UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
May 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2017.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .
Commission File Number: 0-7617

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

Pennsylvania	23-1886144
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, $5 par value	26,661,431
(Title of Class)	(Number of shares outstanding at April 28, 2017)

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PART I. FINANCIAL INFORMATION

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

(Dollars in thousands, except share data)	(UNAUDITED) At March 31, 2017	At December 31, 2016
ASSETS		
Cash and due from banks	$44,745	$48,757
Interest-earning deposits with other banks	13,055	9,068
Investment securities held-to-maturity (fair value $33,022 and $24,871 at March 31, 2017 and December 31, 2016, respectively)	33,027	24,881
Investment securities available-for-sale	431,612	443,637
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	25,322	24,869
Loans held for sale	1,110	5,890
Loans and leases held for investment	3,341,916	3,285,886
Less: Reserve for loan and lease losses	(19,528)	(17,499)
Net loans and leases held for investment	3,322,388	3,268,387
Premises and equipment, net	64,811	63,638
Goodwill	172,559	172,559
Other intangibles, net of accumulated amortization and fair value adjustments of $18,668 and $17,597 at March 31, 2017 and December 31, 2016, respectively	15,923	16,651
Bank owned life insurance	100,520	99,948
Accrued interest receivable and other assets	48,859	52,243
Total assets	$4,273,931	$4,230,528
LIABILITIES		
Noninterest-bearing deposits	$947,495	$918,337
Interest-bearing deposits:		
Demand deposits	1,034,363	909,963
Savings deposits	830,917	803,078
Time deposits	553,176	626,189
Total deposits	3,365,951	3,257,567
Short-term borrowings	79,366	196,171
Long-term debt	182,066	127,522
Subordinated notes	94,148	94,087
Accrued interest payable and other liabilities	40,520	49,972
Total liabilities	3,762,051	3,725,319
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at March 31, 2017 and December 31, 2016; 28,911,799 shares issued at March 31, 2017 and December 31, 2016; 26,645,520 and 26,589,353 shares outstanding at March 31, 2017 and December 31, 2016, respectively	144,559	144,559
Additional paid-in capital	230,391	230,494
Retained earnings	200,050	194,516
Accumulated other comprehensive loss, net of tax benefit	(18,992)	(19,454)
Treasury stock, at cost; 2,266,279 and 2,322,446 shares at March 31, 2017 and December 31, 2016, respectively	(44,128)	(44,906)

Total shareholders’ equity	511,880	505,209
Total liabilities and shareholders’ equity	$4,273,931	$4,230,528

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2017	2016
Interest income		
Interest and fees on loans and leases:		
Taxable	$33,700	$21,850
Exempt from federal income taxes	2,035	1,716
Total interest and fees on loans and leases	35,735	23,566
Interest and dividends on investment securities:		
Taxable	1,688	1,274
Exempt from federal income taxes	599	734
Interest on deposits with other banks	17	28
Interest and dividends on other earning assets	357	132
Total interest income	38,396	25,734
Interest expense		
Interest on deposits	2,191	1,533
Interest on short-term borrowings	262	3
Interest on long-term debt and subordinated notes	1,660	675
Total interest expense	4,113	2,211
Net interest income	34,283	23,523
Provision for loan and lease losses	2,445	326
Net interest income after provision for loan and lease losses	31,838	23,197
Noninterest income		
Trust fee income	1,907	1,865
Service charges on deposit accounts	1,243	998
Investment advisory commission and fee income	3,181	2,671
Insurance commission and fee income	4,410	4,558
Other service fee income	1,987	1,831
Bank owned life insurance income	783	470
Net gain on sales of investment securities	15	44
Net gain on mortgage banking activities	1,113	1,218
Other income	331	176
Total noninterest income	14,970	13,831
Noninterest expense		
Salaries and benefits	16,657	14,182
Commissions	2,050	1,895
Net occupancy	2,665	2,100
Equipment	993	776
Data processing	2,058	1,281
Professional fees	1,239	1,020
Marketing and advertising	379	538
Deposit insurance premiums	402	447
Intangible expenses	759	766
Acquisition-related costs	—	214
Integration costs	—	6

Other expense	4,828	3,714
Total noninterest expense	32,030	26,939
Income before income taxes	14,778	10,089
Income taxes	3,922	2,800
Net income	$10,856	$7,289
Net income per share:		
Basic	$0.41	$0.37
Diluted	0.41	0.37
Dividends declared	0.20	0.20

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

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

	Three Months Ended March 31,					
	2017			2016		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	$14,778	$3,922	$10,856	$10,089	$2,800	$7,289
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	420	147	273	2,218	776	1,442
Less: reclassification adjustment for net gains on sales realized in net income (1)	(15)	(5)	(10)	(44)	(15)	(29)
Total net unrealized gains on available-for-sale investment securities	405	142	263	2,174	761	1,413
Net unrealized gains (losses) on interest rate swaps used in cash flow hedges:						
Net unrealized holding gains (losses) arising during the period	7	2	5	(626)	(219)	(407)
Less: reclassification adjustment for net losses realized in net income (2)	71	25	46	81	28	53
Total net unrealized gains (losses) on interest rate swaps used in cash flow hedges	78	27	51	(545)	(191)	(354)
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	299	105	194	329	115	214
Accretion of prior service cost included in net periodic pension costs (3)	(70)	(24)	(46)	(71)	(25)	(46)
Total defined benefit pension plans	229	81	148	258	90	168
Other comprehensive income	712	250	462	1,887	660	1,227
Total comprehensive income	$15,490	$4,172	$11,318	$11,976	$3,460	$8,516

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).
(2) Included in interest expense on deposits on the consolidated statements of income (before tax amount).
(3) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 6—Retirement Plans and Other Postretirement Benefits for additional details.

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

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

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Three Months Ended March 31, 2017							
Balance at December 31, 2016	26,589,353	$144,559	$230,494	$194,516	$ (19,454)	$(44,906)	$505,209
Net income	—	—	—	10,856	—	—	10,856
Other comprehensive income, net of income tax	—	—	—	—	462	—	462
Cash dividends declared ($0.20 per share)	—	—	—	(5,322)	—	—	(5,322)
Stock issued under dividend reinvestment and employee stock purchase plans	20,944	—	16	—	—	601	617
Exercise of stock options	47,704	—	(62)	—	—	923	861
Repurchase of cancelled restricted stock awards	(13,125)	—	246	—	—	(246)	—
Stock-based compensation	—	—	831	—	—	—	831
Purchases of treasury stock	(57,804)	—	—	—	—	(1,634)	(1,634)
Restricted stock awards granted	58,448	—	(1,134)	—	—	1,134	—
Balance at March 31, 2017	26,645,520	$144,559	$230,391	$200,050	$ (18,992)	$(44,128)	$511,880

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Three Months Ended March 31, 2016							
Balance at December 31, 2015	19,530,930	$110,271	$121,280	$193,446	$ (16,708)	$(46,715)	$361,574
Net income	—	—	—	7,289	—	—	7,289
Other comprehensive income, net of income tax	—	—	—	—	1,227	—	1,227
Cash dividends declared ($0.20 per share)	—	—	—	(3,908)	—	—	(3,908)
Stock issued under dividend reinvestment and employee stock purchase plans	30,121	—	8	—	—	609	617
Exercise of stock options	14,167	—	9	—	—	265	274
Repurchase of cancelled restricted stock awards	(14,250)	—	241	—	—	(241)	—
Stock-based compensation	—	—	451	—	—	—	451
Purchases of treasury stock	(26,750)	—	—	—	—	(521)	(521)
Restricted stock awards granted	58,580	—	(1,083)	—	—	1,083	—
Balance at March 31, 2016	19,592,798	$110,271	$120,906	$196,827	$ (15,481)	$(45,520)	$367,003

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

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

	Three Months Ended March 31,	
(Dollars in thousands)	2017	2016
Cash flows from operating activities:		
Net income	$10,856	$7,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,445	326
Depreciation of premises and equipment	1,192	946
Net amortization of investment securities premiums and discounts	515	320
Net gain on sales of investment securities	(15)	(44)
Net gain on mortgage banking activities	(1,113)	(1,218)
Bank owned life insurance income	(783)	(470)
Net accretion of acquisition accounting fair value adjustments	(764)	(100)
Stock-based compensation	831	451
Intangible expenses	759	766
Other adjustments to reconcile net income to cash provided by operating activities	(130)	5
Deferred tax expense	1,087	905
Originations of loans held for sale	(24,828)	(44,414)
Proceeds from the sale of loans held for sale	30,568	46,003
Contributions to pension and other postretirement benefit plans	(69)	(60)
Decrease (increase) in accrued interest receivable and other assets	851	(2,503)
Increase in accrued interest payable and other liabilities	(3,715)	(1,469)
Net cash provided by operating activities	17,687	6,733
Cash flows from investing activities:		
Net capital expenditures	(2,299)	(2,177)
Proceeds from maturities and calls of securities held-to-maturity	10,026	4,000
Proceeds from maturities and calls of securities available-for-sale	18,782	18,693
Proceeds from sales of securities available-for-sale	1,762	53,181
Purchases of investment securities held-to-maturity	(18,209)	—
Purchases of investment securities available-for-sale	(9,009)	(32,573)
Net (increase) decrease in other investments	(453)	118
Net increase in loans and leases	(56,550)	(7,507)
Net (increase) decrease in interest-earning deposits	(3,987)	21,156
Proceeds from sales of other real estate owned	2,039	—
Proceeds from bank owned life insurance	211	—
Net cash (used in) provided by investing activities	(57,687)	54,891
Cash flows from financing activities:		
Net increase (decrease) in deposits	108,543	(59,934)
Net (decrease) increase in short-term borrowings	(116,805)	1,640
Proceeds from issuance of long-term debt	55,000	—
Payment of contingent consideration on acquisitions	(5,284)	(900)
Purchases of treasury stock	(1,634)	(521)
Stock issued under dividend reinvestment and employee stock purchase plans	617	617
Proceeds from exercise of stock options	861	274
Cash dividends paid	(5,310)	(3,896)
Net cash provided by (used in) financing activities	35,988	(62,720)

Net decrease in cash and due from banks	(4,012)	(1,096)
Cash and due from banks at beginning of year	48,757	32,356
Cash and due from banks at end of period	$44,745	$31,260
Supplemental disclosures of cash flow information:		
Cash paid for interest	$4,729	$3,113
Cash paid for income taxes, net of refunds	157	685
Non cash transactions:		
Transfer of loans to other real estate owned	$653	$1,797

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation
The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation or Univest) and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the three-month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 4, 2016.
Use of Estimates
The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.
Recent Accounting Pronouncements
In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this ASU require that an employer that sponsors defined benefit pension plans and other postretirement plans, present 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. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments also allow only the service cost component to be eligible for capitalization, when applicable. This ASU is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods, or January 1, 2018 for the Corporation. This ASU should be applied retrospectively for the presentation requirements and prospectively for the capitalization of the service cost component requirements. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.
In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This ASU eliminates Step 2 of the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the new guidance, 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. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or for the Corporation's goodwill impairment test in 2020. Early adoption is permitted for

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goodwill impairment tests with measurement dates after January 1, 2017. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business – inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output, and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, or January 1, 2018 for the Corporation. The amendments in this ASU should be applied prospectively on or after the effective date. The Corporation does not anticipate the adoption of this ASU will have a material impact on the Corporation's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in this ASU replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. An entity should apply the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). Acquired credit impaired loans for which the guidance in Accounting Standards Codification (ASC) Topic 310-30 has been previously applied should prospectively apply the guidance in this ASU. A prospective transition approach is required for debt securities for which an other-than-temporary impairment has been recognized before the effective date. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities that are SEC filers, or January 1, 2020 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated that the allowance will increase upon adoption of CECL and that the increased allowance level will decrease regulatory capital and ratios.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" to revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP.

The ASU is effective for the first interim period within annual periods beginning after December 15, 2018, or January 1, 2019, with early adoption permitted. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, the adoption of this ASU will impact the balance sheet for the recording of assets and liabilities for operating leases; any initial or continued impact of the recording of assets will have an impact on risk-based capital ratios under current regulatory guidance and possibly equity ratios.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU will require equity investments to be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment’s observable price. The ASU will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment

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to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. A valuation allowance on a deferred tax asset related to available-for-sale securities will need to be included. For financial liabilities that are measured at fair value, the ASU requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The amendments in this ASU are effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017 or January 1, 2018 for the Corporation. At March 31, 2017, the Corporation's equity portfolio had a carrying value of $941 thousand which included an unrealized net gain of $532 thousand. This unrealized net gain, net of income taxes, amounted to $345 thousand and was recorded in accumulated other comprehensive income. Upon implementation using the prospective approach, the balance in accumulated other comprehensive income will be reclassed to retained earnings. The carrying value of the equity securities, upon implementation, will not change; however, any future increases or decreases in fair value will be recorded as an increase or decrease to the carrying value and recognized in non-interest income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." 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 would require an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross Versus Net),” which instructs the participants in the sale to determine whether they control the good or service and are entitled to the gross amount of the transaction or are acting as an agent and should collect only a fee or commission for arranging the sale. In April 2016, the FASB issued ASU No. 2016-10, “Identifying Performance Obligations and Licensing" to provide clarification on these areas. In May 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients” providing some limited improvements and practical expedients. The original effective date of the guidance relating to revenue from contracts with customers was deferred by one year as a result of the issuance of ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which was issued by the FASB in August 2015. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, or January 1, 2018 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated the impact will be only related to timing.

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Note 2. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at March 31, 2017 and December 31, 2016, by contractual maturity within each type:

	At March 31, 2017				At December 31, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
U.S. government corporations and agencies:								
After 1 year to 5 years	$5,000	$ —	$(8)	$4,992	$—	$ —	$—	$—
	5,000	—	(8)	4,992	—	—	—	—
Residential mortgage-backed securities:								
After 5 years to 10 years	4,959	2	—	4,961	—	—	—	—
Over 10 years	13,066	16	(9)	13,073	5,071	—	(3)	5,068
	18,025	18	(9)	18,034	5,071	—	(3)	5,068
Corporate bonds:								
Within 1 year	10,002	—	(6)	9,996	19,810	2	(9)	19,803
	10,002	—	(6)	9,996	19,810	2	(9)	19,803
Total	$33,027	$ 18	$(23)	$33,022	$24,881	$ 2	$(12)	$24,871
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	$15,000	$ 6	$—	$15,006	$15,000	$ 20	$—	$15,020
After 1 year to 5 years	17,220	2	(24)	17,198	17,265	—	(19)	17,246
	32,220	8	(24)	32,204	32,265	20	(19)	32,266
State and political subdivisions:								
Within 1 year	2,105	—	—	2,105	964	—	(1)	963
After 1 year to 5 years	18,122	67	(24)	18,165	18,705	38	(75)	18,668
After 5 years to 10 years	54,737	955	(250)	55,442	55,541	829	(426)	55,944
Over 10 years	8,855	138	(79)	8,914	12,663	226	(114)	12,775
	83,819	1,160	(353)	84,626	87,873	1,093	(616)	88,350
Residential mortgage-backed securities:								
After 1 year to 5 years	5,628	6	(46)	5,588	6,086	—	(66)	6,020
After 5 years to 10 years	31,927	1	(771)	31,157	23,479	—	(622)	22,857
Over 10 years	157,202	95	(3,663)	153,634	174,388	99	(4,794)	169,693
	194,757	102	(4,480)	190,379	203,953	99	(5,482)	198,570
Collateralized mortgage obligations:								
Over 10 years	4,390	—	(89)	4,301	4,659	—	(105)	4,554
	4,390	—	(89)	4,301	4,659	—	(105)	4,554
Corporate bonds:								
Within 1 year	7,032	—	(24)	7,008	250	—	—	250
After 1 year to 5 years	29,773	61	(154)	29,680	35,923	34	(241)	35,716
After 5 years to 10 years	15,187	—	(396)	14,791	15,193	—	(516)	14,677
Over 10 years	60,000	—	(3,612)	56,388	60,000	27	(2,472)	57,555
	111,992	61	(4,186)	107,867	111,366	61	(3,229)	108,198

Money market mutual funds:								
No stated maturity	11,294	—	—	11,294	10,784	—	—	10,784
	11,294	—	—	11,294	10,784	—	—	10,784
Equity securities:								
No stated maturity	409	533	(1)	941	411	504	—	915
	409	533	(1)	941	411	504	—	915
Total	$438,881	$ 1,864	$ (9,133)	$431,612	$451,311	$ 1,777	$ (9,451)	$443,637

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Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties and mortgage-backed securities typically prepay at a rate faster than contractually due. Unrealized losses in investment securities at March 31, 2017 and December 31, 2016 do not represent other-than-temporary impairments in management's judgment.

Securities with a carrying value of $355.3 million and $356.7 million at March 31, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and other contractual obligations. In addition, securities of $1.4 million were pledged to secure credit derivatives and interest rate swaps at March 31, 2017 and December 31, 2016. See Note 10, "Derivative Instruments and Hedging Activities" for additional information.

The following table presents information related to sales of securities available-for-sale during the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
(Dollars in thousands)	2017	2016
Securities available-for-sale:		
Proceeds from sales	$1,762	$53,181
Gross realized gains on sales	15	106
Gross realized losses on sales	—	62
Tax expense related to net realized gains on sales	5	15

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the credit rating of each security. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the three months ended March 31, 2017 and 2016.

At March 31, 2017 and December 31, 2016, there were no investments in any single non-federal issuer representing more than 10% of shareholders’ equity.

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The following table shows the fair value of securities that were in an unrealized loss position at March 31, 2017 and December 31, 2016 by the length of time those securities were in a continuous loss position. For the investment securities in an unrealized loss position, the Corporation has concluded, based on its analysis, that the unrealized losses are primarily caused by the movement of interest rates and current market conditions. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. It is more likely than not that the Corporation will not be required to sell the investment before a recovery of carrying value.

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2017						
Securities Held-to-Maturity						
U.S. government corporations and agencies	$4,992	$ (8)	$—	$ —	$4,992	$ (8)
Residential mortgage-backed securities	5,000	(9)	—	—	5,000	(9)
Corporate bonds	4,995	(6)	—	—	4,995	(6)
Total	$14,987	$ (23)	$—	$ —	$14,987	$ (23)
Securities Available-for-Sale						
U.S. government corporations and agencies	$11,837	$ (24)	$—	$ —	$11,837	$ (24)
State and political subdivisions	22,082	(344)	1,706	(9)	23,788	(353)
Residential mortgage-backed securities	180,647	(4,480)	—	—	180,647	(4,480)
Collateralized mortgage obligations	1,885	(14)	2,416	(75)	4,301	(89)
Corporate bonds	66,728	(2,025)	32,839	(2,161)	99,567	(4,186)
Equity securities	3	(1)	—	—	3	(1)
Total	$283,182	$ (6,888)	$36,961	$ (2,245)	$320,143	$ (9,133)
At December 31, 2016						
Securities Held-to-Maturity						
Residential mortgage-backed securities	$5,068	$ (3)	$—	$ —	$5,068	$ (3)
Corporate bonds	9,779	(9)	—	—	9,779	(9)
Total	$14,847	$ (12)	$—	$ —	$14,847	$ (12)
Securities Available-for-Sale						
U.S. government corporations and agencies	$11,850	$ (19)	$—	$ —	$11,850	$ (19)
State and political subdivisions	40,771	(610)	423	(6)	41,194	(616)
Residential mortgage-backed securities	192,782	(5,482)	—	—	192,782	(5,482)
Collateralized mortgage obligations	2,012	(26)	2,542	(79)	4,554	(105)
Corporate bonds	58,535	(1,333)	33,104	(1,896)	91,639	(3,229)
Total	$305,950	$ (7,470)	$36,069	$ (1,981)	$342,019	$ (9,451)

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Note 3. Loans and Leases

Summary of Major Loan and Lease Categories

	At March 31, 2017		
(Dollars in thousands)	Originated	Acquired	Total
Commercial, financial and agricultural	$750,342	$90,629	$840,971
Real estate-commercial	1,013,978	389,690	1,403,668
Real estate-construction	170,178	11,409	181,587
Real estate-residential secured for business purpose	180,830	111,402	292,232
Real estate-residential secured for personal purpose	220,543	74,889	295,432
Real estate-home equity secured for personal purpose	154,363	12,736	167,099
Loans to individuals	27,915	148	28,063
Lease financings	132,864	—	132,864
Total loans and leases held for investment, net of deferred income	$2,651,013	$690,903	$3,341,916
Unearned lease income, included in the above table	$(15,524)	$—	$(15,524)
Net deferred costs, included in the above table	4,418	—	4,418
Overdraft deposits included in the above table	73	—	73

	At December 31, 2016		
(Dollars in thousands)	Originated	Acquired	Total
Commercial, financial and agricultural	$663,221	$160,045	$823,266
Real estate-commercial	909,581	465,368	1,374,949
Real estate-construction	142,891	31,953	174,844
Real estate-residential secured for business purpose	151,931	142,137	294,068
Real estate-residential secured for personal purpose	210,377	80,431	290,808
Real estate-home equity secured for personal purpose	147,982	14,857	162,839
Loans to individuals	30,110	263	30,373
Lease financings	134,739	—	134,739
Total loans and leases held for investment, net of deferred income	$2,390,832	$895,054	$3,285,886
Unearned lease income, included in the above table	$(15,970)	$—	$(15,970)
Net deferred costs, included in the above table	4,503	—	4,503
Overdraft deposits included in the above table	84	—	84

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

The carrying amount of acquired loans at March 31, 2017 totaled $690.9 million, including $535.7 million of loans from the Fox Chase acquisition and $155.2 million from the Valley Green Bank acquisition. At March 31, 2017, loans acquired with deteriorated credit quality, or acquired credit impaired loans, were $5.8 million from the Fox Chase acquisition and $788 thousand from the Valley Green Bank acquisition. Acquired credit impaired loans are accounted for in accordance with Accounting Standards Codification (ASC) Topic 310-30.

The outstanding principal balance and carrying amount for acquired credit impaired loans at March 31, 2017 and December 31, 2016 were as follows:

(Dollars in thousands)	At March 31, 2017	At December 31, 2016
Outstanding principal balance	$8,007	$ 8,993
Carrying amount	6,616	7,352
Allowance for loan losses	—	—

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

	Three Months Ended March 31,	
(Dollars in thousands)	2017	2016
Beginning of period	$50	$144
Reclassification from nonaccretable discount	107	46
Accretable discount amortized to interest income	(116)	(74)
Disposals	(4)	—
End of period	$37	$116

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Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases 90 days or more past due which are accruing interest at March 31, 2017 and December 31, 2016:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current	Acquired Credit Impaired	Total Loans and Leases Held for Investment	Recorded Investment 90 Days or more Past Due and Accruing Interest
At March 31, 2017								
Commercial, financial and agricultural	$1,466	$—	$1,548	$3,014	$837,397	$560	$840,971	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	4,606	47	1,466	6,119	1,392,288	5,261	1,403,668	—
Construction	—	365	—	365	181,222	—	181,587	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,700	1,227	1,328	4,255	287,395	582	292,232	—
Residential secured for personal purpose	2,125	—	767	2,892	292,327	213	295,432	508
Home equity secured for personal purpose	471	343	459	1,273	165,826	—	167,099	109
Loans to individuals	266	38	142	446	27,617	—	28,063	142
Lease financings	5,948	822	5,721	12,491	120,373	—	132,864	160
Total	$16,582	$2,842	$11,431	$30,855	$3,304,445	$6,616	$3,341,916	$ 919
At December 31, 2016								
Commercial, financial and agricultural	$1,536	$256	$1,335	$3,127	$819,550	$589	$823,266	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	1,482	1,560	2,591	5,633	1,363,606	5,710	1,374,949	—
Construction	202	—	—	202	174,642	—	174,844	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,390	428	1,539	3,357	289,927	784	294,068	—
Residential secured for personal purpose	3,243	905	879	5,027	285,512	269	290,808	481
Home equity secured for personal purpose								