UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2016

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

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2016.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .
Commission File Number: 0-7617

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $5 par value	26,555,176
(Title of Class)	(Number of shares outstanding at July 29, 2016)

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PART I. FINANCIAL INFORMATION

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

(Dollars in thousands, except share data)	(UNAUDITED) At June 30, 2016	At December 31, 2015
ASSETS		
Cash and due from banks	$36,404	$32,356
Interest-earning deposits with other banks	8,286	28,443
Federal funds sold	48,500	—
Investment securities held-to-maturity (fair value $32,946 and $41,061 at June 30, 2016 and December 31, 2015, respectively)	32,885	40,990
Investment securities available-for-sale	254,095	329,770
Loans held for sale	4,657	4,680
Loans and leases held for investment	2,345,037	2,179,013
Less: Reserve for loan and lease losses	(17,153)	(17,628)
Net loans and leases held for investment	2,327,884	2,161,385
Premises and equipment, net	44,437	42,156
Goodwill	112,657	112,657
Other intangibles, net of accumulated amortization and fair value adjustments of $15,234 and $15,360 at June 30, 2016 and December 31, 2015, respectively	11,677	12,620
Bank owned life insurance	72,565	71,560
Funds advanced for merger settlement	98,885	—
Accrued interest receivable and other assets	54,685	42,834
Total assets	$3,107,617	$2,879,451
LIABILITIES		
Noninterest-bearing deposits	$689,916	$541,460
Interest-bearing deposits:		
Demand deposits	674,847	790,800
Savings deposits	652,129	607,694
Time deposits	360,192	454,406
Total deposits	2,377,084	2,394,360
Short-term borrowings	260,216	24,211
Subordinated notes	49,450	49,377
Accrued interest payable and other liabilities	51,707	49,929
Total liabilities	2,738,457	2,517,877
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2016 and December 31, 2015; 22,054,270 shares issued at June 30, 2016 and December 31, 2015; 19,557,958 and 19,530,930 shares outstanding at June 30, 2016 and December 31, 2015, respectively	110,271	110,271
Additional paid-in capital	121,399	121,280
Retained earnings	198,156	193,446
Accumulated other comprehensive loss, net of tax benefit	(14,370)	(16,708)
Treasury stock, at cost; 2,496,312 and 2,523,340 shares at June 30, 2016 and December 31, 2015, respectively	(46,296)	(46,715)

Total shareholders’ equity	369,160	361,574
Total liabilities and shareholders’ equity	$3,107,617	$2,879,451

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2016	2015	2016	2015
Interest income				
Interest and fees on loans and leases:				
Taxable	$22,311	$21,939	$44,161	$43,193
Exempt from federal income taxes	1,774	1,579	3,490	3,163
Total interest and fees on loans and leases	24,085	23,518	47,651	46,356
Interest and dividends on investment securities:				
Taxable	1,188	1,104	2,462	2,138
Exempt from federal income taxes	710	880	1,444	1,739
Interest on federal funds sold	2	—	9	2
Other interest income	9	11	37	16
Total interest income	25,994	25,513	51,603	50,251
Interest expense				
Interest on deposits	1,458	1,445	2,991	2,862
Interest on short-term borrowings	320	13	323	23
Interest on long-term borrowings	673	675	1,348	682
Total interest expense	2,451	2,133	4,662	3,567
Net interest income	23,543	23,380	46,941	46,684
Provision for loan and lease losses	830	1,141	1,156	2,215
Net interest income after provision for loan and lease losses	22,713	22,239	45,785	44,469
Noninterest income				
Trust fee income	1,997	2,154	3,862	3,974
Service charges on deposit accounts	1,056	1,039	2,054	2,102
Investment advisory commission and fee income	2,759	2,740	5,428	5,503
Insurance commission and fee income	3,503	3,434	8,061	7,580
Other service fee income	1,948	1,833	3,781	3,431
Bank owned life insurance income	535	211	1,005	564
Net gain on sales of investment securities	413	181	457	272
Net gain on mortgage banking activities	1,711	1,367	2,929	2,625
Other income	197	392	498	731
Total noninterest income	14,119	13,351	28,075	26,782
Noninterest expense				
Salaries and benefits	14,080	11,957	28,262	25,271
Commissions	2,363	2,155	4,258	3,969
Net occupancy	2,091	2,035	4,187	4,393
Equipment	2,116	1,708	4,004	3,397
Professional fees	947	1,066	1,967	1,873
Marketing and advertising	513	551	1,051	911
Deposit insurance premiums	418	422	865	834
Intangible expenses	996	893	1,766	1,679
Acquisition-related costs	1,158	41	1,372	507
Integration costs	27	110	33	1,484
Restructuring charges	—	1,642	—	1,642

Other expense	4,837	4,252	8,720	8,283
Total noninterest expense	29,546	26,832	56,485	54,243
Income before income taxes	7,286	8,758	17,375	17,008
Income taxes	2,046	2,292	4,846	4,426
Net income	$5,240	$6,466	$12,529	$12,582
Net income per share:				
Basic	$0.27	$0.33	$0.64	$0.64
Diluted	0.27	0.33	0.64	0.64
Dividends declared	0.20	0.20	0.40	0.40

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

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

(Dollars in thousands)	Three Months Ended June 30, 2016 Before Tax Amount	2016 Tax Expense (Benefit)	2016 Net of Tax Amount	2015 Before Tax Amount	2015 Tax Expense (Benefit)	2015 Net of Tax Amount
Income	$7,286	$2,046	$5,240	$8,758	$2,292	$6,466
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	2,084	730	1,354	(3,555)	(1,244)	(2,311)
Less: reclassification adjustment for net gains on sales realized in net income	(413)	(145)	(268)	(181)	(63)	(118)
Total net unrealized gains (losses) on available-for-sale investment securities	1,671	585	1,086	(3,736)	(1,307)	(2,429)
Net change in fair value of interest rate swaps used in cash flow hedges	(220)	(77)	(143)	377	132	245
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	329	115	214	340	119	221
Accretion of prior service cost included in net periodic pension costs	(70)	(24)	(46)	(70)	(25)	(45)
Total defined benefit pension plans	259	91	168	270	94	176
Other comprehensive income (loss)	1,710	599	1,111	(3,089)	(1,081)	(2,008)
Total comprehensive income	$8,996	$2,645	$6,351	$5,669	$1,211	$4,458

(Dollars in thousands)	Six Months Ended June 30, 2016 Before Tax Amount	2016 Tax Expense (Benefit)	2016 Net of Tax Amount	2015 Before Tax Amount	2015 Tax Expense (Benefit)	2015 Net of Tax Amount
Income	$17,375	$4,846	$12,529	$17,008	$4,426	$12,582
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	4,302	1,506	2,796	(1,397)	(489)	(908)
Less: reclassification adjustment for net gains on sales realized in net income	(457)	(160)	(297)	(272)	(95)	(177)
Total net unrealized gains (losses) on available-for-sale investment securities	3,845	1,346	2,499	(1,669)	(584)	(1,085)
Net change in fair value of interest rate swaps used in cash flow hedges	(765)	(268)	(497)	40	14	26
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	658	230	428	681	239	442
Accretion of prior service cost included in net periodic pension costs	(141)	(49)	(92)	(140)	(49)	(91)

Total defined benefit pension plans	517	181	336	541	190	351
Other comprehensive income (loss)	3,597	1,259	2,338	(1,088)	(380)	(708)
Total comprehensive income	$20,972	$6,105	$14,867	$15,920	$4,046	$11,874

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

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

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Six Months Ended June 30, 2016							
Balance at December 31, 2015	19,530,930	$110,271	$121,280	$193,446	$ (16,708)	$(46,715)	$361,574
Net income	—	—	—	12,529	—	—	12,529
Other comprehensive income, net of income tax	—	—	—	—	2,338	—	2,338
Cash dividends declared ($0.40 per share)	—	—	—	(7,819)	—	—	(7,819)
Stock issued under dividend reinvestment and employee stock purchase plans	61,281	—	25	—	—	1,206	1,231
Exercise of stock options	22,667	—	(45)	—	—	422	377
Repurchase of cancelled restricted stock awards	(14,250)	—	241	—	—	(241)	—
Stock-based compensation	—	—	944	—	—	—	944
Net tax benefit on stock-based compensation	—	—	37	—	—	—	37
Purchases of treasury stock	(101,250)	—	—	—	—	(2,051)	(2,051)
Restricted stock awards granted	58,580	—	(1,083)	—	—	1,083	—
Balance at June 30, 2016	19,557,958	$110,271	$121,399	$198,156	$ (14,370)	$(46,296)	$369,160

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

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

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

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Cash flows from operating activities:		
Net income	$12,529	$12,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,156	2,215
Depreciation of premises and equipment	1,903	1,937
Net gain on sales of investment securities	(457)	(272)
Net gain on mortgage banking activities	(2,929)	(2,625)
Bank owned life insurance income	(1,005)	(564)
Net accretion of acquisition accounting fair value adjustments	(303)	(1,316)
Stock-based compensation	944	813
Intangible expenses	1,766	1,679
Other adjustments to reconcile net income to cash provided by operating activities	800	321
Deferred tax expense	1,619	3,537
Originations of loans held for sale	(104,668)	(104,072)
Proceeds from the sale of loans held for sale	106,685	104,782
Contributions to pension and other postretirement benefit plans	(121)	(2,145)
Increase in accrued interest receivable and other assets	(11,532)	(3,075)
Increase in accrued interest payable and other liabilities	1,784	770
Net cash provided by operating activities	8,171	14,567
Cash flows from investing activities:		
Net cash paid due to acquisitions	—	(2,967)
Funds advanced for merger settlement	(98,885)	—
Net capital expenditures	(4,195)	(2,254)
Proceeds from maturities and calls of securities held-to-maturity	8,000	11,000
Proceeds from maturities and calls of securities available-for-sale	54,156	41,169
Proceeds from sales of securities available-for-sale	73,991	37,546
Purchases of investment securities available-for-sale	(48,647)	(85,107)
Net increase in loans and leases	(169,417)	(106,375)
Net decrease (increase) in interest-earning deposits	20,157	8,626
Net (increase) decrease in federal funds sold	(48,500)	17,442
Net cash used in investing activities	(213,340)	(80,920)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(17,162)	16,062
Net increase in short-term borrowings	235,752	19,202
Proceeds from issuance of subordinated notes	—	49,267
Payment of contingent consideration on acquisitions	(1,160)	(880)
Purchases of treasury stock	(2,051)	(11,310)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	1,231	1,250
Proceeds from exercise of stock options, including excess tax benefits	414	289
Cash dividends paid	(7,807)	(7,220)
Net cash provided by financing activities	209,217	66,660
Net increase in cash and due from banks	4,048	307

Cash and due from banks at beginning of year	32,356	31,995
Cash and due from banks at end of period	$36,404	$32,302
Supplemental disclosures of cash flow information:		
Cash paid for interest	$5,033	$3,152
Cash paid for income taxes, net of refunds	4,348	49
Non cash transactions:		
Transfer of loans to other real estate owned	$1,952	$—
Transfer of loans to loans held for sale	—	4,000
Assets acquired through acquisitions	—	425,311
Liabilities assumed through acquisitions	—	389,782
Contingent consideration recorded as goodwill	—	1,525

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation or Univest) and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the six-month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016. 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, 2015, 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, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to require 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 March 2016, the FASB issued an ASU to simplify and improve employee share-based payment accounting. Under the new guidance, all excess tax benefits and tax deficiencies are recognized as an income tax benefit or expense in the income statement. The additional paid-in capital pool is eliminated. Excess tax benefits and deficiencies are recognized in the period they are deducted on the income tax return. Excess tax benefits are recorded along with other income tax cash flows as an operating activity in the statement of cash flows. The recognition of excess tax benefits and deficiencies and changes to diluted earnings per share are to be applied prospectively when this ASU is adopted. For tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable, entities record a cumulative-effect adjustment in retained earnings as of the beginning of the year of adoption. The Corporation does not record deferred tax benefits on incentive stock options when expense is accrued, therefore, the Corporation will not have a cumulative-effect adjustment when this ASU is adopted. Changes to the treatment of forfeitures will not impact the Corporation as the historical assumption for forfeitures was immaterial and not taken into account

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during valuations; the Corporation has recorded forfeitures as they occurred which is consistent with the new guidance. The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, or January 1, 2017 for the Corporation. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. The Corporation does not anticipate that the adoption of this ASU will have a material impact on the financial statements.

In March 2016, the FASB issued an ASU to amend the guidance for hedge accounting to clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this ASU are effective for financial statements of public businesses issued for fiscal years and interim periods within those years beginning after December 15, 2016, or January 1, 2017 for the Corporation. The Corporation does not anticipate the adoption of this ASU will have any impact on the financial statements.

In February 2016, the FASB issued an ASU 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 an ASU to address 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 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. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements.

In September 2015, the FASB issued an ASU simplifying the accounting for measurement-period adjustments related to business combinations. The ASU eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Under this ASU, measurement-period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. The ASU requires additional disclosures about the impact on current period income statement line items of adjustments that would have been recognized in prior periods if prior period information had been revised. The amendments in this ASU were effective for financial statements of public businesses issued for fiscal years and interim periods within those years beginning after December 15, 2015, or January 1, 2016 for the Corporation. The adoption of this guidance did not impact the Corporation's financial statements.

In April 2015, the FASB issued an ASU simplifying the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability shall be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. The ASU was effective for financial statements of public businesses issued for fiscal years beginning after December 15, 2015, or January 1, 2016 for the Corporation. The adoption of this ASU did not impact the Corporation's balance sheet presentation as the Corporation followed this presentation consistent with the guidance in FASB Concepts Statement No. 6.

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In May 2014, the FASB issued an ASU regarding revenue from contracts with customers which clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that would require an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued an ASU clarifying the implementation guidance on the principal-versus-agent considerations in the revenue recognition standard by instructing 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 an ASU clarifying the identification of performance obligations and licensing. In May 2016, the FASB issued an ASU providing some limited improvements and practical expedients. The original effective date of the guidance relating to revenue from contracts with customers was deferred in August 2015 by one year. This guidance is now 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.

Note 2. Acquisition

Fox Chase Bancorp

On December 8, 2015, the Corporation and Fox Chase Bancorp, Inc. (Fox Chase), parent company of Fox Chase Bank, entered into an Agreement and Plan of Merger which provided for the merger of Fox Chase with and into the Corporation in a cash and stock transaction with an aggregate value of approximately $243.0 million based on the Corporation's June 30, 2016 closing share price. The transaction is expected to qualify as a tax-free reorganization for federal income tax purposes. On July 1, 2016, the Corporation completed its acquisition of Fox Chase. See Note 15, "Subsequent Event" for additional information.

In January 2016, the Corporation approved a discretionary overnight federal funds line to Fox Chase Bank at a rate of one-month LIBOR plus 0.05%. At June 30, 2016, the Corporation had outstanding federal funds sold to Fox Chase Bank of $48.5 million. During the six months ended June 30, 2016, average federal funds sold to Fox Chase Bank were $3.5 million.

During the first half of 2016, a purported Fox Chase shareholder filed a purported class action derivative complaint in the Court of Common Pleas of Montgomery County, Pennsylvania. The lawsuit named as defendants Fox Chase, each member of Fox Chase’s board of directors and Univest. The lawsuit alleged that the Fox Chase directors breached their fiduciary duties by agreeing to the merger, that the directors and executive officers had conflicts of interest related to the transaction, that the registration filed on February 26, 2016 failed to disclose material information related to the transaction, and that Univest aided and abetted the alleged breaches of fiduciary duty. During July 2016, the case was dismissed with prejudice.

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Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at June 30, 2016 and December 31, 2015, by contractual maturity within each type:

	At June 30, 2016				At December 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Corporate bonds:								
Within 1 year	$22,879	$ 47	$—	$22,926	$21,047	$ 134	$—	$21,181
After 1 year to 5 years	10,006	22	(8)	10,020	19,943	1	(64)	19,880
	32,885	69	(8)	32,946	40,990	135	(64)	41,061
Total	$32,885	$ 69	$ (8)	$32,946	$40,990	$ 135	$ (64)	$41,061
Securities Available-for-Sale								
U.S. treasuries:								
After 1 year to 5 years	$—	$ —	$—	$—	$4,978	$ —	$ (91)	$4,887
	—	—	—	—	4,978	—	(91)	4,887
U.S. government corporations and agencies:								
Within 1 year	10,067	23	—	10,090	10,389	—	(29)	10,360
After 1 year to 5 years	37,043	313	—	37,356	92,148	26	(378)	91,796
	47,110	336	—	47,446	102,537	26	(407)	102,156
State and political subdivisions:								
After 1 year to 5 years	16,818	150	(8)	16,960	17,362	80	(29)	17,413
After 5 years to 10 years	50,727	1,718	(11)	52,434	47,969	1,188	(32)	49,125
Over 10 years	28,133	1,340	—	29,473	34,334	1,160	—	35,494
	95,678	3,208	(19)	98,867	99,665	2,428	(61)	102,032
Residential mortgage-backed securities:								
After 1 year to 5 years	—	—	—	—	9,713	12	(13)	9,712
After 5 years to 10 years	57	1	—	58	60	—	—	60
Over 10 years	3,478	99	—	3,577	3,517	65	—	3,582
	3,535	100	—	3,635	13,290	77	(13)	13,354
Collateralized mortgage obligations:								
Over 10 years	2,930	—	(2)	2,928	3,215	—	(82)	3,133
	2,930	—	(2)	2,928	3,215	—	(82)	3,133
Corporate bonds:								
Within 1 year	250	—	—	250	250	—	—	250
After 1 year to 5 years	19,032	241	(4)	19,269	19,446	25	(158)	19,313
After 5 years to 10 years	15,204	76	(3)	15,277	10,148	—	(266)	9,882
Over 10 years	60,000	709	(2,060)	58,649	60,000	—	(2,770)	57,230
	94,486	1,026	(2,067)	93,445	89,844	25	(3,194)	86,675
Money market mutual funds:								
No stated maturity	7,009	—	—	7,009	16,726	—	—	16,726
	7,009	—	—	7,009	16,726	—	—	16,726
Equity securities:								
No stated maturity	413	352	—	765	426	381	—	807
	413	352	—	765	426	381	—	807

Total	$251,161	$ 5,022	$(2,088)	$254,095	$330,681	$ 2,937	$(3,848)	$329,770

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties. Unrealized losses in investment securities at June 30, 2016 and December 31, 2015 do not represent other-than-temporary impairments in management's judgment..
Securities with a carrying value of $128.4 million and $210.1 million at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes as required by law.

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The following table presents information related to sales of securities available-for-sale during the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Securities available-for-sale:		
Proceeds from sales	$73,991	$37,546
Gross realized gains on sales	539	294
Gross realized losses on sales	82	22
Tax expense related to net realized gains on sales	160	95

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation's investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the six months ended June 30, 2016 and 2015.

The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that the fair value of certain equity securities will not recover to the Corporation's cost basis in the individual securities within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the intent and ability to hold these securities until recovery of the Corporation's cost basis occurs. The Corporation did not recognize any other-than-temporary impairment charges on its equity portfolio during the six months ended June 30, 2016 and 2015.

At June 30, 2016 and December 31, 2015, there were no investments in any single non-federal issuer representing more than 10% of shareholders' equity.

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The following table shows the fair value of securities that were in an unrealized loss position at June 30, 2016 and December 31, 2015 by the length of time those securities were in a continuous loss position:

(Dollars in thousands)	Less than Twelve Months Fair Value	Less than Twelve Months Unrealized Losses	Twelve Months or Longer Fair Value	Twelve Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
At June 30, 2016						
Securities Held-to-Maturity						
Corporate bonds	$—	$ —	$4,997	$ (8)	$4,997	$ (8)
Total	$—	$ —	$4,997	$ (8)	$4,997	$ (8)
Securities Available-for-Sale						
State and political subdivisions	$1,287	$ (2)	$2,622	$ (17)	$3,909	$ (19)
Collateralized mortgage obligations	—	—	2,928	(2)	2,928	(2)
Corporate bonds	—	—	43,680	(2,067)	43,680	(2,067)
Total	$1,287	$ (2)	$49,230	$ (2,086)	$50,517	$ (2,088)
At December 31, 2015						
Securities Held-to-Maturity						
Corporate bonds	$12,078	$ (9)	$4,953	$ (55)	$17,031	$ (64)
Total	$12,078	$ (9)	$4,953	$ (55)	$17,031	$ (64)
Securities Available-for-Sale						
U.S. treasuries	$—	$ —	$4,887	$ (91)	$4,887	$ (91)
U.S. government corporations and agencies	72,157	(379)	4,972	(28)	77,129	(407)
State and political subdivisions	10,251	(49)	1,335	(12)	11,586	(61)
Residential mortgage-backed securities	4,751	(13)	—	—	4,751	(13)
Collateralized mortgage obligations	—	—	3,133	(82)	3,133	(82)
Corporate bonds	72,234	(2,941)	10,669	(253)	82,903	(3,194)
Total	$159,393	$ (3,382)	$24,996	$ (466)	$184,389	$ (3,848)

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At June 30, 2016 Originated	Acquired	Total
Commercial, financial and agricultural	$559,364	$20,096	$579,460
Real estate-commercial	813,925	113,033	926,958
Real estate-construction	97,967	2,112	100,079
Real estate-residential secured for business purpose	122,373	107,849	230,222
Real estate-residential secured for personal purpose	200,746	3,085	203,831
Real estate-home equity secured for personal purpose	134,170	10,335	144,505
Loans to individuals	30,880	306	31,186
Lease financings	128,796	—	128,796
Total loans and leases held for investment, net of deferred income	$2,088,221	$256,816	$2,345,037
Unearned lease income, included in the above table	$(14,539)	$—	$(14,539)
Net deferred costs, included in the above table	4,987	—	4,987
Overdraft deposits included in the above table	72	—	72

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(Dollars in thousands)	At December 31, 2015 Originated	Acquired	Total
Commercial, financial and agricultural	$479,980	$24,535	$504,515
Real estate-commercial	759,342	126,550	885,892
Real estate-construction	91,904	4,637	96,541
Real estate-residential secured for business purpose	94,280	124,503	218,783
Real estate-residential secured for personal purpose	177,850	3,305	181,155
Real estate-home equity secured for personal purpose	125,361	11,594	136,955
Loans to individuals	29,406	326	29,732
Lease financings	125,440	—	125,440
Total loans and leases held for investment, net of deferred income	$1,883,563	$295,450	$2,179,013
Unearned lease income, included in the above table	$(13,829)	$—	$(13,829)
Net deferred costs, included in the above table	4,244	—	4,244
Overdraft deposits included in the above table	35	—	35

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 June 30, 2016 totaled $256.8 million, including $942 thousand of loans acquired with deteriorated credit quality, or acquired credit impaired loans from the Valley Green Bank acquisition. Acquired credit impaired loans are accounted for in accordance with Accounting Standards Codification (ASC) Topic 310-30.

The outstanding principal balance and carrying amount for acquired credit impaired loans at June 30, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	At June 30, 2016	At December 31, 2015
Outstanding principal balance	$1,814	$ 3,551
Carrying amount	942	1,253
Allowance for loan losses	—	8

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

(Dollars in thousands)	Six Months Ended June 30, 2016
Beginning of period	$ 144
Reclassification from nonaccretable difference	133
Accretable yield amortized to interest income	(184)
Disposals	(34)
End of period	$ 59

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Age Analysis of Past Due Loans and Leases
The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases 90 days or more past due which are accruing interest at June 30, 2016 and December 31, 2015:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current	Acquired Credit Impaired	Total Loans and Leases Held for Investment	Recorded Investment 90 Days or more Past Due and Accruing Interest
At June 30, 2016								
Commercial, financial and agricultural	$813	$19	$1,758	$2,590	$576,870	$—	$579,460	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	606	—	626	1,232	925,546	180	926,958	—
Construction	—	—	—	—	100,079	—	100,079	—
Real estate—residential and home equity:								
Residential secured for business purpose	2,414	1,025	582	4,021	225,439	762	230,222	—
Residential secured for personal purpose	262	—	308	570	203,261	—	203,831	—
Home equity secured for personal purpose	1,094	40	687	1,821	142,684	—	144,505	77
Loans to individuals	168	54	155	377	30,809	—	31,186	155
Lease financings	1,835	556	1,077	3,468	125,328	—	128,796	516
Total	$7,192	$1,694	$5,193	$14,079	$2,330,016	$942	$2,345,037	$ 748
At December 31, 2015								
Commercial, financial and agricultural	$864	$298	$4,279	$5,441	$498,757	$317	$504,515	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	12,103	—	1,102	13,205	872,174	513	885,892	—
Construction	—	—	—	—	96,541	—	96,541	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,406	2,356	727	4,489	213,871	423	218,783	—
Residential secured for personal purpose	990	69	309	1,368	179,787	—	181,155	—
Home equity secured for personal purpose	777	52	174	1,003	135,952	—	136,955	—
Loans to individuals	198	97	173	468	29,264	—	29,732	173
Lease financings	1,294	652	646	2,592	122,848	—	125,440	206
Total	$17,632	$3,524	$7,410	$28,566	$2,149,194	$1,253	$2,179,013	$ 379

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Non-Performing Loans and Leases

The following presents, by class of loans and leases, non-performing loans and leases at June 30, 2016 and December 31, 2015:

(Dollars in thousands)	At June 30, 2016 Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Non-Performing Loans and Leases	At December 31, 2015 Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Non-Performing Loans and Leases
Commercial, financial and agricultural	$5,463	$ 1,425	$ —	$ 6,888	$6,915	$ 1,602	$ —	$ 8,517
Real estate—commercial real estate and construction:								
Commercial real estate	3,960	2,173	—	6,133	4,314	2,449	—	6,763
Real estate—residential and home equity:								
Residential secured for business purpose	2,251	815	—	3,066	1,863	763	—	2,626
Residential secured for personal purpose	409	—	—	409	376	421	—	797
Home equity secured for personal purpose	620	—	77	697	275	—	—	275
Loans to individuals	—	—	155	155	—	—	173	173
Lease financings	562	—	516	1,078	440	10	206	656
Total	$13,265	$ 4,413	$ 748	$ 18,426	$14,183	$ 5,245	$ 379	$ 19,807

* Includes nonaccrual troubled debt restructured loans and lease modifications of $1.4 million and $93 thousand at June 30, 2016 and December 31, 2015, respectively.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at June 30, 2016 and December 31, 2015.

The Corporation employs a ten (10) grade risk rating system related to the credit quality of commercial loans and residential real estate loans secured for a business purpose of which the first six categories are pass categories (credits not adversely rated). The following is a description of the internal risk ratings and the likelihood of loss related to each risk rating. Loans with risk ratings of one through five are reviewed based on the relationship dollar amount with the borrower: loans with a relationship total of $2.5 million or greater are reviewed quarterly; loans with a relationship balance of less than $2.5 million but greater than $500 thousand are reviewed annually based on the borrower's fiscal year; loans with a relationship balance of less than $500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with a risk rating of six are also reviewed based on the relationship dollar amount with the borrower: loans with a relationship balance of $2.0 million or greater are reviewed quarterly; loans with a relationship balance of less than $2.0 million but greater than $500 thousand are reviewed annually; loans with a relationship balance of less than $500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with a risk rating of seven are reviewed at least quarterly, and as often as monthly, at management's discretion. Loans with risk ratings of eight through ten are reviewed monthly.

1. Cash Secured—No credit risk
2. Fully Secured—Negligible credit risk
3. Strong—Minimal credit risk
4. Satisfactory—Nominal credit risk
5. Acceptable—Moderate credit risk
6. Pre-Watch—Marginal, but stable credit risk
7. Special Mention—Potential weakness
8. Substandard—Well-defined weakness
9. Doubtful—Collection in-full improbable
10. Loss—Considered uncollectible

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades
The following table presents classifications for originated loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At June 30, 2016					
Grade:					
1. Cash secured/ 2. Fully secured	$ 421	$ —	$ 6,335	$ —	$6,756
3. Strong	17,282	2,781	—	—	20,063
4. Satisfactory	31,286	37,333	450	256	69,325
5. Acceptable	410,312	578,714	82,780	107,227	1,179,033
6. Pre-watch	67,282	129,351	8,188	10,435	215,256
7. Special Mention	6,297	19,031	—	161	25,489
8. Substandard	26,484	46,715	214	4,294	77,707
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 559,364	$ 813,925	$ 97,967	$ 122,373	$1,593,629
At December 31, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	$ 968	$ —	$ 5,417	$ —	$6,385
3. Strong	17,328	10,877	—	—	28,205
4. Satisfactory	36,697	36,023	450	9	73,179
5. Acceptable	328,140	530,766	72,630	78,659	1,010,195
6. Pre-watch	61,098	119,117	13,262	7,161	200,638
7. Special Mention	6,074	20,286	—	2,347	28,707
8. Substandard	29,675	42,273	145	6,104	78,197
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 479,980	$ 759,342	$ 91,904	$ 94,280	$1,425,506

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The following table presents classifications for acquired loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction