UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
May 10, 2016
Table of Contents

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, 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	19,616,172
(Title of Class)	(Number of shares outstanding at April 29, 2016)

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
INDEX

			Page Number
Part I.	Financial Information:		
	Item 1.	Financial Statements (Unaudited)	
		Consolidated Balance Sheets at March 31, 2016 and December 31, 2015	2
		Consolidated Statements of Income for the Three Months Ended March 31, 2016 and 2015	3
		Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015	4
		Consolidated Statements of Changes in Shareholders’ Equity for the Three Months Ended March 31, 2016 and 2015	5
		Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015	6
		Notes to Consolidated Financial Statements	7
	Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	38
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	53
	Item 4.	Controls and Procedures	53
Part II.	Other Information		
	Item 1.	Legal Proceedings	53
	Item 1A.	Risk Factors	53
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	54
	Item 3.	Defaults Upon Senior Securities	54
	Item 4.	Mine Safety Disclosures	54
	Item 5.	Other Information	54
	Item 6.	Exhibits	55

Signatures	56

Table of Contents

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, 2016	At December 31, 2015
ASSETS		
Cash and due from banks	$31,260	$32,356
Interest-earning deposits with other banks	7,287	28,443
Investment securities held-to-maturity (fair value $37,031 and $41,061 at March 31, 2016 and December 31, 2015, respectively)	36,932	40,990
Investment securities available-for-sale	292,425	329,770
Loans held for sale	3,818	4,680
Loans and leases held for investment	2,183,256	2,179,013
Less: Reserve for loan and lease losses	(16,452)	(17,628)
Net loans and leases held for investment	2,166,804	2,161,385
Premises and equipment, net	43,385	42,156
Goodwill	112,657	112,657
Other intangibles, net of accumulated amortization and fair value adjustments of $14,349 and $15,360 at March 31, 2016 and December 31, 2015, respectively	12,096	12,620
Bank owned life insurance	72,030	71,560
Accrued interest receivable and other assets	46,083	42,834
Total assets	$2,824,777	$2,879,451
LIABILITIES		
Noninterest-bearing deposits	$559,827	$541,460
Interest-bearing deposits:		
Demand deposits	748,576	790,800
Savings deposits	643,050	607,694
Time deposits	382,908	454,406
Total deposits	2,334,361	2,394,360
Customer repurchase agreements	25,851	24,211
Subordinated notes	49,414	49,377
Accrued interest payable and other liabilities	48,148	49,929
Total liabilities	2,457,774	2,517,877
SHAREHOLDERS’ EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at March 31, 2016 and December 31, 2015; 22,054,270 shares issued at March 31, 2016 and December 31, 2015; 19,592,798 and 19,530,930 shares outstanding at March 31, 2016 and December 31, 2015, respectively	110,271	110,271
Additional paid-in capital	120,906	121,280
Retained earnings	196,827	193,446
Accumulated other comprehensive loss, net of tax benefit	(15,481)	(16,708)
Treasury stock, at cost; 2,461,472 and 2,523,340 shares at March 31, 2016 and December 31, 2015, respectively	(45,520)	(46,715)
Total shareholders’ equity	367,003	361,574
Total liabilities and shareholders’ equity	$2,824,777	$2,879,451

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

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2016	2015
Interest income		
Interest and fees on loans and leases:		
Taxable	$21,850	$21,254
Exempt from federal income taxes	1,716	1,584
Total interest and fees on loans and leases	23,566	22,838
Interest and dividends on investment securities:		
Taxable	1,274	1,034
Exempt from federal income taxes	734	859
Interest on federal funds sold	7	2
Other interest income	28	5
Total interest income	25,609	24,738
Interest expense		
Interest on deposits	1,533	1,417
Interest on short-term borrowings	3	10
Interest on long-term borrowings	675	7
Total interest expense	2,211	1,434
Net interest income	23,398	23,304
Provision for loan and lease losses	326	1,074
Net interest income after provision for loan and lease losses	23,072	22,230
Noninterest income		
Trust fee income	1,865	1,820
Service charges on deposit accounts	998	1,063
Investment advisory commission and fee income	2,669	2,763
Insurance commission and fee income	4,558	4,146
Other service fee income	1,833	1,598
Bank owned life insurance income	470	353
Net gain on sales of investment securities	44	91
Net gain on mortgage banking activities	1,218	1,258
Other income	301	339
Total noninterest income	13,956	13,431
Noninterest expense		
Salaries and benefits	14,182	13,314
Commissions	1,895	1,814
Net occupancy	2,096	2,358
Equipment	1,888	1,689
Professional fees	1,020	807
Marketing and advertising	538	360
Deposit insurance premiums	447	412
Intangible expenses	770	786
Acquisition-related costs	214	466
Integration costs	6	1,374
Other expense	3,883	4,031

Total noninterest expense	26,939	27,411
Income before income taxes	10,089	8,250
Income taxes	2,800	2,134
Net income	$7,289	$6,116
Net income per share:		
Basic	$0.37	$0.31
Diluted	0.37	0.31
Dividends declared	0.20	0.20

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

Table of Contents

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

	Three Months Ended March 31,					
	2016			2015		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	$10,089	$2,800	$7,289	$8,250	$2,134	$6,116
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	2,218	776	1,442	2,158	755	1,403
Less: reclassification adjustment for net gains on sales realized in net income	(44)	(15)	(29)	(91)	(32)	(59)
Total net unrealized gains on available-for-sale investment securities	2,174	761	1,413	2,067	723	1,344
Net change in fair value of interest rate swaps used in cash flow hedges	(545)	(191)	(354)	(337)	(118)	(219)
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	329	115	214	341	120	221
Accretion of prior service cost included in net periodic pension costs	(71)	(25)	(46)	(70)	(24)	(46)
Total defined benefit pension plans	258	90	168	271	96	175
Other comprehensive income	1,887	660	1,227	2,001	701	1,300
Total comprehensive income	$11,976	$3,460	$8,516	$10,251	$2,835	$7,416

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

Table of Contents

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, 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 and other employee benefit programs	30,121	—	8	—	—	609	617
Exercise of stock options	14,167	—	(27)	—	—	265	238
Repurchase of cancelled restricted stock awards	(14,250)	—	241	—	—	(241)	—
Stock-based compensation	—	—	451	—	—	—	451
Net tax benefit on stock-based compensation	—	—	36	—	—	—	36
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

(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, 2015							
Balance at December 31, 2014	16,221,607	$91,332	$62,980	$181,851	$ (14,462)	$(37,147)	$284,554
Net income	—	—	—	6,116	—	—	6,116
Other comprehensive income, net of income tax	—	—	—	—	1,300	—	1,300
Cash dividends declared ($0.20 per share)	—	—	—	(3,991)	—	—	(3,991)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	35,262	—	18	—	—	677	695
Issuance of common stock, acquisition	3,787,866	18,939	57,727	—	—	—	76,666
Exercise of stock options	4,000	—	(7)	—	—	73	66
Repurchase of cancelled restricted stock awards	(12,375)	—	183	—	—	(183)	—
Stock-based compensation	—	—	412	—	—	—	412
Purchases of treasury stock	(281,291)	—	—	—	—	(5,424)	(5,424)

Restricted stock awards granted	65,755	—	(1,195)	—	—	1,195	—
Balance at March 31, 2015	19,820,824	$110,271	$120,118	$183,976	$ (13,162)	$(40,809)	$360,394

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

Table of Contents

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

	Three Months Ended March 31,	
(Dollars in thousands)	2016	2015
Cash flows from operating activities:		
Net income	$7,289	$6,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	326	1,074
Depreciation of premises and equipment	942	1,038
Net gain on sales of investment securities	(44)	(91)
Net gain on mortgage banking activities	(1,218)	(1,258)
Bank owned life insurance income	(470)	(353)
Net accretion of acquisition accounting fair value adjustments	(100)	(543)
Stock-based compensation	451	412
Intangible expenses	770	786
Other adjustments to reconcile net income to cash provided by operating activities	325	323
Deferred tax expense	905	1,131
Originations of loans held for sale	(44,414)	(47,453)
Proceeds from the sale of loans held for sale	46,003	46,141
Contributions to pension and other postretirement benefit plans	(60)	(81)
Increase in accrued interest receivable and other assets	(2,385)	(166)
Decrease in accrued interest payable and other liabilities	(1,469)	(2,239)
Net cash provided by operating activities	6,851	4,837
Cash flows from investing activities:		
Net cash paid due to acquisitions	—	(2,967)
Net capital expenditures	(2,177)	(1,189)
Proceeds from maturities and calls of securities held-to-maturity	4,000	4,000
Proceeds from maturities and calls of securities available-for-sale	18,693	13,575
Proceeds from sales of securities available-for-sale	53,181	271
Purchases of investment securities available-for-sale	(32,573)	(15,134)
Net increase in loans and leases	(7,507)	(35,925)
Net decrease (increase) in interest-earning deposits	21,156	(29,947)
Net decrease in federal funds sold	—	9,099
Net cash provided by (used in) investing activities	54,773	(58,217)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(59,934)	7,752
Net increase in short-term borrowings	1,640	179
Proceeds from issuance of subordinated notes	—	49,270
Payment of contingent consideration on acquisitions	(900)	(620)
Purchases of treasury stock	(521)	(5,424)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	617	695
Proceeds from exercise of stock options, including excess tax benefits	274	112
Cash dividends paid	(3,896)	(3,237)
Net cash (used in) provided by financing activities	(62,720)	48,727
Net decrease in cash and due from banks	(1,096)	(4,653)
Cash and due from banks at beginning of year	32,356	31,995

Cash and due from banks at end of period	$31,260	$27,342
Supplemental disclosures of cash flow information:		
Cash paid for interest	$3,113	$1,635
Cash paid (received) for income taxes, net of refunds	685	(530)
Non cash transactions:		
Transfer of loans to other real estate owned	$1,797	$—
Assets acquired through acquisitions	—	425,834
Liabilities assumed through acquisitions	—	389,907
Contingent consideration recorded as goodwill	—	1,424

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

Table of Contents

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, 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 March 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (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 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

Table of Contents

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.

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. 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.

Table of Contents

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 pursuant to which Fox Chase will be merged with and into the Corporation in a cash and stock transaction with an aggregate value of approximately $239.3 million. Fox Chase had $1.1 billion in assets, $776.7 million in loans, and $815.7 million in deposits at March 31, 2016. Fox Chase's main office is in Hatboro, Pennsylvania and operates full-service banking offices in Pennsylvania and New Jersey. Upon completion, the Corporation's presence will expand in Bucks, Chester, Philadelphia and Montgomery counties in Pennsylvania and into Atlantic and Cape May counties in New Jersey, complementing and expanding the Corporation's existing network of financial centers.

Upon completion of the merger, Fox Chase shareholders will have the right to receive either $21.00 in cash, or a fixed exchange ratio of 0.9731 shares of the Corporation’s common stock, or a combination of the two, for outstanding shares of Fox Chase. The stock/cash election is subject to allocation provisions to assure that 40% of Fox Chase shares receive cash consideration and 60% of Fox Chase shares receive stock consideration. The Merger Agreement has been approved by the Boards of Directors of the Corporation, the Bank, Fox Chase and Fox Chase Bank and remains subject to approval by the shareholders of both companies, as well as their regulatory authorities. The transaction is expected to qualify as a tax-free reorganization for federal income tax purposes. The transaction is expected to close in the third quarter of 2016.

In January 2016, the Corporation approved a $30.0 million discretionary overnight federal funds line to Fox Chase Bank at a rate of one-month LIBOR plus 0.05%. At March 31, 2016, the Corporation had no outstanding federal funds sold to Fox Chase Bank. During the first quarter of 2016, average federal funds sold to Fox Chase Bank were $5.9 million.

Table of Contents

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 March 31, 2016 and December 31, 2015, by contractual maturity within each type:

(Dollars in thousands)	At March 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Corporate bonds:								
Within 1 year	$26,924	$ 114	$—	$27,038	$21,047	$ 134	$—	$21,181
After 1 year to 5 years	10,008	26	(41)	9,993	19,943	1	(64)	19,880
	36,932	140	(41)	37,031	40,990	135	(64)	41,061
Total	$36,932	$ 140	$(41)	$37,031	$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	10,278	2	—	10,280	10,389	—	(29)	10,360
After 1 year to 5 years	57,085	302	—	57,387	92,148	26	(378)	91,796
	67,363	304	—	67,667	102,537	26	(407)	102,156
State and political subdivisions:								
After 1 year to 5 years	17,125	134	(12)	17,247	17,362	80	(29)	17,413
After 5 years to 10 years	50,335	1,382	(17)	51,700	47,969	1,188	(32)	49,125
Over 10 years	32,560	1,301	—	33,861	34,334	1,160	—	35,494
	100,020	2,817	(29)	102,808	99,665	2,428	(61)	102,032
Residential mortgage-backed securities:								
After 1 year to 5 years	4,920	6	—	4,926	9,713	12	(13)	9,712
After 5 years to 10 years	59	1	—	60	60	—	—	60
Over 10 years	3,497	91	—	3,588	3,517	65	—	3,582
	8,476	98	—	8,574	13,290	77	(13)	13,354
Collateralized mortgage obligations:								
Over 10 years	3,080	—	(24)	3,056	3,215	—	(82)	3,133
	3,080	—	(24)	3,056	3,215	—	(82)	3,133
Corporate bonds:								
Within 1 year	250	—	—	250	250	—	—	250
After 1 year to 5 years	18,862	142	(44)	18,960	19,446	25	(158)	19,313
After 5 years to 10 years	15,122	95	(63)	15,154	10,148	—	(266)	9,882
Over 10 years	60,000	857	(3,218)	57,639	60,000	—	(2,770)	57,230
	94,234	1,094	(3,325)	92,003	89,844	25	(3,194)	86,675
Money market mutual funds:								
No stated maturity	17,563	—	—	17,563	16,726	—	—	16,726
	17,563	—	—	17,563	16,726	—	—	16,726
Equity securities:								
No stated maturity	426	328	—	754	426	381	—	807
	426	328	—	754	426	381	—	807

Total	$291,162	$ 4,641	$ (3,378)	$292,425	$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 March 31, 2016 and December 31, 2015 do not represent other-than-temporary impairments.
Securities with a carrying value of $157.4 million and $210.1 million at March 31, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes as required by law.

10

Table of Contents

The following table presents information related to sales of securities available-for-sale during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(Dollars in thousands)	2016	2015
Securities available-for-sale:		
Proceeds from sales	$53,181	$271
Gross realized gains on sales	106	91
Gross realized losses on sales	62	—
Tax expense related to net realized gains on sales	15	32

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

Table of Contents

The following table shows the fair value of securities that were in an unrealized loss position at March 31, 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		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2016						
Securities Held-to-Maturity						
Corporate bonds	$—	$—	$4,965	$(41)	$4,965	$(41)
Total	$—	$—	$4,965	$(41)	$4,965	$(41)
Securities Available-for-Sale						
U.S. government corporations and agencies	$5,126	$—	$5,000	$—	$10,126	$—
State and political subdivisions	5,669	(8)	2,620	(21)	8,289	(29)
Collateralized mortgage obligations	—	—	3,056	(24)	3,056	(24)
Corporate bonds	42,051	(3,231)	11,251	(94)	53,302	(3,325)
Equity securities	4	—	—	—	4	—
Total	$52,850	$(3,239)	$21,927	$(139)	$74,777	$(3,378)
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 March 31, 2016		
	Originated	Acquired	Total
Commercial, financial and agricultural	$486,112	$21,207	$507,319
Real estate-commercial	760,492	120,928	881,420
Real estate-construction	90,567	2,004	92,571
Real estate-residential secured for business purpose	103,591	114,673	218,264
Real estate-residential secured for personal purpose	185,482	3,227	188,709
Real estate-home equity secured for personal purpose	129,907	10,831	140,738
Loans to individuals	28,140	281	28,421
Lease financings	125,814	—	125,814
Total loans and leases held for investment, net of deferred income	$1,910,105	$273,151	$2,183,256
Unearned lease income, included in the above table	$(13,793)	$—	$(13,793)
Net deferred costs, included in the above table	4,568	—	4,568
Overdraft deposits included in the above table	58	—	58

Table of Contents

	At December 31, 2015		
(Dollars in thousands)	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 March 31, 2016 totaled $273.2 million, including $1.3 million 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 March 31, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	At March 31, 2016	At December 31, 2015
Outstanding principal balance	$3,186	$ 3,551
Carrying amount	1,267	1,253
Allowance for loan losses	8	8

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

(Dollars in thousands)	Three Months Ended March 31, 2016
Beginning of period	$ 144
Reclassification from nonaccretable difference	46
Accretable yield amortized to interest income	(74)
End of period	$ 116

Table of Contents

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, 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 March 31, 2016								
Commercial, financial and agricultural	$130	$—	$2,128	$2,258	$505,061	$—	$507,319	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	225	—	912	1,137	879,766	517	881,420	—
Construction	—	—	—	—	92,571	—	92,571	—
Real estate—residential and home equity:								
Residential secured for business purpose	3,562	62	887	4,511	213,003	750	218,264	—
Residential secured for personal purpose	673	52	469	1,194	187,515	—	188,709	125
Home equity secured for personal purpose	210	159	483	852	139,886	—	140,738	353
Loans to individuals	289	137	205	631	27,790	—	28,421	205
Lease financings	1,376	413	431	2,220	123,594	—	125,814	10
Total	$6,465	$823	$5,515	$12,803	$2,169,186	$1,267	$2,183,256	$ 693
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

Table of Contents

Non-Performing Loans and Leases

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

(Dollars in thousands)	At March 31, 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	$6,080	$ 1,443	$ —	$ 7,523	$6,915	$ 1,602	$ —	$ 8,517
Real estate—commercial real estate and construction:								
Commercial real estate	3,981	2,417	—	6,398	4,314	2,449	—	6,763
Real estate—residential and home equity:								