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

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2017.

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .

Commission File Number: 0-7617

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, $5 par value	26,684,355
(Title of Class)	(Number of shares outstanding at October 31, 2017)

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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 September 30, 2017	At December 31, 2016
ASSETS		
Cash and due from banks	$47,876	$48,757
Interest-earning deposits with other banks	31,614	9,068
Investment securities held-to-maturity (fair value $45,633 and $24,871 at September 30, 2017 and December 31, 2016, respectively)	45,542	24,881
Investment securities available-for-sale	398,280	443,637
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	27,244	24,869
Loans held for sale	2,228	5,890
Loans and leases held for investment	3,487,164	3,285,886
Less: Reserve for loan and lease losses	(20,543)	(17,499)
Net loans and leases held for investment	3,466,621	3,268,387
Premises and equipment, net	64,586	63,638
Goodwill	172,559	172,559
Other intangibles, net of accumulated amortization and fair value adjustments of $20,786 and $17,597 at September 30, 2017 and December 31, 2016, respectively	14,567	16,651
Bank owned life insurance	100,158	99,948
Accrued interest receivable and other assets	46,088	52,243
Total assets	$4,417,363	$4,230,528
LIABILITIES		
Noninterest-bearing deposits	$987,881	$918,337
Interest-bearing deposits:		
Demand deposits	1,105,211	909,963
Savings deposits	854,338	803,078
Time deposits	571,160	626,189
Total deposits	3,518,590	3,257,567
Short-term borrowings	32,091	196,171
Long-term debt	206,168	127,522
Subordinated notes	94,270	94,087
Accrued interest payable and other liabilities	37,446	49,972
Total liabilities	3,888,565	3,725,319
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2017 and December 31, 2016; 28,911,799 shares issued at September 30, 2017 and December 31, 2016; 26,671,336 and 26,589,353 shares outstanding at September 30, 2017 and December 31, 2016, respectively	144,559	144,559
Additional paid-in capital	232,172	230,494
Retained earnings	212,363	194,516
Accumulated other comprehensive loss, net of tax benefit	(16,343)	(19,454)
	(43,953)	(44,906)

Treasury stock, at cost; 2,240,463 and 2,322,446 shares at September 30, 2017 and December 31, 2016, respectively		
Total shareholders’ equity	528,798	505,209
Total liabilities and shareholders’ equity	$4,417,363	$4,230,528

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

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

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest income				
Interest and fees on loans and leases:				
Taxable	$37,153	$32,236	$105,955	$76,397
Exempt from federal income taxes	2,106	1,982	6,225	5,472
Total interest and fees on loans and leases	39,259	34,218	112,180	81,869
Interest and dividends on investment securities:				
Taxable	1,855	1,483	5,376	3,945
Exempt from federal income taxes	550	669	1,725	2,113
Interest on deposits with other banks	133	14	188	51
Interest and dividends on other earning assets	375	321	1,129	573
Total interest income	42,172	36,705	120,598	88,551
Interest expense				
Interest on deposits	3,068	2,081	7,720	5,072
Interest on short-term borrowings	169	276	756	599
Interest on long-term debt and subordinated notes	2,048	1,479	5,652	2,827
Total interest expense	5,285	3,836	14,128	8,498
Net interest income	36,887	32,869	106,470	80,053
Provision for loan and lease losses	2,689	1,415	7,900	2,571
Net interest income after provision for loan and lease losses	34,198	31,454	98,570	77,482
Noninterest income				
Trust fee income	1,924	1,958	5,847	5,820
Service charges on deposit accounts	1,371	1,344	3,927	3,398
Investment advisory commission and fee income	3,455	2,905	9,969	8,352
Insurance commission and fee income	3,492	3,267	11,530	11,328
Other service fee income	2,123	1,965	6,355	5,727
Bank owned life insurance income	742	711	3,147	1,716
Net gain on sales of investment securities	7	30	43	487
Net gain on mortgage banking activities	908	2,006	3,558	4,935
Other income (loss)	87	(49)	712	206
Total noninterest income	14,109	14,137	45,088	41,969
Noninterest expense				
Salaries and benefits	16,909	16,710	49,919	44,972
Commissions	2,244	2,485	6,668	6,743
Net occupancy	2,523	2,534	7,872	6,730
Equipment	1,019	942	3,043	2,468
Data processing	2,118	2,169	6,257	4,980
Professional fees	1,447	1,322	3,934	3,289
Marketing and advertising	271	345	1,125	1,396
Deposit insurance premiums	409	327	1,262	1,192
Intangible expenses	690	854	1,895	2,611
Acquisition-related costs	—	8,784	—	10,156
Integration costs	—	5,365	—	5,398

Restructuring recoveries	—	(85)	—	(85)
Other expense	5,065	5,314	15,298	13,701
Total noninterest expense	32,695	47,066	97,273	103,551
Income before income taxes	15,612	(1,475)	46,385	15,900
Income tax expense (benefit)	4,416	(1,533)	12,555	3,313
Net income	$11,196	$58	$33,830	$12,587
Net income per share:				
Basic	$0.42	$—	$1.27	$0.58
Diluted	0.42	—	1.27	0.57
Dividends declared	0.20	0.20	0.60	0.60

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

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

	Three Months Ended September 30,					
	2017			2016		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income (loss)	$15,612	$4,416	$11,196	$(1,475)	$(1,533)	$ 58
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	1,030	362	668	(151)	(53)	(98)
Less: reclassification adjustment for net gains on sales realized in net income (1)	(7)	(2)	(5)	(30)	(10)	(20)
Total net unrealized gains (losses) on available-for-sale investment securities	1,023	360	663	(181)	(63)	(118)
Net unrealized (losses) gains on interest rate swaps used in cash flow hedges:						
Net unrealized holding (losses) gains arising during the period	(20)	(7)	(13)	101	35	66
Less: reclassification adjustment for net losses realized in net income (2)	41	14	27	76	27	49
Total net unrealized gains on interest rate swaps used in cash flow hedges	21	7	14	177	62	115
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	320	112	208	330	115	215
Accretion of prior service cost included in net periodic pension costs (3)	(71)	(25)	(46)	(71)	(25)	(46)
Total defined benefit pension plans	249	87	162	259	90	169
Other comprehensive income	1,293	454	839	255	89	166
Total comprehensive income (loss)	$16,905	$4,870	$12,035	$(1,220)	$(1,444)	$ 224

(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 7—Retirement Plans and Other Postretirement Benefits for additional details.

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

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(Dollars in thousands)	Nine Months Ended September 30, 2017 Before Tax Amount	2017 Tax Expense (Benefit)	2017 Net of Tax Amount	2016 Before Tax Amount	2016 Tax Expense (Benefit)	2016 Net of Tax Amount
Income	$46,385	$12,555	$33,830	$15,900	$3,313	$12,587
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	4,082	1,430	2,652	4,151	1,453	2,698
Less: reclassification adjustment for net gains on sales realized in net income (1)	(43)	(15)	(28)	(487)	(170)	(317)
Total net unrealized gains on available-for-sale investment securities	4,039	1,415	2,624	3,664	1,283	2,381
Net unrealized (losses) gains on interest rate swaps used in cash flow hedges:						
Net unrealized holding losses arising during the period	(105)	(37)	(68)	(825)	(289)	(536)
Less: reclassification adjustment for net losses realized in net income (2)	148	52	96	237	83	154
Total net unrealized gains (losses) on interest rate swaps used in cash flow hedges	43	15	28	(588)	(206)	(382)
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	918	321	597	988	345	643
Accretion of prior service cost included in net periodic pension costs (3)	(212)	(74)	(138)	(212)	(74)	(138)
Total defined benefit pension plans	706	247	459	776	271	505
Other comprehensive income	4,788	1,677	3,111	3,852	1,348	2,504
Total comprehensive income	$51,173	$14,232	$36,941	$19,752	$4,661	$15,091

(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 7—Retirement Plans and Other Postretirement Benefits for additional details.

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

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UNIVEST CORPORATION OF PENNSYLVANIA
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) Income	Treasury Stock	Total
Nine Months Ended September 30, 2017							
Balance at December 31, 2016	26,589,353	$144,559	$230,494	$194,516	$ (19,454)	$(44,906)	$505,209
Net income	—	—	—	33,830	—	—	33,830
Other comprehensive income, net of income tax	—	—	—	—	3,111	—	3,111
Cash dividends declared ($0.60 per share)	—	—	—	(15,983)	—	—	(15,983)
Stock issued under dividend reinvestment and employee stock purchase plans	63,683	—	130	—	—	1,709	1,839
Exercise of stock options	84,870	—	(121)	—	—	1,648	1,527
Stock-based compensation	—	—	2,550	—	—	—	2,550
Purchases of treasury stock	(112,393)	—	—	—	—	(3,285)	(3,285)
Restricted stock awards granted, net of cancellations	45,823	—	(881)	—	—	881	—
Balance at September 30, 2017	26,671,336	$144,559	$232,172	$212,363	$ (16,343)	$(43,953)	$528,798
(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
Nine Months Ended September 30, 2016							
Balance at December 31, 2015	19,530,930	$110,271	$121,280	$193,446	$ (16,708)	$(46,715)	$361,574
Net income	—	—	—	12,587	—	—	12,587
Other comprehensive income, net of income tax	—	—	—	—	2,504	—	2,504
Cash dividends declared ($0.60 per share)	—	—	—	(13,125)	—	—	(13,125)
Stock issued under dividend reinvestment and employee stock purchase plans	90,420	—	42	—	—	1,806	1,848
Issuance of common stock, acquisition	6,857,529	34,288	109,858	—	—	—	144,146
Exercise of stock options	39,829	—	(2)	—	—	739	737
Stock-based compensation	—	—	1,407	—	—	—	1,407
Purchases of treasury stock	(118,412)	—	—	—	—	(2,429)	(2,429)
Restricted stock awards granted, net of cancellations	158,116	—	(2,950)	—	—	2,950	—
Balance at September 30, 2016	26,558,412	$144,559	$229,635	$192,908	$ (14,204)	$(43,649)	$509,249

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

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

	Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016
Cash flows from operating activities:		
Net income	$33,830	$12,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	7,900	2,571
Depreciation of premises and equipment	4,151	3,059
Net amortization of investment securities premiums and discounts	1,416	1,238
Net gain on sales of investment securities	(43)	(487)
Net gain on mortgage banking activities	(3,558)	(4,935)
Bank owned life insurance income	(3,147)	(1,716)
Net accretion of acquisition accounting fair value adjustments	(2,572)	(947)
Stock-based compensation	2,550	1,407
Intangible expenses	1,895	2,611
Other adjustments to reconcile net income to cash (used in) provided by operating activities	(286)	3,035
Originations of loans held for sale	(105,557)	(187,553)
Proceeds from the sale of loans held for sale	112,602	192,207
Contributions to pension and other postretirement benefit plans	(2,206)	(2,181)
Decrease (increase) in accrued interest receivable and other assets	1,395	(2,771)
(Decrease) increase in accrued interest payable and other liabilities	(3,620)	5,777
Net cash provided by operating activities	44,750	23,902
Cash flows from investing activities:		
Net cash paid due to acquisitions	—	(94,835)
Net capital expenditures	(5,040)	(9,292)
Proceeds from maturities, calls and principal repayments of securities held-to-maturity	21,796	17,000
Proceeds from maturities, calls and principal repayments of securities available-for-sale	72,306	86,092
Proceeds from sales of securities available-for-sale	3,538	75,265
Purchases of investment securities held-to-maturity	(42,585)	—
Purchases of investment securities available-for-sale	(28,849)	(58,820)
Net increase in other investments	(2,375)	(4,140)
Net increase in loans and leases	(204,866)	(239,949)
Net (increase) decrease in interest-earning deposits	(22,546)	30,829
Proceeds from sales of other real estate owned	3,996	—
Proceeds from bank owned life insurance	2,937	—
Net cash used in investing activities	(201,688)	(197,850)
Cash flows from financing activities:		
Net increase in deposits	261,402	46,197
Net (decrease) increase in short-term borrowings	(164,080)	108,372
Proceeds from issuance of long-term debt	95,000	—
Repayment of long-term debt	(15,000)	—
Proceeds from issuance of subordinated notes	—	44,515
Payment of contingent consideration on acquisitions	(5,380)	(2,519)
Purchases of treasury stock	(3,285)	(2,429)
Stock issued under dividend reinvestment and employee stock purchase plans	1,839	1,848
Proceeds from exercise of stock options	1,527	737

Cash dividends paid	(15,966)	(11,719)
Net cash provided by financing activities	156,057	185,002
Net (decrease) increase in cash and due from banks	(881)	11,054
Cash and due from banks at beginning of year	48,757	32,356
Cash and due from banks at end of period	$47,876	$43,410
Supplemental disclosures of cash flow information:		
Cash paid for interest	$15,458	$9,618
Cash paid for income taxes, net of refunds	12,448	6,461
Non cash transactions:		
Transfer of loans to other real estate owned	$649	$2,347
Assets acquired through acquisitions	—	1,090,859
Liabilities assumed through acquisitions	—	911,316

Note: See accompanying notes to the unaudited 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 three and nine-month periods ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017 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, 2016, which was filed with the SEC on March 3, 2017.
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, purchase accounting, valuation of goodwill and other intangible assets, servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation.
Recent Accounting Pronouncements
In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 May 2017, the FASB issued ASU No. 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. The ASU does not change the accounting for

modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, or January 1, 2018 for the Corporation. Early adoption is permitted, including an interim period. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption. 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 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 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 amendments also allow only the service cost component to be eligible for capitalization, when applicable. This ASU is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods, or January 1, 2018 for the Corporation. This ASU should be applied retrospectively for the presentation requirements and prospectively for the capitalization of the service cost component requirements. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This ASU eliminates Step 2 of the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or for the Corporation's goodwill impairment test in 2020. Early adoption is permitted for goodwill impairment tests with measurement dates after January 1, 2017. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

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

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at

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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 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 for the recording of assets and liabilities for 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.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU will require equity investments to be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment’s observable price. The ASU will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. A valuation allowance on a deferred tax asset related to available-for-sale securities will need to be included. For financial liabilities that are measured at fair value, the ASU requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The amendments in this ASU are effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017 or January 1, 2018 for the Corporation. At September 30, 2017, the

Corporation's equity portfolio had a carrying value of $1.0 million which included an unrealized net gain of $590 thousand. This unrealized net gain, net of income taxes, amounted to $384 thousand and was recorded in accumulated other comprehensive income. Upon implementation using the prospective approach, the balance in accumulated other comprehensive income will be reclassed to retained earnings. The carrying value of the equity securities, upon implementation, will not change; however, any future increases or decreases in fair value will be recorded as an increase or decrease to the carrying value and recognized in non-interest income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequent related updates. This ASU clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that requires an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users

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of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Corporation will adopt the guidance effective January 1, 2018 and expects to use the modified retrospective method with a cumulative-effect adjustment to opening retained earnings, if such adjustment is deemed significant. The Corporation’s revenue is the sum of net interest income and noninterest income. The scope of the guidance excludes nearly all net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. The Corporation has completed the initial scoping review and determined that approximately 82% of non-interest income revenue streams are within the scope of the new standard. Non-interest income streams that are out of scope of the new standard include BOLI, sales of investment securities, mortgage banking activities, certain items within other service fee income such as mortgage servicing income, and certain items within other income. Management is currently reviewing contracts related to trust fee income, service charges on deposits, investment advisory commissions and fee income, insurance commission and fee income and certain items within other service fee income and other income. While the Corporation has not identified material changes to the timing or amount of revenue recognition, the review is ongoing. The Corporation is evaluating changes that may be necessary to applicable disclosures of disaggregation of total revenue, information about performance obligations, information about key judgments and estimates and policy decisions regarding revenue recognition.

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 September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands, except per share data)	2017	2016	2017	2016
Numerator:				
Net income	$11,196	$ 58	$33,830	$12,587
Net income allocated to unvested restricted stock	(96)	—	(330)	(102)
Net income allocated to common shares	$11,100	$ 58	$33,500	$12,485
Denominator:				
Denominator for basic earnings per share—weighted-average shares outstanding	26,437	26,274	26,388	21,720
Effect of dilutive securities—employee stock options	105	67	102	41
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	26,542	26,341	26,490	21,761
Basic earnings per share	$0.42	$ —	$1.27	$0.58
Diluted earnings per share	$0.42	$ —	$1.27	$0.57
Average anti-dilutive options excluded from computation of diluted earnings per share	185	201	166	550

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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 September 30, 2017 and December 31, 2016, by contractual maturity within each type:

(Dollars in thousands)	At September 30, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
U.S. government corporations and agencies:								
After 1 year to 5 years	$6,995	$ —	$(10)	$6,985	$—	$ —	$—	$—
	6,995	—	(10)	6,985	—	—	—	—
Residential mortgage-backed securities:								
After 5 years to 10 years	9,418	3	—	9,421	—	—	—	—
Over 10 years	29,129	100	(2)	29,227	5,071	—	(3)	5,068
	38,547	103	(2)	38,648	5,071	—	(3)	5,068
Corporate bonds:								
Within 1 year	—	—	—	—	19,810	2	(9)	19,803
	—	—	—	—	19,810	2	(9)	19,803
Total	$45,542	$ 103	$(12)	$45,633	$24,881	$ 2	$(12)	$24,871
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	$1,499	$ —	$(3)	$1,496	$15,000	$ 20	$—	$15,020
After 1 year to 5 years	15,634	—	(40)	15,594	17,265	—	(19)	17,246
	17,133	—	(43)	17,090	32,265	20	(19)	32,266
State and political subdivisions:								
Within 1 year	1,258	4	—	1,262	964	—	(1)	963
After 1 year to 5 years	17,838	52	(23)	17,867	18,705	38	(75)	18,668
After 5 years to 10 years	57,334	1,166	(16)	58,484	55,541	829	(426)	55,944
Over 10 years	3,120	9	(17)	3,112	12,663	226	(114)	12,775
	79,550	1,231	(56)	80,725	87,873	1,093	(616)	88,350
Residential mortgage-backed securities:								
After 1 year to 5 years	4,814	33	(6)	4,841	6,086	—	(66)	6,020
After 5 years to 10 years	58,482	14	(718)	57,778	23,479	—	(622)	22,857
Over 10 years	113,530	133	(1,712)	111,951	174,388	99	(4,794)	169,693
	176,826	180	(2,436)	174,570	203,953	99	(5,482)	198,570
Collateralized mortgage obligations:								
Over 10 years	3,879	20	(57)	3,842	4,659	—	(105)	4,554
	3,879	20	(57)	3,842	4,659	—	(105)	4,554
Corporate bonds:								
Within 1 year	9,015	—	(3)	9,012	250	—	—	250
After 1 year to 5 years	33,302	87	(67)	33,322	35,923	34	(241)	35,716
After 5 years to 10 years	15,176	43	(215)	15,004	15,193	—	(516)	14,677
Over 10 years	60,000	—	(2,909)	57,091	60,000	27	(2,472)	57,555
	117,493	130	(3,194)	114,429	111,366	61	(3,229)	108,198

Money market mutual funds:								
No stated maturity	6,624	—	—	6,624	10,784	—	—	10,784
	6,624	—	—	6,624	10,784	—	—	10,784
Equity securities:								
No stated maturity	410	591	(1)	1,000	411	504	—	915
	410	591	(1)	1,000	411	504	—	915
Total	$401,915	$ 2,152	$ (5,787)	$398,280	$451,311	$ 1,777	$ (9,451)	$443,637

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Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties and mortgage-backed securities typically prepay at a rate faster than contractually due. Unrealized losses in investment securities at September 30, 2017 and December 31, 2016 do not represent other-than-temporary impairments in management's judgment.

Securities with a carrying value of $335.5 million and $356.7 million at September 30