UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 03, 2018
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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 June 30, 2018.
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
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	29,403,651
(Title of Class)	(Number of shares outstanding at July 31, 2018)

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PART I. FINANCIAL INFORMATION

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

(Dollars in thousands, except share data)	(UNAUDITED) At June 30, 2018	At December 31, 2017
ASSETS		
Cash and due from banks	$54,409	$46,721
Interest-earning deposits with other banks	18,534	28,688
Investment securities held-to-maturity (fair value $94,642 and $55,320 at June 30, 2018 and December 31, 2017, respectively)	96,457	55,564
Investment securities available-for-sale	347,804	391,457
Investments in equity securities	2,672	7,061
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	32,768	27,204
Loans held for sale	1,778	1,642
Loans and leases held for investment	3,818,398	3,620,067
Less: Reserve for loan and lease losses	(25,652)	(21,555)
Net loans and leases held for investment	3,792,746	3,598,512
Premises and equipment, net	60,529	61,797
Goodwill	172,559	172,559
Other intangibles, net of accumulated amortization and fair value adjustments of $23,613 and $21,825 at June 30, 2018 and December 31, 2017, respectively	12,809	13,909
Bank owned life insurance	109,527	108,246
Accrued interest receivable and other assets	46,589	41,502
Total assets	$4,749,181	$4,554,862
LIABILITIES		
Noninterest-bearing deposits	$1,055,479	$1,040,026
Interest-bearing deposits:		
Demand deposits	1,163,451	1,109,438
Savings deposits	807,461	830,706
Time deposits	594,395	574,749
Total deposits	3,620,786	3,554,919
Short-term borrowings	231,853	105,431
Long-term debt	155,556	155,828
Subordinated notes	94,453	94,331
Accrued interest payable and other liabilities	41,239	40,979
Total liabilities	4,143,887	3,951,488
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2018 and December 31, 2017; 31,556,799 shares issued at June 30, 2018 and December 31, 2017; 29,406,450 and 29,334,859 shares outstanding at June 30, 2018 and December 31, 2017, respectively	157,784	157,784
Additional paid-in capital	291,238	290,133
Retained earnings	226,574	216,761
Accumulated other comprehensive loss, net of tax benefit	(28,007)	(17,771)

Treasury stock, at cost; 2,150,349 and 2,221,940 shares at June 30, 2018 and December 31, 2017, respectively	(42,295)	(43,533)
Total shareholders’ equity	605,294	603,374
Total liabilities and shareholders’ equity	$4,749,181	$4,554,862

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2018	2017	2018	2017
Interest income				
Interest and fees on loans and leases:				
Taxable	$40,637	$35,102	$78,587	$68,802
Exempt from federal income taxes	2,421	2,084	4,768	4,119
Total interest and fees on loans and leases	43,058	37,186	83,355	72,921
Interest and dividends on investment securities:				
Taxable	2,268	1,833	4,457	3,521
Exempt from federal income taxes	477	576	945	1,175
Interest on deposits with other banks	148	38	224	55
Interest and dividends on other earning assets	509	397	1,013	754
Total interest income	46,460	40,030	89,994	78,426
Interest expense				
Interest on deposits	4,542	2,461	8,233	4,652
Interest on short-term borrowings	958	325	1,603	587
Interest on long-term debt and subordinated notes	1,970	1,944	3,896	3,604
Total interest expense	7,470	4,730	13,732	8,843
Net interest income	38,990	35,300	76,262	69,583
Provision for loan and lease losses	15,409	2,766	17,462	5,211
Net interest income after provision for loan and lease losses	23,581	32,534	58,800	64,372
Noninterest income				
Trust fee income	2,044	2,016	4,040	3,923
Service charges on deposit accounts	1,335	1,313	2,662	2,556
Investment advisory commission and fee income	3,778	3,333	7,461	6,514
Insurance commission and fee income	3,712	3,628	8,600	8,038
Other service fee income	2,431	2,245	4,600	4,232
Bank owned life insurance income	1,210	1,622	1,879	2,405
Net gain on sales of investment securities	—	21	10	36
Net gain on mortgage banking activities	942	1,537	1,658	2,650
Other (loss) income	(138)	294	(14)	625
Total noninterest income	15,314	16,009	30,896	30,979
Noninterest expense				
Salaries, benefits and commissions	20,065	18,730	40,712	37,467
Net occupancy	2,533	2,684	5,290	5,349
Equipment	1,067	1,031	2,090	2,024
Data processing	2,091	2,081	4,323	4,139
Professional fees	1,331	1,248	2,686	2,487
Marketing and advertising	526	475	907	854
Deposit insurance premiums	452	451	843	853
Intangible expenses	594	446	1,206	1,205
Restructuring charges	—	—	571	—
Other expense	5,688	5,402	10,844	10,200
Total noninterest expense	34,347	32,548	69,472	64,578

Income before income taxes	4,548	15,995	20,224	30,773
Income tax expense	191	4,217	3,017	8,139
Net income	$4,357	$11,778	$17,207	$22,634
Net income per share:				
Basic	$0.15	$0.44	$0.59	$0.85
Diluted	0.15	0.44	0.58	0.85
Dividends declared	0.20	0.20	0.40	0.40

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

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

	Three Months Ended June 30,					
	2018			2017		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	$4,548	$ 191	$4,357	$15,995	$4,217	$11,778
Other comprehensive (loss) income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(1,911)	(401)	(1,510)	2,632	921	1,711
Less: reclassification adjustment for net gains on sales realized in net income (1)	—	—	—	(21)	(8)	(13)
Total net unrealized (losses) gains on available-for-sale investment securities	(1,911)	(401)	(1,510)	2,611	913	1,698
Net unrealized gains (losses) on interest rate swaps used in cash flow hedges:						
Net unrealized holding gains (losses) arising during the period	154	32	122	(92)	(31)	(61)
Less: reclassification adjustment for net losses realized in net income (2)	6	1	5	36	12	24
Total net unrealized gains (losses) on interest rate swaps used in cash flow hedges	160	33	127	(56)	(19)	(37)
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	282	58	224	299	104	195
Accretion of prior service cost included in net periodic pension costs (3)	(71)	(14)	(57)	(71)	(25)	(46)
Total defined benefit pension plans	211	44	167	228	79	149
Other comprehensive (loss) income	(1,540)	(324)	(1,216)	2,783	973	1,810
Total comprehensive income (loss)	$3,008	$ (133)	$3,141	$18,778	$5,190	$13,588

(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 8, "Retirement Plans and Other Postretirement Benefits" for additional details.

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

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(Dollars in thousands)	Six Months Ended June 30, 2018 Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	2017 Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	$20,224	$3,017	$17,207	$30,773	$8,139	$22,634
Other comprehensive (loss) income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	(8,249)	(1,732)	(6,517)	3,052	1,068	1,984
Less: reclassification adjustment for net gains on sales realized in net income (1)	(10)	(2)	(8)	(36)	(13)	(23)
Total net unrealized (losses) gains on available-for-sale investment securities	(8,259)	(1,734)	(6,525)	3,016	1,055	1,961
Net unrealized gains on interest rate swaps used in cash flow hedges:						
Net unrealized holding gains (losses) arising during the period	366	77	289	(85)	(29)	(56)
Less: reclassification adjustment for net losses realized in net income (2)	26	5	21	107	37	70
Total net unrealized gains on interest rate swaps used in cash flow hedges	392	82	310	22	8	14
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	563	117	446	598	209	389
Accretion of prior service cost included in net periodic pension costs (3)	(142)	(29)	(113)	(141)	(49)	(92)
Total defined benefit pension plans	421	88	333	457	160	297
Other comprehensive (loss) income	(7,446)	(1,564)	(5,882)	3,495	1,223	2,272
Total comprehensive income	$12,778	$1,453	$11,325	$34,268	$9,362	$24,906

(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 8, "Retirement Plans and Other Postretirement Benefits" for additional details.

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED 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	Treasury Stock	Total
Six Months Ended June 30, 2018							
Balance at December 31, 2017	29,334,859	$157,784	$290,133	$216,761	$ (17,771)	$(43,533)	$603,374
Adjustment to initially apply ASU No. 2016-01 for equity securities measured at fair value (1)	—	—	—	433	(433)	—	—
Adjustment to initially apply ASU No. 2018-02 for reclassification of stranded net tax charges (1)	—	—	—	3,921	(3,921)	—	—
Net income	—	—	—	17,207	—	—	17,207
Other comprehensive loss, net of income tax benefit	—	—	—	—	(5,882)	—	(5,882)
Cash dividends declared ($0.40 per share)	—	—	—	(11,749)	—	—	(11,749)
Stock issued under dividend reinvestment and employee stock purchase plans	41,939	—	98	1	—	1,074	1,173
Exercise of stock options	36,990	—	(14)	—	—	725	711
Stock-based compensation	—	—	1,719	—	—	—	1,719
Purchases of treasury stock	(44,353)	—	—	—	—	(1,259)	(1,259)
Restricted stock awards granted, net of cancellations	37,015	—	(698)	—	—	698	—
Balance at June 30, 2018	29,406,450	$157,784	$291,238	$226,574	$ (28,007)	$(42,295)	$605,294

(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, 2017							
Balance at December 31, 2016	26,589,353	$144,559	$230,494	$194,516	$ (19,454)	$(44,906)	$505,209
Net income	—	—	—	22,634	—	—	22,634
Other comprehensive income, net of income tax	—	—	—	—	2,272	—	2,272
Cash dividends declared ($0.40 per share)	—	—	—	(10,652)	—	—	(10,652)
Stock issued under dividend reinvestment and employee stock purchase plans	43,415	—	72	—	—	1,157	1,229
Exercise of stock options	73,870	—	(105)	—	—	1,433	1,328
Stock-based compensation	—	—	1,708	—	—	—	1,708
Purchases of treasury stock	(83,970)	—	—	—	—	(2,422)	(2,422)
	45,323	—	(880)	—	—	880	—

Restricted stock awards granted, net of cancellations							
Balance at June 30, 2017	26,667,991	$144,559	$231,289	$206,498	$ (17,182)	$(43,858)	$521,306

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

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

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

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$17,207	$22,634
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	17,462	5,211
Depreciation of premises and equipment	2,795	2,730
Net amortization of investment securities premiums and discounts	779	959
Net gain on sales of investment securities	(10)	(36)
Net gain on mortgage banking activities	(1,658)	(2,650)
Bank owned life insurance income	(1,879)	(2,405)
Net accretion of acquisition accounting fair value adjustments	(495)	(1,508)
Stock-based compensation	1,719	1,708
Intangible expenses	1,206	1,205
Other adjustments to reconcile net income to cash (used in) provided by operating activities	190	(293)
Originations of loans held for sale	(61,508)	(64,035)
Proceeds from the sale of loans held for sale	63,076	69,847
Contributions to pension and other postretirement benefit plans	(133)	(138)
(Increase) decrease in accrued interest receivable and other assets	(3,089)	1,340
Increase (decrease) in accrued interest payable and other liabilities	814	(1,965)
Net cash provided by operating activities	36,476	32,604
Cash flows from investing activities:		
Net capital expenditures	(1,347)	(4,622)
Proceeds from maturities, calls and principal repayments of securities held-to-maturity	4,253	10,595
Proceeds from maturities, calls and principal repayments of securities available-for-sale	34,824	29,603
Proceeds from sales of securities available-for-sale	1,010	3,032
Purchases of investment securities held-to-maturity	(45,349)	(29,498)
Purchases of investment securities available-for-sale	(1,485)	(8,476)
Proceeds from sales of money market mutual funds	10,706	12,020
Purchases of money market mutual funds	(6,284)	(16,768)
Net increase in other investments	(5,564)	(6,637)
Net increase in loans and leases	(211,534)	(225,682)
Net decrease (increase) in interest-earning deposits	10,154	(3,168)
Proceeds from sales of other real estate owned	21	3,612
Purchases of bank owned life insurance	(776)	—
Proceeds from bank owned life insurance	1,374	2,916
Net cash used in investing activities	(209,997)	(233,073)
Cash flows from financing activities:		
Net increase in deposits	65,963	90,796
Net increase in short-term borrowings	126,422	35,555
Proceeds from issuance of long-term debt	—	95,000
Repayment of long-term debt	—	(5,000)
Payment of contingent consideration on acquisitions	(67)	(5,317)
Purchases of treasury stock	(1,259)	(2,422)
Stock issued under dividend reinvestment and employee stock purchase plans	1,173	1,229

Proceeds from exercise of stock options	711	1,328
Cash dividends paid	(11,734)	(10,636)
Net cash provided by financing activities	181,209	200,533
Net increase in cash and due from banks	7,688	64
Cash and due from banks at beginning of year	46,721	48,757
Cash and due from banks at end of period	$54,409	$48,821
Supplemental disclosures of cash flow information:		
Cash paid for interest	$13,190	$9,685
Cash paid for income taxes, net of refunds	1,060	5,942
Non cash transactions:		
Transfer of loans to other real estate owned	$402	$653

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Condensed 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 direct 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, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018 or for any other period. 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, 2017, which was filed with the SEC on March 1, 2018.
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, reserve for loan and lease losses and purchase accounting.
Accounting Pronouncements Adopted in 2018

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU clarifies the accounting treatment of the reclassification of certain income tax effects within accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act. The Corporation elected to early adopt this guidance effective January 1, 2018 for all stranded tax effects resulting from tax reform and reclassified stranded tax effects, totaling $3.9 million, from accumulated other comprehensive income to retained earnings. The Corporation's policy for releasing income tax effects from accumulated other comprehensive income is to release such effects on an individual basis as each item is liquidated, sold or extinguished. See Note 10, "Accumulated Other Comprehensive (Loss) Income" for additional detail.
In March 2017, the FASB issued 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 Corporation adopted this guidance effective January 1, 2018 with retrospective application for prior period presentation. Effective January 1, 2018, components of net benefit income other than the service cost component are presented in the Corporation's statement of income in other noninterest expense rather than in salaries, benefits and commission expense. Prior period components of net benefit income other than the service cost component were reclassed to other noninterest expense in the Corporation's statement of income.

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 requires equity investments to be measured at fair value with changes in fair value recognized in net income. At December 31, 2017, the Corporation had financial services equity securities with a carrying value of $1.1 million which included an unrealized net gain of $666 thousand. At December 31, 2017, $433 thousand

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was recorded in accumulated other comprehensive income which represented the unrealized net gain, net of income taxes, based on the Corporation's statutory tax rate as of December 31, 2017. In addition, at December 31, 2017, the Corporation had money market mutual funds with a fair value and amortized cost of $6.0 million which were reclassified to equity securities under this guidance. The Corporation adopted this guidance effective January 1, 2018 with a cumulative-effect adjustment to the balance sheet as of January 1, 2018. The balance in accumulated other comprehensive income of $433 thousand was reclassified to retained earnings effective January 1, 2018. The carrying value of the equity securities, at January 1, 2018, did not change; however, any future increases or decreases in fair value is recorded as an increase or decrease to the carrying value and recognized in other noninterest income. During the six months ended June 30, 2018, the Corporation recognized a $33 thousand net gain on equity securities in other noninterest income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequent related updates. The Corporation adopted the guidance effective January 1, 2018 using the modified retrospective method though no adjustments were made to retained earnings as a result of the adoption. The Corporation provided expanded disclosures related to recognition of revenue from contracts with customers. See Note 14, "Revenue from Contracts with Customers."

Recent Accounting Pronouncements Yet to Be Adopted

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this update expand and refine hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additional hedging strategies permitted for hedge accounting include: hedges of contractually-specified price components of commodity purchases or sales, hedges of the benchmark rate component of the contractual coupon cash flows of fixed-rate assets or liabilities, hedges of the portion of a closed portfolio of prepayable assets not expected to prepay, and partial-term hedges of fixed-rate assets or liabilities. The ASU amends the presentation and disclosure requirements and changes how entities assess effectiveness. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness and requires all items that affect earnings be presented in the same income statement line as the hedged items. After initial qualification, the new guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test, such as a regression analysis, if the entity can reasonably support an expectation of high effectiveness throughout the term of the hedge. An initial quantitative test to establish that the hedge relationship is highly effective is still required. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities, or January 1, 2019 for the Corporation. Early adoption is permitted, including an interim period. The amended presentation and disclosure guidance is required only prospectively. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, or January 1, 2019 for the Corporation. Early adoption is permitted, including an interim period. This ASU is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. 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 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.

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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 reserve for loan and lease losses will increase upon adoption of CECL and that the increased reserve level will decrease shareholders' equity and 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 by the recording of lease liabilities and right-of-use assets associated with operating leases; any initial or continued impact of the recording of assets will have a negative impact on all Corporation and Bank capital ratios under current regulatory guidance and possibly equity ratios.

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Note 2. Earnings per Share

The Corporation uses the two-class method to calculate earnings per share as the unvested restricted stock issued under the Corporation's equity incentive plans are participating shares with nonforfeitable rights to dividends. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the number of weighted average shares outstanding during the period. The table also notes anti-dilutive options which are those options with weighted average exercise prices in excess of the weighted average market value for the periods presented.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands, except per share data)	2018	2017	2018	2017
Numerator:				
Net income	$4,357	$11,778	$17,207	$22,634
Net income allocated to unvested restricted stock	(33)	(122)	(132)	(234)
Net income allocated to common shares	$4,324	$11,656	$17,075	$22,400
Denominator:				
Weighted average shares outstanding	29,404	26,661	29,380	26,647
Average unvested restricted stock	(228)			