	Personal	Education	Auto	Total
Allowance for loan losses:										
Beginning balance	$22,640	$11,856	$-	$2,335	$1,644	$2,356	$436	$125	$4,108	$45,500
Charge-offs	(134)	(536)	(292)	-	(379)	(411)	(744)	(148)	(2,170)	(4,814)
Recoveries	275	203	95	150	1	273	270	-	823	2,090
Provision (credit)	614	(1,600)	733	1,094	227	(1,033)	410	152	(112)	485
Allowance ending balance	$23,395	$9,923	$536	$3,579	$1,493	$1,185	$372	$129	$2,649	$43,261
Allowance ending balance										
Individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Collectively evaluated for impairment	23,395	9,923	536	3,579	1,493	1,185	372	129	2,649	43,261
Total Allowance	$23,395	$9,923	$536	$3,579	$1,493	$1,185	$372	$129	$2,649	$43,261
Financing receivable:										
Ending balance										
Individually evaluated for impairment	$17,628	$3,668	$-	$-	$7,874	$1,227	$80	$-	$-	$30,477
Collectively evaluated for impairment	1,200,803	559,379	49,900	224,731	828,022	221,833	14,378	164,202	234,584	3,497,832
Acquired non-credit impaired loans (2)	164,569	125,915	89,113	101	58,053	25,477	7,263	-	5	470,496
Acquired credit impaired loans (1)	5,396	5,284	-	-	525	416	142	-	-	11,763
Total Portfolio	$1,388,396	$694,246	$139,013	$224,832	$894,474	$248,953	$21,863	$164,202	$234,589	$4,010,568

(1) Acquired credit impaired loans are evaluated on an individual basis.

(2) Acquired non-credit impaired loans are evaluated collectively, excluding loans that have subsequently moved to non-accrual status which are individually evaluated for impairment.

December 31, 2015 (Dollars in thousands)	COMMERCIAL			RESIDENTIAL	CONSUMER					
	Real Estate	Business	Construction	Real Estate	Home Equity & Equity Lines	Personal	Education	Auto	Unallocated	Total
Allowance for credit losses:										
Beginning balance	$18,016	$18,264	$2,343	$1,960	$2,669	$1,957	$285	$4,610	$550	$50,654
Charge-offs	(2,333)	(703)	-	(283)	(584)	(505)	(120)	(1,774)	-	(6,302)
Recoveries	647	2,759	102	16	173	153	-	898	-	4,748
Provision (credit)	6,310	(8,464)	(110)	(49)	98	(1,169)	(40)	374	(550)	(3,600)
Allowance ending Balance	$22,640	$11,856	$2,335	$1,644	$2,356	$ 436	$125	$4,108	$-	$45,500
Allowance ending balance										
Individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Collectively evaluated for impairment	22,640	11,856	2,335	1,644	2,356	436	125	4,108	-	45,500
Total Allowance	$22,640	$11,856	$2,335	$1,644	$2,356	$436	$125	$4,108	$-	$45,500
Financing receivable:										
Ending balance										
Individually evaluated for impairment	$17,943	$2,287	$41	$12,890	$2,002	$10	$-	$-	$-	$35,173
Collectively evaluated for impairment	936,746	490,578	116,411	691,243	224,846	20,630	181,646	187,777	-	2,849,877
Acquired non-credit impaired loans (2)	16,397	3,448	-	31,493	4,960	-	-	-	-	56,298
Acquired credit impaired loans (1)	-	-	-	98	-	-	-	-	-	98
Total Portfolio	$971,086	$496,313	$116,452	$735,724	$231,808	$20,640	$181,646	$187,777	$-	$2,941,446

(1) Acquired credit impaired loans are evaluated on an individual basis.

(2) Acquired non-credit impaired loans are evaluated collectively, excluding loans that have subsequently moved to non-accrual status which are individually evaluated for impairment.

The provision for loan losses charged to expense is based upon past loan loss experience and an evaluation of estimated losses in the current loan portfolio, including the evaluation of impaired loans under FASB ASC Topic 310 for Loans and Debt Securities. Under FASB ASC Topic 310 for Receivables, for all loan segments a loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired. When all or a portion of the loan is deemed uncollectible, the uncollectible portion is charged-off. The measurement is based either on the fair value of the collateral if the loan is collateral dependent, the liquidation value, or the present value of expected future cash flows discounted at the loan's effective interest rate. Most of the Company's commercial loans are collateral dependent and therefore the Company uses the value of the collateral to measure the loss. Any collateral or discounted cash flow deficiency for loans that are 90 days past due are charged-off. Impairment losses are included in the provision for loan losses. Large groups of homogeneous loans are collectively evaluated for impairment, except for those loans restructured under a troubled debt restructuring.

Classified Loans

The Bank's credit review process includes a risk classification of all commercial and residential loans that includes pass, special mention, substandard and doubtful. The classification of a loan may change based on changes in the creditworthiness of the borrower. The description of the risk classifications are as follows:

A loan is classified as pass when payments are current and it is performing under the original contractual terms. A loan is classified as special mention when the borrower exhibits potential credit weakness or a downward trend which, if not checked or corrected, will weaken the asset or inadequately protect the Bank's position. While potentially weak, the borrower is currently marginally acceptable; no loss of principal or interest is envisioned. A loan is classified as substandard when the borrower has a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt. A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor, normal repayment from this borrower is in jeopardy, and there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. A loan is classified as doubtful when a borrower has all weaknesses inherent in a loan classified as substandard with the added provision that: (1) the weaknesses make collection of debt in full on the basis of currently existing facts, conditions and values highly questionable and improbable; (2) serious problems exist to the point where a partial loss of principal is likely; and (3) the possibility of loss is extremely high, but because of certain important, reasonably specific pending factors which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until

its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens and additional refinancing plans. In all cases, loans are placed on non-accrual when 90 days past due or earlier if collection of principal or interest is considered doubtful. The Company charges-off the collateral or discounted cash flow deficiency on all non-accrual loans.

The following tables set forth the amounts and percentage of the portfolio of classified asset categories for the commercial and residential loan portfolios at December 31, 2017 and December 31, 2016:

Commercial and Residential Loans

Credit Risk Internally Assigned

(Dollars in thousands)	December 31, 2017											
	Commercial Real Estate		Commercial Business		Small Business Leases		Commercial Construction		Residential Real Estate		Total	
Grade												
Pass												
Originated loans	$1,436,514	91%	$554,813	83%	$92,632	66%	$146,633	100%	$895,475	95%	$3,126,067	91%
Acquired non-credit impaired loans	124,575	8%	90,371	13%	48,622	34%	-	-%	46,192	5%	309,760	9%
Total Pass	1,561,089	99%	645,184	96%	141,254	100%	146,633	100%	941,667	100%	3,435,827	100%
Special Mention												
Originated loans	5,779	-%	1,910	-%	-	-%	-	-%	-	-%	7,689	-%
Acquired non-credit impaired loans	483	-%	4,338	1%	-	-%	-	-%	-	-%	4,821	-%
Total Special Mention	6,262	-%	6,248	1%	-	-%	-	-%	-	-%	12,510	-%
Substandard												
Originated loans	5,933	1%	3,565	1%	-	-%	-	-%	1,577	-%	11,075	-%
Acquired non-credit impaired loans	3,601	-%	5,904	1%	-	-%	-	-%	222	-%	9,727	-%
Acquired credit impaired loans	5,037	-%	1,235	-%	-	-%	-	-%	107	-%	6,379	-%
Total Substandard	14,571	1%	10,704	2%	-	-%	-	-%	1,906	-%	27,181	-%
Doubtful												
Originated	-	-%	7,953	1%	-	-%	-	-%	-	-%	7,953	-%
Total Doubtful	-	-%	7,953	1%	-	-%	-	-%	-	-%	7,953	-%
Total	$1,581,922	100%	$670,089	100%	$141,254	100%	$146,633	100%	$943,573	100%	$3,483,471	100%

During the year, one shared national credit for $7.9 million was downgraded to doubtful and changed to non-accrual status based on the results of a shared national credit examination performed by regulators. Management has established a $1.5 million specific valuation allowance to cover risk associated with this loan as of December 31, 2017

(Dollars in thousands)

	December 31, 2016											
	Commercial Real Estate		Commercial Business		Small Business Leases		Commercial Construction		Residential Real Estate		Total	
Grade												
Pass												
Originated loans	$1,202,228	87%	$552,517	82%	$49,900	36%	$224,731	100%	$833,608	93%	$2,862,984	86%
Acquired non-credit impaired loans	162,001	12%	121,048	17%	89,113	64%	101	-%	57,602	7%	429,865	13%
Total Pass	1,364,229	99%	673,565	99%	139,013	100%	224,832	100%	891,210	100%	3,292,849	99%
Special Mention												
Originated loans	8,911	1%	3,182	-%	-	-%	-	-%	-	-%	12,093	-%
Acquired non-credit impaired loans	278	-%	2,543	-%	-	-%	-	-%	-	-%	2,821	-%
Total Special Mention	9,189	1%	5,725	-%	-	-%	-	-%	-	-%	14,914	-%
Substandard												
Originated loans	7,292	-%	7,348	1%	-	-%	-	-%	2,288	-%	16,928	1%
Acquired non-credit impaired loans	2,290	-%	2,324	-%	-	-%	-	-%	451	-%	5,065	-%
Acquired credit impaired loans	5,396	-%	5,284	-%	-	-%	-	-%	525	-%	11,205	-%
Total Substandard	14,978	-%	14,956	1%	-	-%	-	-%	3,264	-%	33,198	1%
Doubtful												
Total Doubtful	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%
Total	$1,388,396	100%	$694,246	100%	$139,013	100%	$224,832	100%	$894,474	100%	$3,340,961	100%

The Bank's credit review process is based on payment history for all consumer loans. The collateral deficiency on consumer loans is charged-off when they become 90 days delinquent with the exception of education loans which are guaranteed by the U.S. government. Non-performing consumer loans include loans on non-accrual status and education loans that are greater than 90 days delinquent. The following tables set forth the consumer loan risk profile based on payment activity as of September 30, 2017 and December 31, 2016:

Consumer and Residential Loans

Credit Risk Internally Assigned

(Dollars in thousands)

	December 31, 2017									
	Home Equity & Lines of Credit		Personal		Education		Auto		Total	
Performing										
Originated loans	$207,036	90%	$10,883	63%	$133,430	90%	$157,697	100%	$509,046	92%
Acquired non-credit impaired loans	19,621	9%	5,987	35%	-	-%	-	-%	25,608	5%
Acquired credit impaired loans	206	-%	56	-%	-	-%	-	-%	262	-%
Total Performing	226,863	99%	16,926	98%	133,430	90%	157,697	100%	534,916	97%
Nonperforming										
Originated loans	1,155	1%	95	1%	14,152	10%	-	-%	15,402	3%
Acquired non-credit impaired loans	91	-%	250	1%	-	-%	-	-%	341	-%
Acquired credit impaired loans	-	-%	-	-%	-	-%	-	-%	-	-%
Total Nonperforming	1,246	1%	345	2%	14,152	10%	-	-%	15,743	3%
Total	$228,109	100%	$17,271	100%	$147,582	100%	$157,697	100%	$550,659	100%

(Dollars in thousands)	December 31, 2016									
	Home Equity & Lines of Credit		Personal		Education		Auto		Total	
Performing										
Originated loans	$222,168	90%	$14,386	67%	$149,359	91%	$234,584	100%	$620,497	93%
Acquired non-credit impaired loans	25,360	10%	7,255	33%	-	-%	5	-%	32,620	5%
Acquired credit impaired loans	416	-%	142	-%	-	-%	-	-%	558	-%
Total Performing	247,944	100%	21,783	100%	149,359	91%	234,589	100%	653,675	98%
Nonperforming										
Originated loans	892	-%	72	-%	14,843	9%	-	-%	15,807	2%
Acquired non-credit impaired loans	117	-%	8	-%	-	-%	-	-%	125	-%
Acquired credit impaired loans	-	-%	-	-%	-	-%	-	-%	-	-%
Total Nonperforming	1,009	-%	80	-%	14,843	9%	-	-%	15,932	2%
Total	$248,953	100%	$21,863	100%	$164,202	100%	$234,589	100%	$669,607	100%

Loans Acquired with Deteriorated Credit Quality

The outstanding principal balance and related carrying amount of loans acquired with deteriorated credit quality, for which the Company applies the provisions of ASC 310-30, as of December 31, 2017 and December 31, 2016, are as follows:

	2017	2016
Outstanding principal balance	$9,741	$16,747
Carrying amount	6,641	11,763

The following table presents changes in the accretable discount on loans acquired with deteriorated credit quality, for which the Company applies the provisions of ASC 310-30, for the years ended December 31, 2017 and December 31, 2016:

(Dollars in thousands)	Accretable Discount
Balance, April 14, 2016	$1,235
Accretion	(463)
Balance, December 31, 2016	772
Accretion	(597)
Balance, December 31, 2017	$175

Loan Delinquencies and Non-accrual Loans

The Company monitors the past due and non-accrual status of loans in determining the loss classification, impairment status and in determining the allowance for loan losses. Generally, all loans past due 90 days are put on non-accrual status. Education loans greater than 90 days delinquent continue to accrue interest as they are U.S. government guaranteed with little risk of credit loss.

The following tables provide information about delinquent and non-accrual loans in the Company's portfolio at the dates indicated:

Analysis of Past Due and Non-accrual Financing Receivables
As of December 31, 2017

(Dollars in thousands)	30-59 Days Past Due	%	60-89 Days Past Due	%	> 90 Days Past Due	%	Total Past Due	%	Acquired Credit Impaired	Current	%	Total Financing Receivables	%	Recorded Investment >90 Days And Accruing	Non-Accruing	%
Commercial:																
Commercial real estate	$ 719	4%	$ 1,304	13%	$ 1,899	10%	$ 3,922	8%	$ 5,037	$ 1,572,963	39%	$ 1,581,922	38%	$ -	$ 3,273	16%
Commercial business loans	1,291	7%	1,680	16%	495	3%	3,466	7%	1,235	665,388	17%	670,089	17%	-	9,828	48%
Commercial small business leases	1,447	8%	584	6%	4	-%	2,035	4%	-	139,219	3%	141,254	4%	-	-	-%
Commercial construction	-	-%	-	-%	-	-%	-	-%	-	146,633	4%	146,633	4%	-	-	-%
Total commercial	$ 3,457	19%	$ 3,568	35%	$ 2,398	13%	$ 9,423	19%	$ 6,272	$ 2,524,203	63%	$ 2,539,898	63%	$ -	$ 13,101	64%
Residential:																
Residential real estate	$ 2,132	11%	$ 1,113	11%	$ 2,233	11%	$ 5,478	11%	$ 107	$ 937,988	24%	$ 943,573	23%	$ -	$ 5,829	28%
Total residential	$ 2,132	11%	$ 1,113	11%	$ 2,233	11%	$ 5,478	11%	$ 107	$ 937,988	24%	$ 943,573	23%	$ -	$ 5,829	28%
Consumer loans:																
Home equity & lines of credit	$ 856	5%	$ 285	3%	$ 582	3%	$ 1,723	4%	$ 206	$ 226,180	6%	$ 228,109	6%	$ -	$ 1,246	6%
Personal	198	1%	118	1%	234	1%	550	1%	56	16,665	-%	17,271	-%	-	345	2%
Education	8,328	44%	4,821	46%	14,152	72%	27,301	56%	-	120,281	3%	147,582	4%	14,152	-	-%
Automobile	3,830	20%	447	4%	-	-%	4,277	9%	-	153,420	4%	157,697	4%	-	-	-%
Total consumer	$ 13,212	70%	$ 5,671	54%	$ 14,968	76%	$ 33,851	70%	$ 262	$ 516,546	13%	$ 550,659	14%	$ 14,152	$ 1,591	8%
Total	$ 18,801	100%	$ 10,352	100%	$ 19,599	100%	$ 48,752	100%	$ 6,641	$ 3,978,737	100%	$ 4,034,130	100%	$ 14,152	$ 20,521	100%

(1) Non-accruing loans do not include $6.6 million of loans acquired with deteriorated credit quality, which have been recorded at their fair value at acquisition.

Aged Analysis of Past Due and Non-accrual Financing Receivables
As of December 31, 2016

(Dollars in thousands)	30-59 Days Past Due		60-89 Days Past Due		> 90 Days Past Due		Total Past Due		Acquired Credit Impaired	Current		Total Financing Receivables		Recorded Investment >90 Days And Accruing	Non-Accruing (1)	
Commercial:																
Commercial real estate	$ 252	1%	$ 338	4%	$ 243	1%	$ 833	2%	$ 5,396	$ 1,382,167	35%	$ 1,388,396	35%	$ -	$ 1,472	12%
Commercial business loans	853	4%	997	12%	1,126	6%	2,976	6%	5,284	685,986	17%	694,246	17%	-	1,768	15%
Commercial small business leases	1,802	8%	795	9%	-	-%	2,597	5%	-	136,416	3%	139,013	3%	-	-	-%
Commercial construction	-	-%	-	-%	-	-%	-	-%	-	224,832	6%	224,832	6%	-	-	-%
Total commercial	$ 2,907	13%	$ 2,130	25%	$ 1,369	7%	$ 6,406	13%	$ 10,680	$ 2,429,401	61%	$ 2,446,487	61%	$ -	$ 3,240	27%
Residential:																
Residential real estate	$ 2,252	10%	$ 466	5%	$ 3,695	18%	$ 6,413	12%	$ 525	$ 887,536	23%	$ 894,474	22%	$ -	$ 7,740	64%
Total residential	$ 2,252	10%	$ 466	5%	$ 3,695	18%	$ 6,413	12%	$ 525	$ 887,536	23%	$ 894,474	22%	$ -	$ 7,740	64%
Consumer loans:																
Home equity & lines of credit	$ 1,103	5%	$ 502	6%	$ 409	2%	$ 2,014	4%	$ 416	$ 246,523	6%	$ 248,953	6%	$ -	$ 1,009	8%
Personal	456	2%	165	2%	25	-%	646	1%	142	21,075	1%	21,863	1%	-	80	1%
Education	10,974	50%	4,684	54%	14,843	73%	30,501	60%	-	133,701	3%	164,202	4%	14,843	-	-%
Automobile	4,390	20%	649	8%	-	-%	5,039	10%	-	229,550	6%	234,589	6%	-	-	-%
Total consumer	$ 16,923	77%	$ 6,000	70%	$ 15,277	75%	$ 38,200	75%	$ 558	$ 630,849	16%	$ 669,607	17%	$ 14,843	$ 1,089	9%
Total	$ 22,082	100%	$ 8,596	100%	$ 20,341	100%	$ 51,019	100%	$ 11,763	$ 3,947,786	100%	$ 4,010,568	100%	$ 14,843	$ 12,069	100%

(1) Non-accruing loans do not include $11.8 million of acquired credit impaired loans, which have been recorded at their fair value at acquisition.

Troubled Debt Restructured Loans

The Bank determines whether a restructuring of debt constitutes a troubled debt restructuring ("TDR") in accordance with guidance under FASB ASC Topic 310 Receivables. The Bank considers a loan a TDR when the borrower is experiencing financial difficulty and the Bank grants a concession that they would not otherwise consider but for the borrower's financial difficulties. A TDR includes a modification of debt terms or assets received in satisfaction of the debt (including a foreclosure or a deed in lieu of foreclosure) or a combination of types. The Bank evaluates selective criteria to determine if a borrower is experiencing financial difficulty, including the ability of the borrower to obtain funds from sources other than the Bank at market rates. The Bank considers all TDR loans as impaired loans and, generally, they are put on non-accrual status. The Bank will not consider the loan a TDR if the loan modification was made for customer retention purposes and the modification reflects prevailing market conditions. The Bank's policy for returning a loan to accruing status requires the preparation of a well-documented credit evaluation which includes the following:

- A review of the borrower's current financial condition in which the borrower must demonstrate sufficient cash flow to support the repayment of all principal and interest including any amounts previously charged-off;
- An updated appraisal or home valuation which must demonstrate sufficient collateral value to support the debt;
- Sustained performance based on the restructured terms for at least six consecutive months; and
- Approval by the Special Assets Committee which consists of the Chief Credit Officer, the Chief Financial Officer and other members of senior management.

The following table summarizes loans whose terms were modified in a manner that met the definition of a TDR as of December 31, 2017, 2016, and 2015. The Company had two accruing TDRs in the amount of $1.5 million which were modified during the year ended December 31, 2017. The Company had three accruing TDRs and one accruing TDR in the amount of $1.9 million and $150 thousand, which were modified during the years ended December 31, 2016 and 2015, respectively.

(Dollars in thousands)	December 31, 2017		December 31, 2016		December 31, 2015	
	No. of Loans	Balance	No. of Loans	Balance	No. of Loans	Balance
Commercial:						
Commercial real estate	1	$1,242	3	$770	-	$-
Commercial business loans	4	8,257	3	1,939	-	-
Commercial construction	-	-	-	-	-	-
Total Commercial	5	9,499	6	2,709	-	-
Residential:						
Residential real estate	5	330	4	297	6	679
Total real estate loans	5	330	4	297	6	679
Consumer loans:						
Home equity & lines of credit	2	66	-	-	1	202
Personal	-	-	-	-	-	-
Total consumer loans	2	66	-	-	1	202
Total loans	12	$9,895	10	$3,006	7	$881

The following tables summarize information about TDRs as of and for the years ended December 31, 2017, 2016 and 2015:

(Dollars in thousands, except number of loans)	For the Year Ended December 31, 2017	
	No. of Loans	Balance
Loans modified during the period in a manner that met the definition of a TDR	8	$9,643
Modifications granted:		
Reduction of outstanding principal due	-	-
Deferral of principal amounts due	6	8,371
Temporary reduction in interest rate	2	1,272
Deferral of interest due	-	-
Below market interest rate granted	-	-
Release of collateral	-	-
Outstanding principal balance immediately before modification	8	9,680
Outstanding principal balance immediately after modification	8	9,643
Aggregate principal charge-off recognized on TDRs outstanding at period end since origination		
Outstanding principal balance at period end	12	9,895
TDRs that re-defaulted subsequent to being modified (in the past twelve months)	1	59

(Dollars in thousands, except number of loans)	For the Year Ended December 31, 2016	
	No. of Loans	Balance
Loans modified during the period in a manner that met the definition of a TDR	6	$2,709
Modifications granted:		
Reduction of outstanding principal due	-	-
Deferral of principal amounts due	6	2,709
Temporary reduction in interest rate	-	-
Deferral of interest due	-	-
Below market interest rate granted	-	-
Release of collateral	-	-
Outstanding principal balance immediately before modification	6	2,709
Outstanding principal balance immediately after modification	6	2,709
Aggregate principal charge-off recognized on TDRs outstanding at period end since origination		
Outstanding principal balance at period end	10	3,006
TDRs that re-defaulted subsequent to being modified (in the past twelve months)	1	43

(Dollars in thousands, except number of loans)	For the Year Ended December 31, 2015	
	No. of Loans	Balance
Loans modified during the period in a manner that met the definition of a TDR	4	$477
Modifications granted:		
Reduction of outstanding principal due	-	-
Deferral of principal amounts due	3	279
Temporary reduction in interest rate	1	198
Deferral of interest due	-	-
Below market interest rate granted	-	-
Release of collateral	-	-
Outstanding principal balance immediately before modification	4	498
Outstanding principal balance immediately after modification	4	477
Aggregate principal charge-off recognized on TDRs outstanding at period end since origination	3	117
Outstanding principal balance at period end	7	881
TDRs that re-defaulted subsequent to being modified (in the past twelve months)	-	-

Impaired Loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures the extent of the impairment in accordance with guidance under *FASB ASC Topic 310 for Receivables*. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value or discounted cash flows. However, collateral value is predominantly used to assess the fair value of an impaired loan. Those impaired loans not requiring an allowance represent loans for which the fair value of the collateral or expected repayments exceed the recorded investments in such loans.

Components of Impaired Loans

Impaired Loans
For the Year Ended December 31, 2017

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Using Cash Basis
Impaired loans with no related specific allowance recorded:						
Commercial Real Estate	$4,515	$4,548	$-	$2,515	$56	$-
Commercial Business	2,112	2,272	-	2,179	14	-
Commercial small business leases	-	-	-	-	-	-
Commercial Construction	-	-	-	-	-	-
Residential Real Estate	5,829	6,546	-	6,834	-	-
Home Equity and Lines of Credit	1,246	1,276	-	1,109	-	-
Personal	345	345	-	240	-	-
Education	-	-	-	-	-	-
Auto	-	-	-	6	-	-
Total Impaired Loans:	$14,047	$14,987	$-	$12,883	$70	$-
Impaired loans with a related specific allowance recorded:						
Commercial Business	$7,953	$7,953	$1,500	$8,954	$-	$-
Total impaired loans with a related specific allowance recorded:	$7,953	$7,953	$1,500	$8,954	$-	$-
Total Impaired Loans:						
Commercial	$14,580	$14,773	$1,500	$13,648	$70	$-
Residential	5,829	6,546	-	6,834	-	-
Consumer	1,591	1,621	-	1,355	-	-
Total	$22,000	$22,940	$1,500	$21,837	$70	$-

The impaired loans table above includes accruing TDRs in the amount of $1.5 million that were modified during 2017 and are performing in accordance with their modified terms. The interest income disclosed above relates to accruing TDRs.

Impaired Loans
For the Year Ended December 31, 2016

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Using Cash Basis
Impaired loans with no related specific allowance recorded:						
Commercial Real Estate	$1,472	$1,472	$-	$2,191	$-	$-
Commercial Business	3,709	3,772	-	2,047	94	-
Commercial small business leases	-	-	-	12	-	-
Commercial Construction	-	-	-	-	-	-
Residential Real Estate	7,740	8,672	-	8,882	-	-
Home Equity and Lines of Credit	1,009	1,050	-	1,460	-	-
Personal	80	80	-	178	-	-
Education	-	-	-	5	-	-
Auto	-	-	-	3	-	-
Total Impaired Loans:	$14,010	$15,046	$-	$14,778	$94	$-
Commercial	$5,181	$5,244	$-	$4,250	$94	$-
Residential	7,740	8,672	-	8,882	-	-
Consumer	1,089	1,130	-	1,646	-	-
Total	$14,010	$15,046	$-	$14,778	$94	$-

The impaired loans table above includes $1.9 million of accruing TDRs that were modified during 2016 and are performing in accordance with their modified terms. The interest income disclosed above relates to accruing TDRs.

Impaired Loans
For the Year Ended December 31, 2015

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Using Cash Basis
Impaired loans with no related specific allowance recorded:						
Commercial Real Estate	$2,029	$2,029	$-	$1,654	$-	$-
Commercial Business	1,378	1,378	-	1,707	-	-
Commercial Construction	41	41	-	345	-	-
Residential Real Estate	9,834	10,675	-	8,513	8	-
Home Equity and Lines of Credit	1,635	1,645	-	1,711	-	-
Personal	-	-	-	12	-	-
Education	-	-	-	-	-	-
Auto	-	-	-	3	-	-
Total Impaired Loans:	$14,917	$15,768	$-	$13,945	$8	$-
Commercial	$3,448	$3,448	$-	$3,706	$-	$-
Residential	9,834	10,675	-	8,513	8	-
Consumer	1,635	1,645	-	1,726	-	-
Total	$14,917	$15,768	$-	$13,945	$8	$-

The impaired loans table above includes $150 thousand of accruing TDRs that were modified during 2015 and are performing in accordance with their modified terms. The interest income disclosed above relates to accruing TDRs.

Generally, the Company will charged-off the collateral or discounted cash flow deficiency on all impaired loans. The Company determined that a $1.5 million specific valuation allowance for the previously mentioned shared national credit was required as of December 31, 2017. The Company determined that no specific valuation allowance for any impaired loans was required as of December 31, 2016. Interest income that would have been recorded for the year ended December 31, 2017 and 2016, had impaired loans been current according to their original terms, amounted to $1.3 million and $817 thousand, respectively.

9. ACCRUED INTEREST RECEIVABLE

The following table provides information on accrued interest receivable at December 31, 2017 and 2016.

(Dollars in thousands)	2017		2016	
	Amount	% of Total	Amount	% of Total
Interest-bearing deposits	$231	1.3%	$50	0.3%
Investment securities	2,183	12.5%	2,521	15.2%
Loans	15,098	86.2%	14,064	84.5%
Total accrued interest receivable	$17,512	100.0%	$16,635	100.0%

10. BANK PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2017 and 2016:

(Dollars in thousands)	2017	2016
Land	$19,703	$19,703
Bank premises	55,714	55,147
Furniture, fixtures and equipment	19,086	20,742
Leasehold improvements	16,095	16,355
Construction in progress	747	425
Total	111,345	112,372
Accumulated depreciation and amortization	(40,772)	(36,928)
Total	$70,573	$75,444

Depreciation and amortization expense amounted to $6.1 million and $6.4 million for the years ended December 31, 2017 and 2016, respectively.

11. GOODWILL AND OTHER INTANGIBLES

The goodwill and other intangible assets arising from acquisitions is accounted for in accordance with the accounting guidance in FASB ASC Topic 350 for Intangibles – Goodwill and Other. The Company recorded goodwill of $47.0 million and core deposit intangibles of $2.2 million, or 0.65% of core deposits, in connection with the acquisition of Conestoga Bank. As of December 31, 2017, the other intangibles consisted of $1.7 million of core deposit intangibles, which are amortized over an estimated useful life of ten years, and $1.2 million of customer list intangibles, which are amortized over an estimated remaining life of between four and six years.

During 2017, management reviewed qualitative factors for the bank unit including financial performance, market changes and general economic conditions and noted there was not a significant change in any of these factors as compared to 2016. Accordingly, it was determined that it was more likely than not that the fair value of banking unit continued to be in excess of its carrying amount as of December 31, 2017.

During 2016, the Company made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment, as it relates to Beneficial Insurance Services, LLC, from December 31st to September 30th. Management made this decision based on the time intensive nature of the goodwill impairment assessment for Beneficial Insurance Services, LLC. Management does not consider this change in impairment testing date to be a material change in application of an accounting principle. As it relates to Beneficial Insurance Services, LLC, the Company performed an impairment test as of September 30, 2017 which estimates the fair value of equity using discounted cash flow analyses as well as guideline company and guideline transaction information. The inputs and assumptions are incorporated in the valuations including projections of future cash flows, discount rates, the fair value of tangible and intangible assets and liabilities, and applicable valuation multiples based on the guideline information. Based on the Company's latest annual impairment assessment of Beneficial Insurance Services, LLC, management believes that the fair value is in excess of the carrying amount. As a result, management concluded that there was no impairment of goodwill during the year ended December 31, 2017.

Goodwill and other intangibles at December 31, 2017 and December 31, 2016 are summarized as follows:

(Dollars in thousands)	Goodwill	Core Deposit Intangible	Customer Relationships Intangible
Balance at January 1, 2017	$169,125	$2,883	$1,563
Adjustments:			
Adjustment for Conestoga Bank	(123)	-	-
Amortization	-	(1,160)	(402)
Balance at December 31, 2017	$169,002	$1,723	$1,161

(Dollars in thousands)	Goodwill	Core Deposit Intangible	Customer Relationships Intangible
Balance at January 1, 2016	$121,973	$2,423	$1,966
Adjustments:			
Additions	47,152	2,247	-
Amortization	-	(1,787)	(403)
Balance at December 31, 2016	$169,125	$2,883	$1,563

The following tables summarize amortizing intangible assets at December 31, 2017 and 2016:

(Dollars in thousands)	2017			2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Amortizing Intangibles:						
Core Deposits	$26,170	($24,447)	$1,723	$26,170	($23,287)	$2,883
Customer Relationships	10,386	(9,225)	1,161	10,386	(8,823)	1,563
Total Amortizing Intangibles	$36,556	($33,672)	$2,884	$36,556	($32,110)	$4,446

Aggregate amortization expense was $1.6 million and $2.2 million for the years ended December 31, 2017 and 2016, respectively. Amortization expense for the next five years and thereafter is expected to be as follows:

(Dollars in thousands)

Year	Expense
2018	$796
2019	728
2020	655
2021	232
2022	179
2023 and thereafter	294

12. OTHER ASSETS

The following table provides selected information on other assets at December 31, 2017 and 2016:

(Dollars in thousands)	December 31, 2017	December 31, 2016
Investments in affordable housing and other partnerships	$4,053	$5,575
Prepaid assets	2,691	2,493
Net deferred tax assets	22,975	44,789
Other real estate	189	821
Fixed assets held for sale	-	744
Servicing rights	2,341	2,169
All other assets	7,138	6,031
Total other assets	$39,387	$62,622

During the year ended December 31, 2017, the Company recorded a one- time $14.1 million reduction in the valuation of its net deferred tax assets related to the enactment of H.R. 1 and its impact on the re-measurement of our net deferred tax assets due to the reduction in the corporate income tax rate to 21% from 35%.

The Company follows the authoritative guidance under *ASC 860-50 – Servicing Assets and Liabilities* to account for its servicing rights. The Company has elected the fair value measurement method to value its servicing assets at fair value in accordance with ASC 860-50. Under the fair value measurement method, the Company measures its loan servicing rights at fair value at each reporting date and reports changes in the fair value of its loan servicing rights in earnings in the period in which the changes occur. See Note 25 to these consolidated financial statements.

13. DEPOSITS

Deposits consisted of the following major classifications at December 31, 2017 and 2016:

(Dollars in thousands)

	2017	% of Total Deposits	2016	% of Total Deposits
Non-interest bearing deposits	$563,185	13.6%	$518,294	12.5%
Interest-earning checking accounts	898,263	21.6%	930,227	22.4%
Municipal checking accounts	123,697	3.0%	125,063	3.0%
Money market accounts	419,773	10.1%	444,226	10.7%
Savings accounts	1,288,875	31.1%	1,265,864	30.4%
Certificates of deposit	856,700	20.6%	874,514	21.0%
Total deposits	$4,150,493	100.0%	$4,158,188	100.0%

Time deposit accounts outstanding at December 31, 2017 mature as follows:

(Dollars in thousands)

Year	Balance
2018	$441,423
2019	135,841
2020	156,012
2021	73,038
2022	50,384
2023 and thereafter	2

The aggregate amount of certificates of deposit accounts in denominations of $100 thousand or more totaled $182.6 million, $176.0 million and $122.6 million at December 31, 2017, December 31, 2016 and 2015, respectively. The FDIC has permanently raised deposit insurance per account owner to $250 thousand for all types of accounts.

14. BORROWED FUNDS

A summary of borrowings is as follows:

(Dollars in thousands)	December 31,	
	2017	2016
FHLB advances	$515,000	$465,000
Statutory trust debenture	25,439	25,423
Total borrowings	$540,439	$490,423

Advances from the FHLB that bear fixed interest rates with remaining periods until maturity are summarized as follows:

(Dollars in thousands)	December 31,	
	2017	2016
Due in one year or less	$20,000	$75,000
Due after one year through five years	495,000	390,000
Total FHLB advances	$515,000	$465,000

The Company increased borrowings by $50.0 million during the year ended December 31, 2017 to replace higher cost brokered certificates of deposit and to fund organic loan growth. The new borrowings resulted from previously entered into forward-starting advances with the FHLB in 2015 and 2016, which include a $50.0 million advance with an interest rate of 1.60% that matures in February 2021 and a $75.0 million advance with an interest rate of 2.24% that matures in March 2020.

The Bank is a member of the FHLB system, which consists of 11 regional Federal Home Loan Banks. The FHLB provides a central credit facility primarily for member institutions. At December 31, 2017, the Bank had a maximum borrowing capacity from the FHLB of Pittsburgh of $2.0 billion of which we had $515.0 million in outstanding advances and $20.0 million in future dated advances outstanding with the FHLB of Pittsburgh. The balance remaining of $1.5 billion is our unused borrowing capacity with the FHLB of Pittsburgh at December 31, 2017. The Bank, as a member of the FHLB of Pittsburgh, is required to acquire and hold shares of capital stock in that FHLB. The Bank was in compliance with requirements for FHLB of Pittsburgh with an investment of $23.2 million at December 31, 2017.

The weighted average interest rates of the borrowings during the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Weighted average interest rate during period:		
Federal Home Loan Bank advances	1.72%	2.04%
Federal Home Loan Bank overnight borrowings	1.08	0.62
Federal Reserve Bank of Philadelphia overnight borrowings	1.50	1.01
Statutory Trust Debenture	2.92	2.40
Other	1.38	0.79

The Bank entered into a future borrowing arrangement with the FHLB of Pittsburgh to borrow $20.0 million at a fixed interest rate during the period from January 2018 through January 2022 to replace an existing borrowing that will mature during this period, as well as, to manage future interest rate volatility by locking into a fixed borrowing rate. There was no impact to the Company's financial condition, results of operations or cash flows for the year ended December 31, 2017.

As of December 31, 2017, the Bank also has a $146.2 million borrowing capacity with the Federal Reserve Bank. The Company pledges loans to secure its borrowing capacity at the Federal Reserve Bank of Philadelphia. Loans totaling $193.6 million and $265.6 million were pledged to secure borrowings at December 31, 2017 and 2016, respectively. There were no outstanding borrowings with the Federal Reserve Bank at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Bank had no outstanding repurchase agreements.

The Company assumed FMS Financial's obligation to the FMS Statutory Trust II (the "Trust") as part of the acquisition of FMS Financial on July 13, 2007. The Company's debentures to the Trust as of December 31, 2017 were $25.8 million. The fair value of the debenture was recorded as of the acquisition date at $25.3 million. The difference between market value and the face value of the Company's debenture is being amortized as interest expense over the expected life of the debt. The Trust issued $25.8 million of floating rate capital securities and $759 thousand of common securities to the Company. The Trust's capital securities are fully guaranteed by the Company's debenture to the Trust. The Company's investment in the capital securities is included in "all other assets" in other assets on the Company's consolidated statements of financial condition. As of December 31, 2017, the rate was 3.17% based on 3 Month LIBOR plus a 1.58% margin. The debentures are now redeemable at the Company's option. The redemption of the debentures would result in the mandatory redemption of the Trust's capital and common securities at par. The statutory trust debenture is wholly owned by the Company, however under accounting guidance, it is not a consolidated entity because the Company is not the primary beneficiary.

15. OTHER LIABILITIES

The following table provides selected information on other liabilities at December 31, 2017 and December 31, 2016:

(Dollars in thousands)	December 31, 2017	December 31, 2016
Accrued pension and other postretirement benefits	$27,888	$29,442
Other accrued expenses	14,351	15,066
Mortgage escrow	10,952	10,774
Deferred rent	7,425	7,303
Accrued interest	3,039	2,763
Income taxes payable	-	104
Other liabilities	9,351	10,774
Total other liabilities	$73,006	$76,226

16. REGULATORY CAPITAL REQUIREMENTS

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

The Dodd-Frank Act required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. In early July 2013, the Federal Reserve Board and the Office of the Comptroller of the Currency approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

In July 2013, the Federal Deposit Insurance Corporation and the Federal Reserve Board approved a new rule that substantially amended the regulatory risk-based capital rules applicable to Beneficial Bank and Beneficial Bancorp. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revised the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and the Bank are: (1) a new common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from current rules); and (4) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. The new capital conservation buffer requirement started to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution is also subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

As of December 31, 2017, the Company's and the Bank's current capital levels exceed the required capital amounts to be considered "well capitalized" and we believe they also meet the fully-phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

The following table summarizes the Company's compliance with applicable regulatory capital requirements as of December 31, 2017 and December 31, 2016:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2017:						
Tier 1 Leverage (to average assets)	$914,552	16.19%	$225,909	4.00%	$282,387	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	889,113	22.12%	180,841	4.50%	261,215	6.50%
Tier 1 Capital (to risk weighted assets)	914,552	22.76%	241,121	6.00%	321,495	8.00%
Total Capital (to risk weighted assets)	958,013	23.84%	321,495	8.00%	401,869	10.00%
As of December 31, 2016:						
Tier 1 Leverage (to average assets)	$891,129	16.15%	$220,715	4.00%	$275,893	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	866,540	21.45%	181,769	4.50%	262,555	6.50%
Tier 1 Capital (to risk weighted assets)	891,129	22.06%	242,359	6.00%	323,145	8.00%
Total Capital (to risk weighted assets)	934,624	23.14%	323,145	8.00%	403,931	10.00%

The following table summarizes the Bank's compliance with applicable regulatory capital requirements as of December 31, 2017 and 2016:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of December 31, 2017:						
Tier 1 Leverage (to average assets)	$816,461	14.46%	$225,870	4.00%	$282,337	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	816,461	20.34%	180,662	4.50%	260,956	6.50%
Tier 1 Capital (to risk weighted assets)	816,461	20.34%	240,882	6.00%	321,177	8.00%
Total Capital (to risk weighted assets)	859,852	21.42%	321,177	8.00%	401,471	10.00%
As of December 31, 2016:						
Tier 1 Leverage (to average assets)	$814,038	14.76%	$220,639	4.00%	$275,799	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	814,038	20.17%	181,615	4.50%	262,333	6.50%
Tier 1 Capital (to risk weighted assets)	814,038	20.17%	242,154	6.00%	322,872	8.00%
Total Capital (to risk weighted assets)	857,533	21.25%	322,872	8.00%	403,590	10.00%

17. INCOME TAXES

The Company files a consolidated federal income tax return. The provision for income taxes for the years ended December 31, 2017, 2016, and 2015 includes the following:

(Dollars in thousands)	2017	2016	2015
Current federal taxes	$10,087	$6,033	$3,271
Current state and local taxes	1,711	1,547	1,270
Deferred federal and state taxes	20,996	6,064	6,184
Total	$32,794	$13,644	$10,725

A reconciliation from the expected federal income tax expense computed at the statutory federal income tax rate to the actual income tax expense included in the consolidated statements of income is as follows:

	2017		2016		2015	
Tax at statutory rate	$19,851	35.00%	$13,689	35.00%	$11,766	35.00%
Increase/(reduction) in taxes resulting from:						
Tax-exempt income	(694)	(1.22)	(971)	(2.48)	(1,015)	(3.02)
State and local income taxes	2,249	3.97	1,446	3.70	1,094	3.25
Employee benefit programs	(2,001)	(3.53)	(17)	(0.04)	(360)	(1.07)
Federal income tax credits	(920)	(1.62)	(994)	(2.54)	(1,000)	(2.97)
Valuation allowances – state and local income taxes/OTTI	75	0.13	(692)	(1.77)	(102)	(0.30)
Section 162(m): Limit on Compensation	1,186	2.09	664	1.70	-	-
Other	(93)	(0.17)	519	1.31	342	1.01
Subtotal	$19,653	34.65%	$13,644	34.88%	$10,725	31.90%
Impact of change in tax law	13,141	23.17	-	-	-	-
Total	$32,794	57.82%	$13,644	34.88%	$10,725	31.90%

Items that give rise to significant portions of the deferred tax accounts at December 31, 2017 and 2016 are as follows:

(Dollars in thousands)	2017	2016
Deferred tax assets:		
Reserve for bad debts	$9,086	$15,818
Pension and postretirement liabilities (ASC 715)	8,217	13,402
Federal income tax credits	-	2,085
Deferred compensation	4,803	8,995
State net operating loss carryover / state credits	1,764	426
Purchase accounting adjustments	2,860	9,561
Lease accounting	772	1,175
OREO	117	161
Premises and equipment	222	-
Available-for-sale securities	84	427
Accrued expenses and other	1,936	3,744
	29,861	55,794
Less: Valuation Allowance	(608)	(426)
Total	29,253	55,368
Deferred tax liabilities:		
Pension and postretirement benefits	3,169	5,278
Intangibles	1,201	1,961
Premises and equipment	-	257
Prepaid expenses and deferred loan costs	1,416	2,293
Mortgage servicing rights and other	492	790
Total	6,278	10,579
Net deferred tax assets	$22,975	$44,789

The passage of H.R. 1 on December 22, 2017 lowered the federal corporate tax rate to 21% from 35%. Under ASC 740, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense related to continuing operations for the period in which the law was enacted, even if the assets and liabilities related to items of accumulated other

comprehensive income. The Company re-measured its net deferred tax assets at the current 21% federal corporate tax rate and, as a result, the Company recorded a one-time charge of $13.1 million of income tax expense during the year ended December 31, 2017. In addition, the FASB issued ASU 2018-02 related to the reclassification of certain tax effects stranded in accumulated OCI that would require the amounts to be reclassified to retained earnings. As of December 31, 2017, the Company had $5.0 million of tax effects stranded in accumulated OCI as a result of the passage of H.R. 1. The Company intends to comply with the final FASB guidance and will reclassify the amount stranded in accumulated OCI to retained earnings in the first quarter of 2018.

As of December 31, 2017, the Company had net deferred tax assets totaling $23.0 million. These deferred tax assets can only be realized if the Company generates sufficient taxable income in the future. If it cannot, a valuation allowance is established. The Company regularly evaluates the reliability of deferred tax asset positions. In determining whether a valuation allowance is necessary, the Company considers the level of taxable income in prior years to the extent that carry backs are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. The Company currently maintains a valuation allowance for certain state net operating losses that management believes it is more likely than not that such deferred tax assets will not be realized. The Company expects to realize the remaining deferred tax assets over the allowable carry back and/or carry forward periods. Therefore, no valuation allowance is deemed necessary against its remaining federal or remaining state deferred tax assets as December 31, 2017. However, if an unanticipated event occurs that materially changes pre-tax and taxable income in future periods, an increase in the valuation allowance may become necessary and it could be material to the Company's financial statements.

As of December 31, 2017, the Company had state and local net operating loss carryovers of $15.3 million resulting in deferred tax assets of $608 thousand. These state and local net operating loss carryovers begin to expire after December 31, 2017 if not utilized. A valuation allowance of $608 thousand for these deferred tax assets had been recorded as of December 31, 2017 as management believes it is more likely than not that such deferred tax assets will not be realized.

During the years ended December 31, 2017 and 2016, $727 thousand in net deferred tax liabilities and $539 thousand of net deferred tax assets, respectively, were recorded as adjustments to other comprehensive income tax accounts.

The Company accounts for uncertain tax positions in accordance with FASB ASC Topic 740 for Income Taxes. The guidance clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. The FASB prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The uncertain tax liability for uncertain tax positions was zero at December 31, 2017 and December 31, 2016. The tax year 2016 remains subject to examination by the IRS. The 2013 through 2016 tax years remain subject to examination by various state and local taxing authorities. For 2017, the Bank's maximum federal income tax rate was 35%.

The Company recognizes, when applicable, interest and penalties related to unrecognized tax positions in the provision for income taxes in the consolidated statement of income. No interest or penalties were incurred during the years ended December 31, 2017 and 2016.

Pursuant to accounting guidance, the Company is not required to provide deferred taxes on its tax loan loss reserve as of December 31, 1987. As of December 31, 2017 and 2016, the Company had unrecognized deferred income taxes of approximately $1.4 million with respect to this reserve. This reserve could be recognized as taxable income and create a current and/or deferred tax liability using the income tax rates then in effect if one of the following occur: (1) the Bank's retained earnings represented by this reserve are used for distributions in liquidation or for any other purpose other than to absorb losses from bad debts; (2) the Bank fails to qualify as a Bank, as provided by the Internal Revenue Code; or (3) there is a change in federal tax law.

18. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Bank has noncontributory defined benefit pension plans covering many of its employees. Additionally, the Company sponsors nonqualified supplemental employee retirement plans for certain participants. The Bank also provides certain postretirement benefits to qualified former employees. These postretirement benefits principally pertain to certain health and life insurance coverage. Information relating to these employee benefits program are included in the tables that follow.

Effective June 30, 2008, the defined pension benefits for Bank employees were frozen at the current levels. Additionally, the Bank enhanced its 401(k) Plan and combined it with its Employee Stock Ownership Plan to fund employer contributions. See Note 19 to these consolidated financial statements.

During 2014, the Company adopted the new mortality tables reflecting longer life expectancy published by the Society of Actuaries on October 27, 2014. These revised tables resulted in an increase in our pension plan's projected benefit obligation of approximately $5.7 million as of December 31, 2014. In 2017, this scale was updated to MP-2017.

During 2016, the Company revised its method for estimating the service cost and interest cost components of the net periodic benefit cost. Previously, these were estimated using a single weighted-average discount rate derived from the Citigroup Above Median Curve, the yield curve used to measure the benefit obligation. Now, the service cost and interest cost are estimated more precisely by discounting the projected cash flows with their corresponding spot rates on the Citigroup Above Median Curve. The Company has accounted for this as a change in accounting estimate affected by a change in accounting principle and have therefore accounted for it prospectively. This

change in estimate reduced the net periodic benefit cost by $656 thousand in 2016.

In conjunction with the acquisition of Conestoga Bank, the Company recorded a $280 thousand acquired pension liability at fair value as of December 31, 2016.

The following tables present a reconciliation of beginning and ending balances of benefit obligations and assets at December 31, 2017 and 2016:

(Dollars in thousands)	Pension Benefits		Other Postretirement Benefits	
Change in Benefit Obligation	**2017**	**2016**	**2017**	**2016**
Benefit obligation at beginning of year	$96,657	$94,277	$22,337	$21,419
Business combination	-	1,291	-	-
Service cost	-	-	121	128
Interest cost	3,365	3,416	738	726
Participants' contributions	-	-	94	78
Actuarial loss/(gain)	5,958	1,588	1,430	1,377
Benefits paid	(4,069)	(3,915)	(1,437)	(1,391)
Benefit obligation at end of year	$101,911	$96,657	$23,283	$22,337
Change in Assets				
Fair value of assets at beginning of year	$91,666	$88,040	$-	$-
Business combination	-	957	-	-
Actual gain/(loss) return on assets	11,815	6,828	-	-
Employer contribution	293	351	1,343	1,313
Participants' contributions	-	-	94	78
Expense	(606)	(595)	-	-
Benefits paid	(4,069)	(3,915)	(1,437)	(1,391)
Fair value of assets at end of year	$99,099	$91,666	$-	$-

The following table presents a reconciliation of the funded status of the pension and postretirement benefits at December 31, 2017 and 2016:

	Pension		Other Postretirement Benefits	
(Dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Projected benefit obligation	$101,911	$96,657	$23,283	$22,337
Fair value of plan assets	99,099	91,666	-	-
Accrued pension cost	$2,812	$4,991	$23,283	$22,337

The Company's pension benefits funding policy is to contribute annually an amount, as determined by consulting actuaries and approved by the Retirement Plan Committee, which can be deducted for federal income tax purposes, if required. During 2017, $293 thousand was contributed to the pension plans under the Bank's funding policy compared to $351 thousand during 2016.

The following table presents the amounts recognized in accumulated other comprehensive income for pension and postretirement benefits at December 31, 2017 and 2015.

	Pension		Other Postretirement Benefits	
(Dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Net loss	$33,055	$34,338	$6,360	$5,180
Prior service cost	-	-	(559)	(1,044)

The Company's total accumulated pension benefit obligations at December 31, 2017 and December 31, 2016 were $101.9 million and $96.7 million, respectively. The accumulated pension obligation equals the projected benefit obligation as a result of the freeze in pension benefits effective June 30, 2008.

Significant assumptions used to calculate the net periodic pension cost and obligation as of December 31, 2017, 2016, and 2015 are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Consolidated Pension Plan						
Discount rate for periodic pension cost	4.12%	4.25%	3.90%			
Discount rate for benefit obligation	3.59%	4.12%	4.25%			
Expected long-term rate of return on plan assets	7.00%	7.25%	7.25%			
Beneficial Bank Plans						
Discount rate for periodic pension cost				4.04%	4.27%	3.90%
Discount rate for benefit obligation				3.56%	4.04%	4.25%
FMS Plan						
Discount rate for periodic pension cost				3.31%	3.43%	3.90%
Discount rate for benefit obligation				3.09%	3.31%	4.25%

The components of net pension cost are as follows:

(Dollars in thousands)	Pension Benefits			Other Postretirement Benefits		
Component of Net Periodic Benefit Cost	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Service cost	$-	$-	$-	$121	$128	$154
Interest cost	3,365	3,416	3,835	738	726	827
Expected return on assets	(6,269)	(6,284)	(6,632)	-	-	-
Amortization of transition obligation	-	-	-	73	17	208
Amortization of prior service cost	-	-	-	(486)	(485)	(518)
Recognized net actuarial loss	2,302	2,382	2,346	179	144	87
Net periodic pension (benefit) cost	($602)	($486)	($451)	$625	$530	$758

As of December 31, 2017, the health care trend initial rate was 7.25 percent for all participants, which is projected to reach an ultimate trend rate of 5.00 percent as of December 31, 2027 and remain level thereafter.

The impact of a 1.0 percent increase and decrease in assumed health care cost trend for each future year would be as follows:

(Dollars in thousands)	1.0% Increase	1.0% Decrease
Accumulated postretirement benefit obligation	$771	($779)
Service and interest cost	32	(31)

The estimated net loss for the pension benefits that will be amortized from accumulated other comprehensive income into net periodic pension costs over the next fiscal year is $2.2 million. There is no estimated transition that will be amortized from accumulated other comprehensive income into periodic pension cost over the next fiscal year. The net loss and prior service cost for postretirement benefits that will be amortized from accumulated other comprehensive income into periodic pension cost over the next fiscal year are $369 thousand and ($486) thousand, respectively.

Future benefit payments for all pension and postretirement plans are estimated to be paid as follows:

(Dollars in thousands)

Pension Benefits		Other Postretirement Benefits	
2018	$4,447	2018	$1,354
2019	4,629	2019	1,279
2020	5,002	2020	1,240
2021	5,628	2021	1,244
2022	4,954	2022	1,256
2023-2027	29,714	2023-2027	6,613

The fair values of all pension and postretirement plan assets at December 31, 2017 and 2016 by asset category are as follows:

	Category Used for Fair Value Measurement							
	December 31, 2017				December 31, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Mutual Funds:								
Large cap	$10,063	$-	$-	$10,063	$9,700	$-	$-	$9,700
Mid cap	74	-	-	74	72	-	-	72
Small cap	2,910	-	-	2,910	3,170	-	-	3,170
International	6,776	-	-	6,776	6,413	-	-	6,413
Global Managed Volatility	7,027	-	-	7,027	6,565	-	-	6,565
US Managed Volatility	3,768	-	-	3,768	3,846	-	-	3,846
Fixed Income	55,722	-	-	55,722	50,862	-	-	50,862
U.S. Government Agencies	12,600	-	-	12,600	10,879	-	-	10,879
Accrued Income	257	-	-	257	159	-	-	159
Total	$99,197	$-	$-	$99,197	$91,666	$-	$-	$91,666

As of December 31, 2017 and 2016, pension and postretirement plan assets were comprised of investments in equity and fixed income mutual funds. The Bank's consolidated pension plan investment policy provides that assets are to be managed over a long-term investment horizon to ensure that the chances and duration of investment losses are carefully weighed against the long-term potential for asset appreciation. The primary objective of managing a plan's assets is to improve the plan's funded status. A secondary financial objective is, where possible, to minimize pension expense volatility. The Company's pension plan allocates assets based on the plan's funded status to risk management and return enhancement asset classes. The risk management class is comprised of a long duration fixed income fund while the return enhancement class consists of equity and other fixed income funds. Asset allocation ranges are generally 40% to 80% for risk management and 20% to 60% for return enhancement when the funded status is less than 110%, and 50% to 90% in risk management and 10% to 50% for return enhancement when the funded status reaches 110%, subject to the discretion of the Bank's Retirement Plan Committee. Also, a small portion is maintained in cash reserves when appropriate. Weighted average asset allocations in plan assets at December 31, 2017 and December 31, 2016 were as follows:

	Pension	
	December 31,	
	2017	2016
Domestic equity securities	16.8%	18.3%
Fixed Income	56.1%	55.5%
U.S. Government Agencies	12.8%	11.9%
International equity securities	14.0%	14.2%
Accrued income	0.3%	0.1%
Total	100.0%	100.0%

The Company provides life insurance benefits to eligible employees under an endorsement split-dollar life insurance program. At both December 31, 2017 and 2016, $20.9 million in cash surrender value relating to this program was recognized in "other assets" in the Company's consolidated statements of financial condition. The Company recognizes a liability for future benefits applicable to

endorsement split-dollar life insurance arrangements that provide death benefits postretirement. These liabilities totaled $4.9 million and $5.1 million at December 31, 2017 and 2016, respectively, and are included in the postretirement tables above.

19. EMPLOYEE SAVINGS AND STOCK OWNERSHIP PLAN

In connection with its initial public offering, the Company implemented an Employee Stock Ownership Plan (“ESOP”), which provides retirement benefits for substantially all full-time employees who were employed at the date of the initial public offering and are at least 21 years of age. Other salaried employees will be eligible after they have completed one year of service and have attained the age of 21. The Company makes annual contributions to the ESOP equal to the ESOP’s debt service or equal to the debt service less the dividends received by the ESOP on unallocated shares. Shares purchased by the ESOP were acquired using funds provided by two loans from the Company and accordingly the cost of those shares is shown as a reduction of stockholders’ equity. As previously discussed, 2,015,352 shares were purchased by the Plan to be used to fund future contributions into the Plan in conjunction with the second step conversion. In connection with the purchase of the shares during the second-step stock offering on January 12, 2015, the Plan borrowed $20.2 million from the Bancorp at a fixed interest rate of 3.25% with a thirty-year term to fund the purchase of 2,015,352 shares. As of July 1, 2008, the ESOP was merged with the Company’s 401(k) plans to form the Employee Savings and Stock Ownership Plan (“KSOP”). The Company accounts for the KSOP based on guidance from *FASB ASC Topic 718 for Compensation – Stock Compensation*. Shares are released as the loan is repaid.

The balance of the 2008 loan to the KSOP as of December 31, 2017 was $13.0 million compared to $15.0 million as of December 31, 2016. The balance of the 2015 loan to the KSOP as of December 31, 2017 was $18.9 million compared to $19.3 million as of December 31, 2016. All full-time employees and certain part-time employees are eligible to participate in the KSOP if they meet prescribed service criteria. Shares will be allocated and released based on the KSOP’s plan document. While the KSOP is one plan, the two separate components of the 401(k) Plan and ESOP remain. Under the KSOP, the Company makes basic contributions and matching contributions. The Bank makes additional contributions for certain employees based on age and years of service. The Company may also make discretionary contributions under the KSOP. Each participant’s account is credited with shares of the Company’s stock or cash based on compensation earned during the year in which the contribution was made.

Dividends declared on common stock held by the ESOP which have not been allocated to the account of a participant can be used to repay the loan. During the year ended December 31, 2017, the Company used dividends declared of $711 thousand to repay the loans compared to $379 thousand for the year ended December 31, 2016. Allocation of shares to the participants is contingent upon the repayment of a loan to the Company. The allocated shares in the KSOP related to the 2008 loan were 2,566,075 and 2,368,523 as of December 31, 2017 and December 31, 2016, respectively. The allocated shares in the KSOP related to the 2015 loan were 199,301 and 132,121 as of December 31, 2017 and December 31, 2016, respectively. The suspense shares available related to the 2008 loan were 980,852 as of December 31, 2017 and 1,178,404 as of December 31, 2016. The suspense shares available related to the 2015 loan were 1,816,051 as of December 31, 2017 and 1,883,231 as of December 31, 2016. The suspense shares are the shares that are unearned and are available to be allocated. The market values of the unearned shares were $46.0 million and $56.3 million as of December 31, 2017 and 2016, respectively. The Company recorded a related expense of approximately $4.2 million, $3.8 million and $3.3 million, respectively, for contributions to the KSOP for years ended December 31, 2017, 2016 and 2015.

20. STOCK BASED COMPENSATION

Stock-based compensation is accounted for in accordance with *FASB ASC Topic 718 for Compensation – Stock Compensation.* The Company establishes fair value for its equity awards to determine their cost. The Company recognizes the related expense for employees over the appropriate vesting period, or when applicable, service period, using the straight-line method. However, consistent with the guidance, the amount of stock-based compensation recognized at any date must at least equal the portion of the grant date value of the award that is vested at that date. As a result, it may be necessary to recognize the expense using a ratable method.

At the annual meeting of stockholders held on April 21, 2016, the stockholders of the Company approved the 2016 Omnibus Incentive Plan (‘the 2016 Plan”). The 2016 Plan provides for the issuance or delivery of 3.5 million shares of Beneficial Bancorp, Inc. stock. Under the 2016 Plan, the Company has granted 2,462,064 of restricted stock awards to employees, officers and directors, of which 27,238 shares have been forfeited as of December 31, 2017. The net impact to the Company’s outstanding additional paid in capital as of December 31, 2017 was a reduction of $30.2 million as well as a reduction in the balance of treasury stock. The restricted stock awards granted to directors vest generally over a 12 to 31 month period and the restricted stock awards granted to employees and officers vest over a three year period. Upon the adoption of the 2016 Plan, the Company’s 2008 Equity Incentive Plan (“EIP”) was terminated. However, outstanding awards under the 2008 EIP remain in effect in accordance with their original terms.

Compensation expense related to the stock awards is recognized ratably over the vesting period in an amount which totals the market price of the Company’s stock at the grant date. The expense recognized for the years ended December 31, 2017, 2016 and 2015 totaled $13.7 million, $7.6 million and $1.3 million, respectively. The increases in expense in 2017 and 2016 were primarily the result of $12.6 million and $5.9 million, respectively, of expense recorded for the shares granted under the Company’s 2016 Omnibus Incentive Plan.

The following table summarizes the non-vested stock award activity for the year ended December 31, 2017:

Summary of Non-vested Stock Award Activity	Number of Shares	Weighted Average Grant Price
Non-vested Stock Awards outstanding, January 1, 2017	2,960,572	$13.07
Issued	154,753	18.00
Vested	(904,019)	13.10
Forfeited	(79,334)	10.66
Non-vested Stock Awards outstanding, December 31, 2017	2,131,972	13.51

The following table summarizes the non-vested stock award activity for the year ended December 31, 2016:

Summary of Non-vested Stock Award Activity	Number of Shares	Weighted Average Grant Price
Non-vested Stock Awards outstanding, January 1, 2016	616,505	$10.00
Issued	2,529,328	13.54
Vested	(122,067)	8.32
Forfeited	(63,194)	10.85
Non-vested Stock Awards outstanding, December 31, 2016	2,960,572	13.07

The fair value of the 904,019 shares that vested during the year ended December 31, 2017 was $14.4 million. The fair value of the 122,067 shares that vested during the year ended December 31, 2016 was $1.6 million.

The 2008 EIP authorized the grant of options to officers, employees, and directors of the Company to acquire shares of common stock with an exercise price equal to the fair value of the common stock at the grant date. Options expire ten years after the date of grant, unless terminated earlier under the option terms. Options are granted at the then fair market value of the Company's stock. The options were valued using the Black-Scholes option pricing model. During the year ended December 31, 2017 and 2016, the Company did not grant any options. All options require the participant's continued service. The options generally vest and are exercisable over five years. Compensation expense for the options totaled $945 thousand for the year ended December 31, 2017 compared to $1.4 million and $1.6 million for the year ended December 31, 2016 and 2015, respectively.

A summary of option activity as of December 31, 2017 and changes during the twelve month period is presented below:

	Number of Options	Weighted Exercise Price per Shares
January 1, 2017	2,884,087	$9.59
Granted	-	-
Exercised	(1,119,663)	9.54
Forfeited	(37,175)	9.78
Expired	-	-
December 31, 2017	1,727,249	9.62

A summary of option activity as of December 31, 2016 and changes during the twelve month period is presented below:

	Number of Options	Weighted Exercise Price per Shares
January 1, 2016	3,422,241	$9.59
Granted	-	-
Exercised	(434,726)	9.55
Forfeited	(103,319)	9.86
Expired	(109)	8.90
December 31, 2016	2,884,087	9.59

The weighted average remaining contractual term was approximately 4.47 years and the aggregate intrinsic value was $11.8 million for options outstanding as of December 31, 2017. The weighted average remaining contractual term was approximately 4.74 years and the aggregate intrinsic value was $25.4 million for options outstanding as of December 31, 2016. The weighted average remaining contractual term was approximately 5.69 years and the aggregate intrinsic value was $12.7 million for options outstanding as of December 31, 2015. As of December 31, 2017, exercisable options totaled 1,309,807 with an average weighted exercise price of $9.39 per share, a weighted average remaining contractual term of approximately 3.96 years, and an aggregate intrinsic value of $9.2 million. As of December 31, 2016, exercisable options totaled 2,069,854 with an average weighted exercise price of $9.46 per share, a weighted average remaining contractual term of approximately 3.94 years, and an aggregate intrinsic value of $18.5 million. As of December 31, 2015, exercisable options totaled 2,047,884 with an average weighted exercise price of $9.53 per share, a weighted average remaining contractual term of approximately 4.44 years, and an aggregate intrinsic value of $7.8 million.

During the years ended December 31, 2017 and 2016, the Company did not grant any options. Significant weighted average assumptions used to calculate the fair value of the options for the year ended December 31, 2015 are as follows:

	For the Year Ended December 31,
	2015
Weighted average fair value of options granted	$3.99
Weighted average risk-free rate of return	1.74%
Weighted average expected option life in months	78
Weighted average expected volatility	31.18%
Expected dividends	$-

As of December 31, 2017, there was $784 thousand of total unrecognized compensation cost related to options and $18.2 million in unrecognized compensation cost related to non-vested stock awards granted. As of December 31, 2016, there was $1.9 million of total unrecognized compensation cost related to options and $30.2 million in unrecognized compensation cost related to non-vested stock awards granted. The average weighted lives for the option expense were 1.43 and 2.05 years as of December 31, 2017 and December 31, 2016, respectively. The average weighted lives for the stock award expense were 1.61 and 2.48 years at December 31, 2017 and December 31, 2016, respectively.

21. COMMITMENTS AND CONTINGENCIES

The Company leases a number of offices as part of its regular business operations. Rental expense under such leases aggregated $6.1 million, $5.8 million and $5.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

At December 31, 2017, the Company was committed under non-cancelable operating lease agreements for minimum rental payments to lessors as follows:

(Dollars in thousands)	
2018	$ 6,200
2019	6,206
2020	6,212
2021	5,337
2022	5,388
Thereafter	27,890
	$57,233

In the normal course of business, there are various outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not reflected in the consolidated financial statements. The Company has established specific reserves related to loan commitments that are not material to the Company.

At December 31, 2017 and 2016, the Company had outstanding commitments to purchase or originate new loans or leases aggregating approximately $29.4 million and $162.2 million, respectively, and commitments to customers on available lines of credit of $443.1 million and $380.5 million, respectively, commitments to fund commercial construction and other advances of $159.3 million and $135.1 million, respectively, and standby letters of credit of $29.4 million and $22.8 million, respectively. Commitments are issued in accordance with the same policies and underwriting procedures as settled loans. The Bank had a reserve for its commitments and contingencies of $124 thousand and $234 thousand at December 31, 2017 and December 31, 2016, respectively.

The Company and its Directors have been named in a lawsuit filed in Maryland state circuit court regarding compensation levels of Directors in connection with equity awards granted in the second quarter of 2016 under the 2016 Omnibus Incentive Plan. The defendants believe the lawsuit, alleging breach of fiduciary duty and unjust enrichment under Maryland law, is without merit and intend to vigorously defend it.

Periodically, there have been other various claims and lawsuits against the Bank, such as claims to enforce liens, condemnation proceedings on properties in which it holds security interests, claims involving the making and servicing of real property loans and other issues incident to its business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse effect on its financial condition, results of operations or cash flows.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows authoritative guidance under FASB ASC Topic 820 for Fair Value Measurements and Disclosures which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The definition of fair value under ASC 820 is the exchange price. The guidance clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). The guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

Fair value is based on quoted market prices, when available. If listed prices or quotes are not available, fair value is based on fair value models that use market participant or independently sourced market data which include: discount rate, interest rate yield curves, credit risk, default rates and expected cash flow assumptions. In addition, valuation adjustments may be made in the determination of fair value. These fair value adjustments may include amounts to reflect counter party credit quality, creditworthiness, liquidity and other unobservable inputs that are applied consistently over time. These adjustments are estimated and, therefore, subject to significant management judgment, and at times, may be necessary to mitigate the possibility of error or revision in the model-based estimate of the fair value provided by the model. The methods described above may produce fair value calculations that may not be indicative of the net realizable value. While the Company believes its valuation methods are consistent with other financial institutions, the use of different methods or assumptions to determine fair values could result in different estimates of fair value. *FASB ASC Topic 820 for Fair Value Measurements and Disclosures* describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt securities, equity securities and derivative contracts that are traded in an active exchange market as well as certain U.S. Treasury securities that are highly liquid and actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange traded assets and liabilities. The values of these items are determined using pricing models with inputs observable in the market or can be corroborated from observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Those assets which will continue to be measured at fair value on a recurring basis are as follows at December 31, 2017:

(Dollars in thousands)	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage servicing rights	$ -	$ -	$1,556	$ 1,556
SBA servicing rights	-	-	785	785
Investment securities available for sale:				
U.S. GSE and agency notes	-	3,453	-	3,453
Ginnie Mae guaranteed mortgage securities	-	3,088	-	3,088
GSE collateralized mortgage obligations ("CMOs")		14,774	-	14,774
GSE mortgage-backed securities	-	246,140	-	246,140
Municipal bonds				
General obligation municipal bonds	-	1,866	-	1,866
Corporate securities		24,083	-	24,083
Equity securities	410	-	-	410
Money market funds	16,086	-	-	16,086
Mutual funds	408	-	-	408
Interest rate swap agreements	-	2,713	-	2,713
Total Assets	$16,904	$296,117	$2,341	$315,362
Liabilities:				
Interest rate swap agreements and other contracts	$ -	$1,778	$ -	$1,778
Total Liabilities	$ -	$1,778	$ -	$1,778

Those assets which will continue to be measured at fair value on a recurring basis are as follows at December 31, 2016:

(Dollars in thousands)	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage servicing rights	$ -	$ -	$1,523	$1,523
SBA servicing rights	-	-	646	646
Investment securities available for sale:				
U.S. GSE and agency notes	-	4,659	-	4,659
Ginnie Mae guaranteed mortgage securities	-	3,868	-	3,868
Collateralized mortgage obligations ("CMOs")				
GSE CMOs	-	22,681	-	22,681
GSE mortgage-backed securities	-	376,534	-	376,534
Municipal bonds				
General obligation municipal bonds	-	2,402	-	2,402
Corporate securities	-	19,457	-	19,457
Money market funds	21,742	-	-	21,742
Mutual funds	201	-	-	201
Interest rate swap agreements	-	1,899	-	1,899
Total Assets	$21,943	$431,500	$2,169	$455,612
Liabilities:				
Interest rate swap agreements and other contracts	$-	$1,852	$-	$1,852
Total Liabilities	$-	$1,852	$-	$1,852

Level 1 Valuation Techniques and Inputs

Included in this category are money market funds, mutual funds and certificates of deposit. To estimate the fair value of these securities, the Company utilizes observable quotations for the indicated security.

Level 2 Valuation Techniques and Inputs

The majority of the Company's investment securities are reported at fair value utilizing Level 2 inputs. Prices of these securities are obtained through independent, third-party pricing services. Prices obtained through these sources include market derived quotations and matrix pricing and may include both observable and unobservable inputs. Fair market values take into consideration data such as dealer quotes, new issue pricing, trade prices for similar issues, prepayment estimates, cash flows, market credit spreads and other factors. The Company reviews the output from the third-party providers for reasonableness by considering the pricing consistency among securities with similar characteristics, where available, and comparing values with other pricing sources available to the Company. In general, the Level 2 valuation process uses the following significant inputs in determining the fair value of the different classes of investments:

U.S. Government Sponsored Enterprise (GSE) and Agency Notes. Pricing evaluations are based on obtaining relevant trade data, benchmark quotes and spreads and incorporating this information into the evaluation process. Evaluations are generated on a price, yield or spread basis as determined by the observed market data. Spreads and yields are calculated continuously throughout the day, as well as "end of day".

Ginnie Mae Guaranteed Mortgage Certificates. Pricing evaluations are based on issuer type, coupon and maturity. The Pool specific evaluation model takes into account pool level information supplied directly by the agency. For adjustable rate mortgages, the model takes into account indices, margin, periodic and life caps, next coupon adjustment date and the convertibility of the bond.

GSE CMOs. For pricing evaluations, the pricing service, obtains and applies available direct market color (trades, covers, bids, offers and price talk) along with market color for similar bonds and GSE/Agency CMOs in general (including market research). Evaluations of tranches (non-volatile and volatile) are based on ICE Data Services interpretation of accepted market modeling, trading, and pricing conventions.

GSE Mortgage-backed Securities. Included in this category are Fannie Mae and Freddie Mac fixed rate residential mortgage backed securities and Fannie Mae and Freddie Mac Adjustable Rate residential mortgage backed securities. Pricing evaluations are based on issuer type, coupon and maturity. The Pool specific evaluation model takes into account pool level information supplied directly by the GSE. For adjustable rate mortgages, the model takes into account indices, margin, periodic and life caps, next coupon adjustment date and the convertibility of the bond.

Tax Exempt General Obligation and Revenue Municipal Bonds. For pricing, the pricing service's evaluators collect and analyze market data to determine how it should be applied to bonds within their assigned sectors. Bonds are adjusted throughout the day based on trades and other pertinent market information. Evaluators apply this information to individual bond evaluations and then extrapolate from the adjusted bond to the same issuer, the same sector and beyond when appropriate. Within a given sector, evaluators have the ability to make daily spread adjustments for various attributes that include, but are not limited to, discounts, premiums, credit, alternative minimum tax (AMT), use of proceeds, and callability.

Corporate Securities. Pricing evaluations are based on obtaining relevant trade data, benchmark quotes and spreads and incorporating this information into the evaluation process. Evaluations are generated on a price, yield or spread basis as determined by the observed market data. Spreads and yields are calculated continuously throughout the day, as well as "end of day".

Equities. For a regular price on listed securities (NYSE, NASDAQ, AMEX), ICE Data Services uses the last trade on any exchange where the security trades during regular trading hours. If the issue does not trade, the last bid from any exchange is used. If there is no trade or bid, the last trade or bid from the previous day is used, or the last day where there was a bid or trade, going back up to 90 days, is used. If there were no bids or trades in the last 90 days, an error message is returned by ICE Data Services.

Level 3 Valuation Techniques and Inputs

Servicing Rights. The Company determines the fair value of its servicing rights by estimating the amount and timing of future cash flows associated with the servicing rights and discounting the cash flows using market discount rates. The valuation includes the application of certain assumptions made by management of the Company, including prepayment projections, and prevailing assumptions used in the marketplace at the time of the valuation.

The table below presents all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2017 and 2016.

Level 3 Investments Only	**For the Year Ended**	
(Dollars in thousands)	**December 31, 2017**	**December 31, 2016**
	Mortgage Servicing Rights	***Mortgage Servicing Rights***
Balance, January 1,	$1,523	$1,349
Additions	156	210
Payments	(184)	(199)
Increase (decrease) in fair value due to changes in valuation inputs or assumptions	61	163
Balance, December 31,	$1,556	$1,523

Level 3 Investments Only	For the Year Ended	
(Dollars in thousands)	December 31, 2017	December 31, 2016
	SBA Servicing Rights	*SBA Servicing Rights*
Balance, January 1,	$646	$-
Additions	378	835
Payments	(20)	(74)
Decrease in fair value due to changes in valuation inputs or assumptions	(219)	(115)
Balance, December 31,	$785	$646

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value and had a fair value below cost at the end of the period as summarized below. A loan is impaired when, based on current information, the Company determines that it is probable that the Company will be unable to collect amounts due according to the terms of the loan agreement. The Company's impaired loans are measured based on the estimated fair value of the collateral if the loans are collateral dependent or based on a discounted cash flow analysis if the loans are not collateral dependent. Assets measured at fair value on a nonrecurring basis are as follows:

(Dollars in thousands)	Balance Transferred YTD 12/31/17	Level 1	Level 2	Level 3	Gain/(Losses)
Impaired loans	$14,876	$-	$-	$14,876	($30)
Other real estate owned	189	-	-	189	-

(Dollars in thousands)	Balance Transferred YTD 12/31/16	Level 1	Level 2	Level 3	Gain/(Losses)
Impaired loans	$4,296	$-	$-	$4,296	($55)
Other real estate owned	363	-	-	363	-

In accordance with FASB ASC Topic 825 for Financial Instruments, Disclosures about Fair Value of Financial Instruments, the Company is required to disclose the fair value of financial instruments. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a distressed sale. Fair value is best determined using observable market prices; however for many of the Company's financial instruments no quoted market prices are readily available. In instances where quoted market prices are not readily available, fair value is determined using present value or other techniques appropriate for the particular instrument. These techniques involve some degree of judgment, and as a result, are not necessarily indicative of the amounts the Company would realize in a current market exchange. Different assumptions or estimation techniques may have a material effect on the estimated fair value.
The following table sets forth the carrying and estimated fair value of the Company's financial assets and liabilities for the periods indicated:

	Fair Value of Financial Instruments				
		At December 31, 2017		At December 31, 2016	
(Dollars in thousands)	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	$557,615	$557,615	$287,046	$287,046
Securities available for sale	See previous table	310,308	310,308	451,544	451,544
Securities held to maturity	Level 2	537,302	533,425	602,529	597,785
FHLB stock	Level 3	23,210	23,210	21,231	21,231
Loans and leases, net	Level 3	3,990,618	3,992,226	3,965,332	3,969,172
Loans held for sale	Level 2	245	249	1,975	2,009
Mortgage servicing rights	Level 3	1,556	1,556	1,523	1,523
SBA servicing rights	Level 3	785	785	646	646
Interest rate swaps	Level 2	2,713	2,713	1,899	1,899
Accrued interest receivable	Level 3	17,512	17,512	16,635	16,635
Liabilities:					
Checking, Money Market & Savings	Level 2	3,293,793	3,293,793	3,283,674	3,283,674
Certificates of Deposit	Level 2	856,700	849,556	874,514	871,275
Borrowed funds	Level 2	540,439	536,011	490,423	476,953
Interest rate swaps and other contracts	Level 2	1,778	1,778	1,852	1,852
Accrued interest payable	Level 2	3,039	3,039	2,763	2,763

Cash and Cash Equivalents - For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Securities Available for Sale and Held to Maturity - The fair value of investment securities, mortgage-backed securities and collateralized mortgage obligations is based on quoted market prices, dealer quotes, yield curve analysis, and prices obtained from independent pricing services.

FHLB Stock - The fair value of FHLB stock is estimated at its carrying value and redemption price of $100 per share.

Loans and Leases, Net - The fair value of loans and leases is estimated by discounting the future cash flows using the current rate at which similar loans and leases would be made to borrowers with similar credit and for the same remaining maturities. Additionally, to be consistent with the requirements under FASB ASC Topic 820 for Fair Value Measurements and Disclosures, the loans and leases were valued at a price that represents the Company's exit price or the price at which these instruments would be sold or transferred.

Loans Held for Sale - The fair value of loans held for sale is estimated using the current rate at which similar loans would be made to borrowers with similar credit risk and the same remaining maturities. Loans held for sale are carried at the lower of cost or estimated fair value.

Servicing Rights - The Company determines the fair value of its servicing rights by estimating the amount and timing of future cash flows associated with the servicing rights and discounting the cash flows using market discount rates. The valuation included the application of certain assumptions made by management of the Bank, including prepayment projections, and prevailing assumptions used in the marketplace at the time of the valuation.

Interest Rate Swaps and Other Contracts - The Company's valuation methodology for OTC derivatives includes an analysis of discount cash flows based on OIS rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially-collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (i.e., a LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk.

Accrued Interest Receivable/Payable - The carrying amounts of interest receivable/payable approximate fair value.

Deposits - The fair value of checking and money market deposits and savings accounts is the amount reported in the consolidated financial statements. The carrying amount of checking, savings and money market accounts is the amount that is payable on demand at the reporting date. The fair value of time deposits is generally based on a present value estimate using rates currently offered for deposits of similar remaining maturity.

Borrowed Funds - The fair value of borrowed funds is based on a present value estimate using rates currently offered.

Commitments to Extend Credit and Letters of Credit - The majority of the Company's commitments to extend credit and letters of credit carry current market interest rates if converted to loans and are not included in the table above. Because commitments to extend credit and letters of credit are generally unassignable by either the Company or the borrower, they only have value to the Company and the borrower. The estimated fair value approximates the recorded net deferred fee amounts, which are not significant.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2017 and December 31, 2016. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since December 31, 2017 and December 31, 2016 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

23. MERGER AND RESTRUCTURING CHARGES

In connection with the closing of the acquisition of Conestoga Bank during the second quarter of 2016, the Company announced the implementation of an expense management reduction program following a comprehensive review of the Company's and Bank's operating cost structure. Under the expense management reduction program, the Bank reduced salary and benefits expense. Employees whose positions were eliminated as a result of the reduction in force received severance packages, which included outplacement services. These charges are included in merger and restructuring charges, a component of non-interest expense, within the unaudited condensed consolidated statements of operations. During the year ended December 31, 2017, the Company did not accrue any additional merger and restructuring charges related to the acquisition of Conestoga Bank and the Bank's cost reduction plan. A schedule of the current merger and restructuring accrual is summarized below as of December 31, 2017:

(Dollars in thousands)	Severance	Contract termination, merger and other costs	Total
Accrued at December 31, 2016	$545	$1,458	$2,003
Accrued during the year	-	-	-
Paid during the year	(394)	(1,247)	(1,641)
Accrued at December 31, 2017	$151	$211	$362

24. RELATED PARTY TRANSACTIONS

At December 31, 2017 and 2016, certain directors, executive officers, principal holders of the Company's common stock, associates of such persons, and affiliated companies of such persons were indebted, including undrawn commitments to lend, to the Bank in the aggregate amount of $255 thousand and $263 thousand, respectively. Please refer to Note 8 for further information.

There were no commitments to lend to related parties at December 31, 2017 and 2016. The commitments are in the form of loans and guarantees for various business and personal interests. This indebtedness was incurred in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time of comparable transactions with unrelated parties. This indebtedness does not involve more than the normal risk of repayment or present other unfavorable features.

None of the Company's affiliates, officers, directors or employees have an interest in or receive remuneration from any special purpose entities or qualified special purpose entities which the Company transacts business.

The Company maintains a written policy and procedures covering related party transactions. These procedures cover transactions such as employee-stock purchase loans, personal lines of credit, residential secured loans, overdrafts, letter of credit and increases in indebtedness. Such transactions are subject to the Bank's normal underwriting and approval procedures. Prior to the loan closing, the Bank's Senior Loan Committee must approve and determine whether the transaction requires approval from or a post notification be sent to the Company's Board of Directors.

25. SERVICING RIGHTS

The Company sells certain residential mortgage loans and the guaranteed portion of certain Small Business Administration ("SBA") loans to third parties and retains servicing rights and receives servicing fees. All such transfers are accounted for as sales. When the Company sells a residential mortgage loan, it does not retain any portion of that loan and its continuing involvement in such transfers is limited to certain servicing responsibilities. While the Company may retain a portion of certain sold SBA loans, its continuing involvement in the portion of the loan that was sold is limited to certain servicing responsibilities. When the contractual servicing fees on loans sold with servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized. The Company accounts for the transfers and servicing of financial assets in accordance with ASC 860, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.

Residential Mortgage Loans

The Company has elected the fair value measurement method to value its mortgage servicing rights ("MSRs"). Under the fair value measurement method, the Company records its MSRs on its consolidated statements of financial condition as a component of other assets at fair value with changes recorded as a component of mortgage banking income in the Company's consolidated statements of income for each period. As of December 31, 2017 and December 31, 2016, the Company serviced $132.5 million and $139.2 million of residential mortgage loans, respectively. Servicing loans for others consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing foreclosures. During the years ended December 31, 2017, 2016 and 2015, the Company recognized $338 thousand, $350 thousand, and $371 thousand of servicing fee income, respectively. The Company had fiduciary responsibility for related escrow and custodial funds aggregating approximately $2.0 million at both December 31, 2017 and 2016.

The following is an analysis of the activity in the Company's residential MSRs for the years ended December 31, 2017, 2016 and 2015:

	Residential Mortgage Servicing Rights For the Year Ended December 31,		
(Dollars in thousands)	2017	2016	2015
Balance, January 1,	$ 1,523	$ 1,349	$ 1,403
Additions	156	210	139
Increases (decreases) in fair value due to:			
Changes in valuation input or assumptions	61	163	(9)
Paydowns	(184)	(199)	(184)
Balance, December 31,	$ 1,556	$ 1,523	$ 1,349

The Company uses assumptions and estimates in determining the fair value of MSRs. These assumptions include prepayment speeds, discount rates, escrow earnings rates and other assumptions. The assumptions used in the valuation were based on input from buyers, brokers and other qualified personnel, as well as market knowledge. At December 31, 2017, the key assumptions used to determine the fair value of the Company's MSRs included a lifetime constant prepayment rate equal to 7.92%, a discount rate equal to 9.63% and an escrow earnings credit rate equal to 2.13%. At December 31, 2016, the key assumptions used to determine the fair value of the Company's MSRs included a lifetime constant prepayment rate equal to 8.39%, a discount rate equal to 9.63% and an escrow earnings credit rate equal to 1.60%.

The sensitivity of the current fair value of the residential MSRs to immediate 10% and 20% favorable and unfavorable changes in key economic assumptions are included in the following table for the periods indicated:

(Dollars in thousands)	Residential Mortgage Servicing Rights December 31, 2017	Residential Mortgage Servicing Rights December 31, 2016
Fair value of residential mortgage servicing rights	$ 1,556	$ 1,523
Weighted average life (years)	8.1 years	7.8 years
Prepayment speed	7.92%	8.39%
Effect on fair value of a 20% increase	$ (113)	$ (113)
Effect on fair value of a 10% increase	(59)	(59)
Effect on fair value of a 10% decrease	64	64
Effect on fair value of a 20% decrease	133	134
Discount rate	9.63%	9.63%
Effect on fair value of a 20% increase	$ (136)	$ (130)
Effect on fair value of a 10% increase	(72)	(68)
Effect on fair value of a 10% decrease	78	74
Effect on fair value of a 20% decrease	164	155
Escrow earnings credit	2.13%	1.60%
Effect on fair value of a 20% increase	$ 51	$ 38
Effect on fair value of a 10% increase	26	19
Effect on fair value of a 10% decrease	(26)	(19)
Effect on fair value of a 20% decrease	(52)	(38)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the fair value of the mortgage servicing rights is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

SBA Loans

The Company has elected the fair value measurement method to value its SBA loan servicing rights. Under the fair value measurement method, the Company records its SBA loan servicing asset on its consolidated statements of financial condition as a component of other assets at fair value with changes recorded as a component of other non-interest income in the Company's consolidated statements of income for each period. As of December 31, 2017 and December 31, 2016 the Company serviced $50.9 million and $42.4 million of SBA loans, respectively. During the years ended December 31, 2017 and 2016, the Company recognized $477 thousand and $287 thousand of servicing fee income, respectively. At December 31, 2017 and December 31, 2016, SBA loan servicing rights totaled $785 thousand and $646 thousand, respectively, and were included in "other assets" in the Company's consolidated statements of financial condition.

The following is an analysis of the activity in the Company's SBA loan servicing rights for the years ended December 31, 2017 and 2016:

	SBA Servicing Rights For the Year ended December 31,	
Dollars in thousands	2017	2016
Balance, January 1,	$646	$-
Additions	378	835
Decreases in fair value due to:		
Changes in valuation input or assumptions	(219)	(115)
Paydowns	(20)	(74)
Balance, December 31,	$785	$646

The Company uses assumptions and estimates in determining the fair value of SBA servicing rights. These assumptions include prepayment speeds, discount rates, escrow earnings rates and other assumptions. The assumptions used in the valuation were based on input from buyers, brokers and other qualified personnel, as well as market knowledge. At December 31, 2017, the key assumptions used to determine the fair value of the Company's SBA servicing rights included a lifetime constant prepayment rate equal to 8.85%, a discount rate equal to 13.13% and servicing expenses per loan of $1 thousand. At December 31, 2016, the key assumptions used to determine the fair value of the Company's SBA servicing rights included a lifetime constant prepayment rate equal to 8.97%, a discount rate equal to 13.13% and servicing expenses per loan of $1 thousand.

At December 31, 2017 and 2016, the sensitivity of the current fair value of the SBA servicing rights to immediate 10% and 20% favorable and unfavorable changes in key economic assumptions are included in the following table.

(Dollars in thousands)	SBA Servicing Rights December 31, 2017	SBA Servicing Rights December 31, 2016
Fair value of SBA servicing rights	$ 785	$ 646
Weighted average life (years)	5.3 years	5.2 years
Prepayment speed	8.85%	8.97%
Effect on fair value of a 20% increase	$ (43)	$ (37)
Effect on fair value of a 10% increase	(22)	(19)
Effect on fair value of a 10% decrease	23	20
Effect on fair value of a 20% decrease	48	41
Discount rate	13.13%	13.13%
Effect on fair value of a 20% increase	$ (60)	$ (50)
Effect on fair value of a 10% increase	(31)	(26)
Effect on fair value of a 10% decrease	34	28
Effect on fair value of a 20% decrease	71	59

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the fair value of the SBA servicing rights is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

26. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is a party to derivative financial instruments in the normal course of business to meet the needs of commercial banking customers. These financial instruments have been limited to interest rate swap agreements, which are entered into with counterparties that meet established credit standards and, where appropriate, contain master netting and collateral provisions protecting the party at risk. The Company believes that the credit risk inherent in all of the derivative contracts is minimal based on the credit standards and the netting and collateral provisions of the interest rate swap agreements.

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. These derivatives are not designated as hedges and are not speculative. Rather, these derivatives result from a service the Company provides to certain customers, which the Company implemented during the first quarter of 2012. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2017, the Company had 26 interest rate swaps with an aggregate notional amount of $137.6 million related to this program. During the year ended December 31, 2017, the Company recognized a net loss of $39 thousand compared to a net gain of $798 thousand for the year ended December 31, 2016 and a net loss of $4 thousand for the year ended December 31, 2015 related to interest rate swap agreements that are included as a component of services charges and other non-interest income in the Company's consolidated statements of income.

Under certain circumstances, when the Company purchases a portion of a commercial loan that has an existing interest rate swap, it enters a Risk Participation Agreement with the counterparty and assumes the credit risk of the loan customer related to the swap. The Company has entered into risk participation agreements with a notional value of $8.0 million and a fair value of $4 thousand as of December 31, 2017. During the year ended December 31, 2017, the Company recognized a net gain of $5 thousand compared to a net gain of $51 thousand for the year ended December 31, 2016 related to the risk participation agreements that are included as a component

of services charges and other non-interest income in the Company's consolidated statements of income.

The table below presents the fair value of the Company's derivative financial instruments not designated as hedging instruments as well as their classification on the consolidated statements of condition as of December 31, 2017 and December 31, 2016:

As of December 31, 2017	Asset derivatives		Liability derivatives	
(dollars in thousands)	Notional amount	Fair value (1)	Notional amount	Fair value (2)
Interest rate swap agreements	$68,785	$1,791	$68,785	$1,774
Risk participation agreements	-	-	8,033	4
Total derivatives	$68,785	$1,791	$76,818	$1,778

(1) Included in other assets in our Consolidated Statements of Financial Condition.
(2) Included in other liabilities in our Consolidated Statements of Financial Condition.

As of December 31, 2016	Asset derivatives		Liability derivatives	
(dollars in thousands)	Notional amount	Fair value (1)	Notional amount	Fair value (2)
Interest rate swap agreements	$71,844	$1,899	$71,844	$1,843
Risk participation agreements	-	-	10,062	9
Total derivatives	$71,844	$1,899	$81,906	$1,852

(1) Included in other assets in our Consolidated Statements of Financial Condition.
(2) Included in other liabilities in our Consolidated Statements of Financial Condition.

The following displays offsetting interest rate swap assets and liabilities for the dates presented:

Offsetting of Derivative Assets
As of December 31, 2017

	Gross Amounts of Recognized Assets (1)	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Collateral Received	Net Amount
Interest rate swaps and risk participation agreements	$ 1,828	$ -	$ 1,828	$ -	$ 1,346	$ 482

Offsetting of Derivative Liabilities
As of December 31, 2017

	Gross Amounts of Recognized Liabilities (1)	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Collateral Posted	Net Amount
Interest rate swaps and risk participation agreements	$ 1,815	$ -	$ 1,815	$ -	$ -	$ 1,815

(1) - Balance includes accrued interest receivable/payable and credit valuation adjustments.

Offsetting of Derivative Assets
As of December 31, 2016

	Gross Amounts of Recognized Assets (1)	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Collateral Received	Net Amount
Interest rate swaps and risk participation agreements	$ 1,952	$ -	$ 1,952	$ -	$ 968	$ 984

Offsetting of Derivative Liabilities
As of December 31, 2016

	Gross Amounts of Recognized Liabilities (1)	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Condition: Collateral Posted	Net Amount
Interest rate swaps and risk participation agreements	$ 1,905	$ -	$ 1,905	$ -	$ 500	$ 1,405

(1) - Balance includes accrued interest receivable/payable and credit valuation adjustments.

The Company has agreements with certain of its derivative counterparties that provide that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain of its derivative counterparties that provide that if the Company fails to maintain its status as a well or adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of December 31, 2017 and December 31, 2016, the termination value of the interest rate swaps in a liability position was $1.8 million and $1.9 million, respectively. The Company has minimum collateral posting thresholds with its counterparty. The Company was not required to post collateral on interest rate swaps as of December 31, 2017. The Company posted $500 thousand of securities as collateral on interest rate swaps at December 31, 2016. Additionally, as of December 31, 2017 and December 31, 2016, the counterparties posted collateral on interest rate swaps in the amount of $1.3 million and $968 thousand, respectively. If the Company had breached any of these provisions at December 31, 2017 it would have been required to settle its obligation under the agreement at the termination value and could have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the counterparty. The Company had not breached any provisions at December 31, 2017.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives designated as cash flow hedges are to add stability to interest expense on borrowings and to manage its exposure to interest rate movements. To accomplish these objectives, the Company has entered into one forward starting interest rate swap with a notional amount of $200.0 million with a commercial bank effective April 1, 2019 and maturing April 1, 2024 as part of its interest rate risk management strategy. This interest rate swap is designated as a cash flow hedge and involves the receipt of variable rate amounts from the counterparty in exchange for the Company making fixed interest payments.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the period ended December 31, 2017.

The table below presents the fair value of the Company's derivative financial instruments designated as hedging instruments as well as their classification on the consolidated statements of condition as of December 31, 2017:

As of December 31, 2017	Asset derivatives	
(dollars in thousands)	Notional amount	Fair value (1)
Interest rate swap agreements	$200,000	$922
Total derivatives	$200,000	$922

(1) Included in other assets in our Consolidated Statements of Financial Condition.

The Company estimated that none of the existing gains that are reported in accumulated other comprehensive income at December 31, 2017 are expected to be reclassified into earnings within the next twelve months.

The table below presents the pre-tax net gains of the Company's cash flow hedge for the period ended December 31, 2017 and where they were recorded in our Consolidated Statements of Financial Condition.

For the year ended December 31, 2017 (dollars in thousands) Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swap agreements	$922	$-
Total derivatives	$922	$-

27. PARENT COMPANY FINANCIAL INFORMATION

Beneficial Bancorp, Inc.
CONDENSED STATEMENTS OF FINANCIAL CONDITION – PARENT COMPANY ONLY

(Dollars in thousands)	December 31, 2017	December 31, 2016
ASSETS		
Cash on deposit at the Bank	$ 3,739	$ 16,666
Interest-bearing deposit at the Bank	85,812	56,222
Investment in the Bank	961,545	962,089
Investment in Statutory Trust	774	774
Investment securities available-for-sale	409	-
Receivable from the Bank	5,228	894
Other assets	2,967	2,722
TOTAL ASSETS	$1,060,474	$1,039,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accrued and other liabilities	$ 701	$ 159
Accrued interest payable	36	29
Statutory Trust Debenture	25,439	25,423
Total liabilities	26,176	25,611
COMMIITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock - $.01 par value; 100,000,000 shares authorized, none issued or outstanding as of December 31, 2017 and 2016	-	-
Common Stock - $.01 par value 500,000,000 shares authorized, 84,503,580 and 83,383,917 issued and 75,829,537 and 75,637,684 outstanding, as of December 31, 2017 and 2016, respectively.	845	834
Additional paid-in capital	799,658	772,925
Unearned common stock held by employee savings and stock ownership plan	(27,078)	(29,546)
Retained earnings (partially restricted)	405,497	399,620
Accumulated other comprehensive loss	(26,127)	(25,833)
Treasury Stock at cost, 8,674,043 shares and 7,746,233 shares at December 31, 2017 and 2016, respectively	(118,497)	(104,244)
Total stockholders' equity	1,034,298	1,013,756
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,060,474	$1,039,367

Beneficial Bancorp, Inc.
CONDENSED STATEMENTS OF OPERATIONS – PARENT COMPANY ONLY

	December 31,		
(Dollars in thousands)	**2017**	**2016**	**2015**
INCOME			
Interest on interest-bearing deposits with the bank	$ 324	$ 541	$ 1,124
Realized gain on securities available-for-sale securities	-	1,825	-
Other income	24	18	30
Total income	348	2,384	1,154
EXPENSES			
Expenses paid to the Bank	162	157	163
Interest expense	1,076	610	508
Other expenses	524	483	468
Total expenses	1,762	1,250	1,139
(Loss) Income before income tax (benefit) expense and equity in undistributed net income of affiliates	(1,414)	1,134	15
Income tax (benefit) expense	(495)	397	5
Equity in undistributed net income of the Bank	24,851	24,732	22,883
Net income	$23,932	$25,469	$22,893

Beneficial Bancorp, Inc.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME – PARENT COMPANY ONLY

(Dollars in thousands)

For the Years Ended December 31, 2017, 2016 and 2015

	For the Year Ended December 31,		
	2017	2016	2015
Net Income	$23,932	$25,469	$22,893
Other comprehensive income, net of tax:			
Securities available for sale and transferred securities:			
Unrealized holding losses on available for sale securities arising during the period (net of deferred tax of $336, $1,048, and $1,564 for the years ended December 31, 2017, 2016, and 2015, respectively)	(585)	(1,804)	(2,705)
Accretion of unrealized losses on available-for-sale securities transferred to held-to-maturity (net of deferred tax of $291, $303, and $303 for the years ended December 31, 2017, 2016, and 2015, respectively)	501	506	524
Reclassification adjustment for net losses on available for sale securities included in net income (net of tax of $2, $5, and $7 for the years ended December 31, 2017, 2016, and 2015, respectively)	5	9	12
Cash flow hedge:			
Unrealized gain on cash flow hedge arising during the period (net of deferred tax of $335 for the year ended December 31, 2017)	587	-	-
Defined benefit pension plans:			
Pension (losses) gains, other postretirement and postemployment benefit plan adjustments (net of tax of $436, $201, and $936 for the years ended December 31, 2017, 2016, and 2015, respectively)	(802)	(1,170)	1,458
Total other comprehensive loss	(294)	(2,459)	(711)
Comprehensive income	$23,638	$23,010	$22,182

See accompanying notes to the consolidated financial statements.

Beneficial Bancorp, Inc.
CONDENSED STATEMENTS OF CASH FLOW – PARENT COMPANY ONLY

(Dollars in thousands)	2017	2016	2015
OPERATING ACTIVITIES:			
Net income	$23,932	$25,469	$22,893
Adjustments to reconcile net income/(loss) to			
net cash provided by operating activities:			
Equity in undistributed net earnings of subsidiaries	(24,851)	(24,732)	(22,883)
Investment securities gains	-	(1,825)	
Accrued interest payable	7	5	3
Dividend from the Bank	25,000	50,000	-
Net intercompany transactions	14,573	12,420	18,281
Amortization of debt premium on debenture	16	18	17
Changes in assets and liabilities that provided (used) cash:			
Other liabilities	542	(26)	47
Other assets	(552)	445	2,785
Net cash provided by operating activities	38,667	61,774	21,143
INVESTING ACTIVITIES:			
Sales of investment in available-for-sale securities	-	2,584	-
Cash paid in business combination	-	(105,000)	-
Net cash used in investing activities	-	(102,416)	-
FINANCING ACTIVITIES:			
Net second-step proceeds transferred to the Bank	-	-	(247,193)
Purchase of treasury stock	(10,350)	(132,652)	-
Cash dividend paid to stockholders	(17,555)	(8,800)	-
Proceeds from exercise of stock options	13,198	4,683	2,442
Cash paid to tax authorities related to stock based compensation awards	(7,297)	(1,051)	(485)
Excess tax benefit related to stock based compensation awards	-	361	127
Net cash used in financing activities	(22,004)	(137,459)	(245,109)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,663	(178,101)	(223,966)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	72,888	250,989	474,955
CASH AND CASH EQUIVALENTS, END OF YEAR	$89,551	$72,888	$250,989
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NON-CASH INFORMATION:			
Cash payments for interest	$732	$597	$494
Cash payments of income taxes	-	-	27

28. SUBSEQUENT EVENTS

On January 25, 2018, the Company declared its seventh consecutive quarterly cash dividend of $0.06 per share. Additionally the Company declared a special dividend of $0.25 per share given our high capital levels and expected benefit to future earnings as a result of H.R. 1. Both dividends were payable on or after February 15, 2018, to common shareholders of record at the close of business on February 5, 2018.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

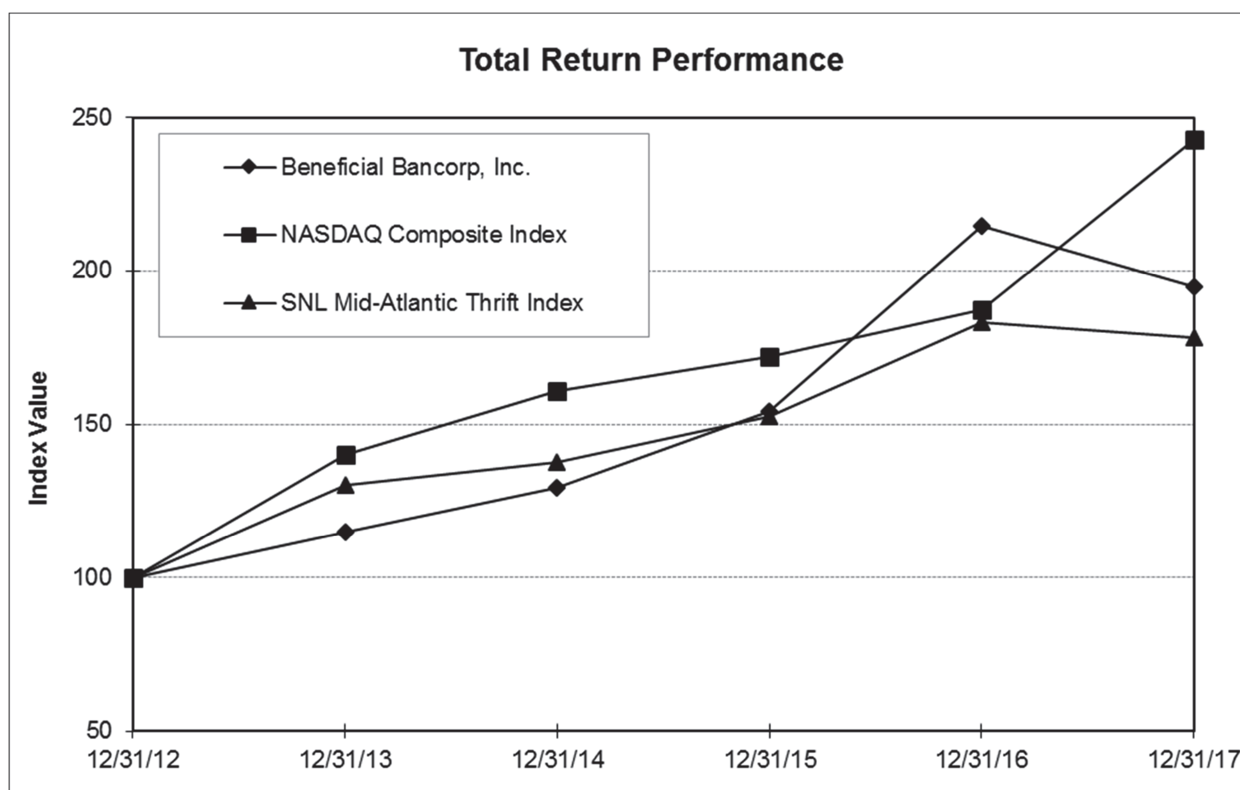
The Company's common stock is listed on the Nasdaq Global Select Market ("Nasdaq") under the trading symbol "BNCL." As of February 28, 2018, the Company had approximately 2,840 holders of record of common stock.

The following table sets forth high and low sales prices for Beneficial Bancorp's common stock for the periods indicated. Beneficial Bancorp paid dividends of 24 cents per share for the year ended December 31, 2017. Beneficial Bancorp paid dividends of 6 cents per share in the third and fourth quarters of 2016 but did not pay dividends for the first and second quarters of 2016.

2017:	**High**	**Low**
First Quarter	$18.28	$15.73
Second Quarter	$16.67	$14.24
Third Quarter	$16.69	$14.50
Fourth Quarter	$17.40	$15.40
2016:	**High**	**Low**
First Quarter	$13.66	$12.33
Second Quarter	$13.88	$12.48
Third Quarter	$15.04	$12.33
Fourth Quarter	$19.00	$14.35

Stock Performance Graph

The following graph provided by SNL Financial compares the cumulative total return of the Company's common stock with the cumulative total return of the SNL Mid-Atlantic Thrift Index and the Index for the Nasdaq Stock Market (U.S. Companies, all Standard Industrial Classification, ("SIC")). The graph assumes $100 was invested on December 31, 2012, the first day of trading of the Company's common stock. Cumulative total return assumes reinvestment of all dividends. The performance graph is being furnished solely to accompany this report pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.



	Period Ending					
Index	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
Beneficial Bancorp, Inc.	100.00	114.95	129.16	154.22	214.85	194.92
NASDAQ Composite Index	100.00	140.12	160.78	171.97	187.22	242.71
SNL Mid-Atlantic Thrift Index	100.00	130.06	137.76	152.29	182.99	178.27