UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016
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
Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock, $5 par value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 twelve 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 ninety 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨
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. (Check one):

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
The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $395,953,782 as of June 30, 2016 based on the June 30, 2016 closing price of the Registrant's Common Stock of $21.02 per share.
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	26,604,320
(Title of Class)	(Number of shares outstanding at January 31, 2017)

DOCUMENTS INCORPORATED BY REFERENCE
Part I and Part III incorporate information by reference from the proxy statement for the annual meeting of shareholders on April 18, 2017.

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PART I

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words “believe,” “anticipate,” “estimate,” “expect,” “project,” “target,” “goal” and simil expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including but not limited to those set forth below as well as the risk factors described in Item 1A, “Risk Factors”:

- Operating, legal and regulatory risks
- Economic, political and competitive forces impacting various lines of business
- The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful
- Volatility in interest rates
- Other risks and uncertainties, including those occurring in the U.S. and world financial systems

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These forward-looking statements speak only as of the date of the report. The Corporation expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Corporation’s expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Item 1. Business

General

Univest Corporation of Pennsylvania (the Corporation) is a Pennsylvania corporation organized in 1973 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956. The Corporation owns all of the capital stock of Univest Bank and Trust Co. (the Bank). The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, the Bank. The Corporation’s and the Bank’s legal headquarters are located at 14 North Main Street, Souderton, PA 18964.

The Bank is a Pennsylvania state-chartered bank and trust company. As a state-chartered member bank of the Federal Reserve System, the Bank is regulated primarily by the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank of Philadelphia.

The Bank is engaged in the commercial and consumer banking business and provides a full range of banking and trust services to its customers. The Bank is the parent company of Delview, Inc., which is the parent company of Univest Insurance, Inc., an independent insurance agency, Univest Investments, Inc., a full-service broker-dealer and investment advisory firm and Girard Partners (Girard), a registered investment advisory firm acquired in January 2014. Univest Insurance has four offices in Pennsylvania and one in Maryland. Univest Investments has two offices in Pennsylvania. Girard is headquartered in King of Prussia, Pennsylvania with a satellite office in Florida. The Bank is also the parent company of Univest Capital, Inc., an equipment financing business, and TCG Investment Advisory, a registered investment advisory which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals, municipalities and businesses throughout its markets of operation. Univest Investments, Inc., Univest Insurance, Inc. and Univest

Capital, Inc. were formed to enhance the traditional banking and trust services provided by the Bank, as was the acquisition of Girard Partners.

At December 31, 2016, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines its segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. For more detailed discussion and financial information on the business segments, see Note 23 “Segment Reporting” included in the Notes to the Consolidated Financial Statements included herein under Item 8.

At December 31, 2016, the Corporation had total assets of $4.2 billion, net loans and leases of $3.3 billion, total deposits of $3.3 billion and total shareholders’ equity of $505.2 million.

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Employees

At December 31, 2016, the Corporation and its subsidiaries employed eight hundred and forty (840) persons. None of these employees are covered by collective bargaining agreements, and the Corporation believes it enjoys good relations with its personnel.

Market Area

The Corporation is headquartered in Souderton, Pennsylvania, which is located in Southeastern Pennsylvania, approximately thirty-five miles north of Philadelphia. The highest concentration of our deposits and loans are in Montgomery and Bucks counties where twenty-eight out of our thirty-seven financial centers are located. The acquisition of Fox Chase Bancorp (Fox Chase) on July 1, 2016 expanded the Corporation's presence in Montgomery, Bucks, Philadelphia, and Chester counties in Pennsylvania and into Cape May county in New Jersey. In addition to financial centers gained through acquisitions, the Corporation opened a financial center located in each county of Philadelphia, Lehigh and Lancaster in Pennsylvania during 2016.

Montgomery and Bucks counties are two of the wealthiest counties in Pennsylvania. Significant types of employment industries include pharmaceuticals, health care, electronics, computer services, insurance, industrial machinery, retailing, schools and meat processing. Major companies throughout the two counties include Merck and Company, Abington Hospital-Jefferson Health, GlaxoSmithKline, Hatfield Quality Meats, Aetna/U.S. Healthcare, St. Mary Medical Center, Giant Food Stores LLC, Doylestown Hospital, Grand View Hospital, Central Bucks School District, Pennsbury School District and Northtec LLC. Unemployment rates at December 2016 were 3.6% in Montgomery County and 4.1% Bucks County, lower than Pennsylvania’s state unemployment rate of 4.9% and the federal unemployment rate of 4.5%, according to the Bureau of Labor Statistics.

The Corporation ranks fifth in market share in Montgomery County with fifteen financial centers and eighth in Bucks County with thirteen financial centers; with 5.8% of total combined market share in the two counties according to data provided by SNL Financial. Montgomery County’s population has grown 3% to 824,000 from the year 2010 to 2016, and is expected to grow another 1.9% through 2022, while Bucks County’s population has increased .5% to 628,000 during the same period, but is expected to grow .7% through 2022, according to SNL Financial. The median age is 40 years and 42 years in Montgomery and Bucks counties, respectively, consistent with the median age of 40 years in Pennsylvania and slightly higher than the median age in the United States of 38 years. County estimates project the median age to increase over the next two decades. The median yearly household income was $83,000 for Montgomery County and $83,000 for Bucks County during 2016 and is expected to increase 6% for Montgomery County and 10% for Bucks County through 2022, according to SNL Financial. The yearly median income for both counties is well above that of the Commonwealth of Pennsylvania of $57,000 and the United States at $57,000 during 2016.

Competition

The Corporation’s service areas are characterized by intense competition for banking business among commercial banks, savings institutions and other financial institutions. The Corporation’s subsidiary bank actively competes with such banks and financial institutions for local retail and commercial accounts in Montgomery, Bucks, Chester, Philadelphia, Lancaster and Lehigh counties of Pennsylvania and Cape May county of New Jersey, as well as other financial institutions outside its primary service area.

In competing with other banks, savings institutions and other financial institutions, the Bank seeks to provide personalized services and local decision making through management’s knowledge and awareness of its service area, customers and borrowers.

Other competitors, including credit unions, consumer finance companies, insurance companies, wealth management providers, leasing companies and mutual funds, compete with certain lending and deposit gathering services and insurance and wealth management services offered by the Bank and its operating segments.

Supervision and Regulation

The financial services industry in the United States, particularly entities that are chartered as banks, is highly regulated by federal and state laws that limit the types of businesses in which banks and their holding companies may engage, and which impose significant operating requirements and limitations on banking entities. The discussion below is only a brief summary of some of the significant laws and regulations that affect the Bank and the Corporation, and is not intended to be a complete description of all such laws.

The Bank is subject to supervision and is regularly examined by the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank of Philadelphia. The Bank is also subject to examination by the Federal Deposit Insurance Corporation.

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The Corporation is subject to the provisions of the Bank Holding Company Act of 1956, as amended, and is registered pursuant to its provisions. The Corporation is subject to the reporting requirements of the Board of Governors of the Federal Reserve System (the Board); and the Corporation, together with its subsidiaries, is subject to examination by the Board. The Federal Reserve Act limits the amount of credit that a member bank may extend to its affiliates, and the amount of its funds that it may invest in or lend on the collateral of the securities of its affiliates. Under the Federal Deposit Insurance Act, insured banks are subject to the same limitations.

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX adopted new standards of corporate governance and imposed additional requirements on the board of directors and management of public companies. SOX also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal control over financial reporting, identify any material weaknesses in its internal control over financial reporting and assert that such internal controls are effective. The Corporation has continued to be in compliance with SOX 404 during 2016. The Corporation must maintain effective internal controls, which requires an on-going commitment by management and the Corporation’s Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

The Dodd-Frank Act was signed into law on July 21, 2010. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Corporation’s business, results of operations and financial condition. The Dodd-Frank Act, among other things:

- Centralized responsibility for consumer financial protection by the creation of a new agency, the Consumer Financial Protection Bureau, that has rulemaking authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;

- Increased the FDIC assessment for depository institutions with assets of $10 billion or more, changed the basis for determining FDIC premiums from insured deposits to consolidated assets less tangible capital; and increased the minimum reserve ratio for the deposit insurance fund to 1.35% by September 30, 2020;

- Permanently increased the federal deposit insurance coverage to $250 thousand and increased the Securities Investor Protection Corporation protection from $100 thousand to $250 thousand;

- Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- Amended the Electronic Funds Transfer Act, “Regulation E” to give the Federal Reserve authority to establish rules to limit debit-card interchange fees and rules regarding overdraft fees;

- Provided for new disclosures and other requirements relating to executive compensation, proxy access by shareholders and corporate governance;

- Provided for mortgage reform provisions regarding a customer’s ability to repay, restricting variable-rate lending by requiring the ability to repay be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and

- Created a financial stability oversight council responsible for recommending to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

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Basel III

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies' capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity Tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-adjusted assets requirements include a common equity Tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a Tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The final rules permit institutions, other than certain large institutions, to elect to continue to treat most components of accumulated other comprehensive income as permitted under the current general risk-based capital rules, and not reflect these items in common equity Tier 1 calculations (such as unrealized gains and losses on available-for-sale securities, amounts recorded in accumulated other comprehensive income attributed to defined benefit retirement plans resulting from the initial and subsequent application of the relevant U.S. generally accepted accounting principles and accumulated net gains and losses on cash flow hedges related to items that are reported on the balance sheet at fair value.) The new minimum capital requirements were effective on January 1, 2015. The capital conservation buffer requirements phase in over a four-year period beginning January 1, 2016. The Corporation will continue to analyze the impact of the new rules as it grows and as the capital conservation buffer requirements are phased in.

Wealth Management and Insurance Businesses

The Corporation's wealth management and insurance businesses are subject to additional regulatory requirements. The securities brokerage activities of Univest Investments, Inc. are subject to regulation by the SEC, the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation. Girard Partners and TCG Investment Advisory are registered investment advisory firms which are subject to regulation by the SEC. Univest Insurance, Inc. is subject to Pennsylvania insurance laws and the regulations of the Pennsylvania Department of Insurance.

Credit and Monetary Policies

The Bank is affected by the fiscal and monetary policies of the federal government and its agencies, including the Federal Reserve Board of Governors. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The Board uses its powers to regulate reserve requirements of member banks, the discount rate on member-bank borrowings, interest rates on time and savings deposits of member banks, and to conduct open-market operations in United States Government securities to exercise control over the supply of money and credit. The policies have a direct effect on the amount of bank loans and deposits and on the interest rates charged on loans and paid on deposits, with the result that the policies have a material effect on bank earnings. Future policies of the Board and other authorities cannot be predicted, nor can their effect on future bank earnings.

The Bank is a member of the Federal Home Loan Bank System (FHLBanks), which consists of 11 regional Federal Home Loan Banks, and is subject to supervision and regulation by the Federal Housing Finance Agency. The FHLBanks provide a central credit facility primarily for member institutions. The Bank, as a member of the Federal

Home Loan Bank of Pittsburgh (FHLB), is required to acquire and hold shares of capital stock in the FHLB. At December 31, 2016, the Bank owned $10.1 million in FHLB capital stock.

The deposits of the Bank are insured under the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. Effective April 1, 2011, in accordance with the provisions of the Dodd-Frank Act, the FDIC implemented a final rule regarding deposit insurance assessments. The rule changed the assessment base from domestic deposits to average consolidated total assets minus average tangible equity, adopted a new large-bank pricing assessment scheme, and set a target size for the Deposit Insurance Fund (DIF) at 2% of insured deposits. The rule adopted a new assessment rate schedule and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels. The final rule also created a scorecard-based assessment system for banks with more than $10 billion in assets. The scorecards include financial measures that the FDIC believes are predictive of long-term performance. Effective June 30, 2016, based on DIF ratios, the FDIC made changes to regulations to provide for three major changes to deposit insurance assessments including a reduction to the range of initial assessment rates for all institutions, surcharges on large banks and a revised method to calculate risk-based assessment rates for established small banks.

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Acquisitions

Univest Corporation of Pennsylvania and its business segments provide financial solutions to individuals, businesses, municipalities and nonprofit organizations. The Corporation prides itself on being a financial organization that continues to increase its scope of services while maintaining traditional beliefs and a determined commitment to the communities it serves. Over the past five years, the Corporation and its subsidiaries have experienced stable growth, both organically and through various acquisitions to be the best integrated financial solutions provider in the market.

The acquisitions included:

- Fox Chase Bancorp on July 1, 2016
- Valley Green Bank on January 1, 2015
- Sterner Insurance Associates on July 1, 2014
- Girard Partners on January 1, 2014
- John T. Fretz Insurance Agency, Inc. on May 1, 2013
- Javers Group on May 31, 2012

Securities and Exchange Commission Reports

The Corporation makes available free-of-charge its reports that are electronically filed with the Securities and Exchange Commission (SEC) including its Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports on its website as a hyperlink to EDGAR. These reports are available as soon as reasonably practicable after the material is electronically filed. The Corporation's website address is www.univest.net. Information included on the Corporation's website is not part of this Annual Report on Form 10-K. The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2016 to each shareholder who requests one in writing after March 31, 2017. Requests should be directed to: Megan Duryea Santana, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 197, Souderton, PA 18964.

The SEC maintains an internet site that contains the Corporation's SEC filings electronically at www.sec.gov.

Item 1A. Risk Factors

An investment in the Corporation's common stock is subject to risks inherent to the Corporation's business. Before making an investment, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this report. This report is qualified in its entirety by these risk factors.

Risks Relating to Recent Economic Conditions and Governmental Response Efforts

The Corporation's earnings are impacted by general business and economic conditions.

The Corporation's operations and profitability are impacted by general business and economic conditions; these conditions include long-term and short-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, values of real estate and other collateral and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control.

Uncertainty in the financial markets and concerns regarding general economic conditions have persisted over the past few years. While general economic trends and market conditions have shown improvement, economic growth has been slow as consumers continue to recover from previously high unemployment rates, lower housing prices and foreclosures in the housing market, financial difficulties and concerns about the level of national debt. The continued economic pressures on consumers and businesses or return of recessionary conditions may adversely affect our business, financial condition, and results of operations.

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We cannot predict the effect of recent legislative and regulatory initiatives, and they could increase our costs of doing business and adversely affect our results of operations and financial condition.

The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations. Other changes to statutes, regulations or regulatory policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer, limit the fees we may charge, increase the ability of non-banks to offer competing financial services and products, change regulatory capital requirements (such as BASEL III), change deposit insurance assessments, and limit our ability to attract and maintain our executive officers, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

We borrow from the Federal Home Loan Bank and the Federal Reserve, and these lenders could modify or terminate their current programs which could have an adverse effect on our liquidity and profitability.

We utilize the FHLB for overnight borrowings and term advances; we also borrow from the Federal Reserve and from correspondent banks under our federal funds lines of credit. The amount loaned to us is generally dependent on the value of the collateral pledged as well as the FHLB’s internal credit rating of the Bank. These lenders could reduce the percentages loaned against various collateral categories, could eliminate certain types of collateral and could otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so, because of capital adequacy or other balance sheet concerns. Any change or termination of our borrowings from the FHLB, the Federal Reserve or correspondent banks would have an adverse effect on our liquidity and profitability.

Our results of operations may be adversely affected by other-than-temporary impairment charges relating to our investment portfolio.

We may be required to record future impairment charges on our investment securities, including our investment in the FHLB, if they suffer declines in value that we consider other-than-temporary. Numerous factors, including the lack of liquidity for re-sales of certain investment securities, the absence of reliable pricing information for investment securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough, it could affect the ability of the Bank to pay dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders. Significant impairment charges could also negatively impact our regulatory capital ratios and result in the Bank not being classified as “well-capitalized” for regulatory purposes.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance.

Our customary sources of liquidity are, including, but not limited to, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. Such sources of liquidity may not be available to us on acceptable terms or not available at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Market and Business

The Corporation’s profitability is affected by economic conditions in the Commonwealth of Pennsylvania.

Unlike larger regional banks that operate in large geographies, the Corporation provides banking and financial services to customers primarily in Montgomery, Bucks, Chester, Philadelphia, Lancaster and Lehigh counties of Pennsylvania and Cape May county of New Jersey. Because of our geographic concentration, continuation of a slow economic recovery in our region or a downturn in the local economy could make it more difficult to attract deposits and could cause higher rates of loss and delinquency on our loans than if the loans were more geographically diversified. Adverse economic conditions in the region, including, without limitation, declining real estate values, could cause our levels of non-performing assets and loan losses to increase. Regional economic conditions have a significant impact on the ability of borrowers to repay their loans as scheduled. A sluggish economy could, therefore, result in losses that materially and adversely affect our financial condition and results of operations.

The Corporation operates in a highly competitive industry and market area which could adversely impact its business and results of operations.

We face substantial competition in all phases of our businesses from a variety of different competitors. Our competitors, including commercial banks, community banks, savings institutions, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit-gathering services and insurance and wealth management services offered by us. Increased competition in our markets may result in reduced loans and deposits.

Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to offer competitive products and services, our business may be negatively affected.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation or tax structure as is imposed on bank holding companies and federally insured financial institutions. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

The Corporation’s controls and procedures may fail or be circumvented.

Our management diligently reviews and updates the Corporation’s internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any failure or undetected circumvention of these controls could have a material adverse impact on our financial condition and results of operations.

Potential acquisitions may disrupt the Corporation’s business and dilute shareholder value.

We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity and capital structure. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders’ ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity but would decrease shareholders' equity.

Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or its assets;

- the time and expense required to integrate the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly received.

We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value.

The Corporation may not be able to attract and retain skilled people.

We are dependent on the ability and experience of a number of key management personnel who have substantial experience with our operations, the financial services industry, and the markets in which we offer products and services. The loss of one or

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more senior executives or key managers may have an adverse effect on our businesses. Recently, the Corporation entered into change in control agreements with certain executive officers. As we continue to grow businesses, our success depends on our ability to continue to attract, manage, and retain other qualified management personnel.

If we lost a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

Our profitability depends in part on our success in attracting and retaining a stable base of low-cost deposits. At December 31, 2016, 28% of our deposit base was comprised of noninterest-bearing deposits, of which 19% consisted of business deposits, which are primarily operating accounts for businesses, and 9% consisted of consumer deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and customers are increasingly seeking investments that are safe, including the purchase of U.S. Treasury securities and other government-guaranteed obligations, as well as the establishment of accounts at the largest, most-well capitalized banks. If we were to lose a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

The Corporation’s information systems may experience an interruption or breach in security.

The Corporation relies heavily on information systems to conduct its business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in the Corporation’s customer relationship management and general ledger, deposit, loan, and other systems. The Corporation has policies and procedures designed with the intention to prevent or limit the effect of any failure, interruption, or breach in our security systems. The occurrence of any such failures, interruptions, or breaches in security could expose the Corporation to reputation risk, civil litigation, regulatory scrutiny and possible financial liability that could have a material adverse effect on our financial condition.

The Corporation continually encounters technological change.

Our future success depends, in part, on our ability to effectively embrace technology efficiencies to better serve customers and reduce costs. Failure to keep pace with technological change could potentially have an adverse effect on our business operations and financial condition.

The Corporation is subject to claims and litigation.

Customer claims and other legal actions, whether founded or unfounded, could result in financial or reputation damage and have a material adverse effect on our financial condition and results of operations if such claims are not resolved in a manner favorable to the Corporation.

Natural disasters, acts of war or terrorism and other external events could negatively impact the Corporation.

Natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation’s ability to conduct business. In addition, such events could affect the stability of the Corporation’s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Our management has established disaster recovery policies and procedures that are expected to mitigate events related to natural or man-made disasters; however, the occurrence of any such event and the impact of an overall economic decline resulting from such a disaster could have a material adverse effect on the Corporation’s financial condition.

The Corporation depends on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer’s audited financial statements conform to U.S. generally accepted accounting principles (U.S. GAAP) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. Our financial condition, results of operations and capital could be negatively impacted to the extent we incorrectly assess the creditworthiness of our borrowers, fail to detect or respond to deterioration in asset quality in a timely manner, or rely on financial statements that do not comply with U.S. GAAP or are materially misleading.

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Risks Related to the Banking Industry

The Corporation is subject to interest rate risk.

Our profitability is dependent to a large extent on our net interest income. Like most financial institutions, we are affected by changes in general interest rate levels and by other economic factors beyond our control. Although we believe we have implemented strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial and prolonged change in market interest rates could adversely affect our operating results. Net interest income may decline in a particular period if:

- In a declining interest rate environment, more interest-earning assets than interest-bearing liabilities re-price or mature, or
- In a rising interest rate environment, more interest-bearing liabilities than interest-earning assets re-price or mature.

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the short-term and long-term interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically. Increasing interest rates may also reduce the fair value of our fixed rate investment securities negatively impacting shareholders' equity.

The Corporation is subject to lending risk.

Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans and the value of the associated collateral. Various laws and regulations also affect our lending activities, and failure to comply with such applicable laws and regulations could subject the Corporation to enforcement actions and civil monetary penalties.

At December 31, 2016, approximately 85.3% of our loan and lease portfolio consisted of commercial, financial and agricultural, commercial real estate and construction loans and leases which are generally perceived as having more risk of default than residential real estate and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers’ ability to repay their loans depends on successful development of their properties, as well as the factors affecting residential real estate borrowers. An increase in non-performing loans and leases could result in a net loss of earnings from these loans and leases, an increase in the provision for possible loan and lease losses, and an increase in loan and lease charge-offs. The risk of loan and lease losses increases if the economy worsens.

Commercial business loans and leases are typically based on the borrowers’ ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans and leases often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest). During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan, borrower liquidation of collateral or by seizure of collateral. Included in real estate-construction is track development financing. Risk factors related to track development financing include the demand for residential housing and the real estate valuation market. When projects move slower than anticipated, the properties may have significantly lower values than when the original underwriting was completed, resulting in lower collateral values to support the loan. Extended time frames also cause the interest carrying cost for projects to be higher than the builder projected, negatively impacting the builder's profit and cash flow and, therefore, their ability to make principal and interest payments.

Commercial real estate loans secured by owner-occupied properties are dependent upon the successful operation of the borrower's business. If the operating company suffers difficulties in terms of sales volume and/or profitability, the borrower's ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Commercial business, commercial real estate, and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans.

The Corporation’s allowance for possible loan and lease losses may be insufficient, and an increase in the allowance would reduce earnings.

We maintain an allowance for loan and lease losses. The allowance is established through a provision for loan and lease losses based on management’s evaluation of the risks inherent in our loan portfolio and the general economy. The allowance is based upon a number of factors, including the size of the loan and lease portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management’s assessment of the credit risk inherent in the portfolio, historical loan and lease loss experience and loan underwriting policies. In addition, we evaluate all loans and leases identified as problem loans and augment the allowance based upon our estimation of the potential loss associated with those problem loans and leases. Additions to our allowance for loan and lease losses decrease our net income.

If the evaluation we perform in connection with establishing loan and lease loss reserves is wrong, our allowance for loan and lease losses may not be sufficient to cover our losses, which would have an adverse effect on our operating results. Due to the volatile economy, we could experience an increase in delinquencies and losses as these loans continue to mature.

The regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may from time to time require us to increase our allowance for loan and lease losses, thereby negatively affecting our earnings, financial condition and capital ratios at that time. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control.

The Corporation is required to adopt the FASB's accounting standard which requires measurement of certain financial assets (including loans) using the current expected credit losses (CECL) beginning in calendar year 2020.

Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The FASB's amendment replaces the current 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. 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 the adoption of CECL and that the increased allowance level will have the effect of decreasing shareholders' equity and the Corporation's and Bank's regulatory capital ratios.

Changes in economic conditions and the composition of our loan portfolio could lead to higher loan charge-offs or an increase in our provision for loan losses and may reduce our net income.

Changes in national and regional economic conditions could impact our loan portfolios. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as other factors, could weaken the economies of the communities we serve. Weakness in the market areas we serve could depress our earnings and consequently our financial condition because customers may not demand our products or services; borrowers may not be able to repay their loans; the value of the collateral securing our loans to borrowers may decline and the quality of our loan portfolio may decline. Any of the latter three scenarios could require us to charge off a higher percentage of our loans and/or increase our provision for loan and lease losses, which would reduce our net income and could require us to raise capital.

The Corporation is subject to environmental liability risk associated with lending activities.

In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. The Corporation may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. Our policies and procedures require environmental factors to be considered during the loan application process. An environmental review is performed before initiating any commercial foreclosure action; however, these reviews may not be sufficient to detect all potential environmental hazards. Possible remediation costs and liabilities could have a material adverse effect on our financial condition.

The Corporation is subject to extensive government regulation and supervision.

We are subject to Federal Reserve Board regulation. The Bank is subject to extensive regulation, supervision, and examination by our primary federal regulators, the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank of Philadelphia, and by the FDIC, the regulating authority that insures customer deposits. Also, as a member of the FHLB, the Bank must comply with applicable regulations of the Federal Housing Finance Agency and the FHLB. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. The Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A large claim against the Bank under these laws could have a material adverse effect on our results of operations and financial condition.

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America and the General Assembly of the Commonwealth of Pennsylvania. New financial reform legislation has been enacted by Congress changing the bank regulatory framework, creating an independent consumer protection bureau and establishing more stringent capital standards for financial institutions and their holding companies. The legislation has, and will likely continue to result, in new regulations including those that affect lending, funding, trading and investment activities of financial institutions and their holding companies. Such additional regulation and oversight could have a material and adverse impact on us.

Consumers may decide not to use banks to complete their financial transactions.

The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams could have an adverse effect on our financial condition and results of operations.

Risks Related to the Wealth Management and Insurance Industries

Revenues and profitability from our wealth management business may be adversely affected by any reduction in assets under management and supervision as a result of either a decline in market value of such assets or net outflows, which could reduce trust, investment advisory and brokerage and other servicing fees earned.

The wealth management business derives the majority of its revenue from noninterest income which consists of trust, investment advisory and brokerage and other servicing fees. Substantial revenues are generated from investment management contracts with clients. Under these contracts, the investment advisory fees paid to us are typically based on the market value of assets under management. Assets under management and supervision may decline for various reasons including declines in the market value of the assets in the funds and accounts managed or supervised, which could be caused by price declines in the securities markets generally or by price declines in specific market segments. Assets under management may also decrease due to redemptions and other withdrawals by clients or termination of contracts. This could be in response to adverse market conditions or in pursuit of other investment opportunities.

The wealth management industry is subject to extensive regulation, supervision and examination by regulators, and any enforcement action or adverse changes in the laws or regulations governing our business could decrease our revenues and profitability.

The wealth management business is subject to regulation by a number of regulatory agencies that are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the event of non-compliance with an applicable regulation, governmental regulators, including the SEC, and FINRA, may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, the issuance of cease-and-desist orders or the deregistration or suspension of the non-compliant broker-dealer or investment adviser or other adverse consequences. The imposition of any such penalties or orders could have a material adverse effect on the wealth management segment's operating results and financial condition. We may be adversely affected as a result of new or revised legislation or regulations. Regulatory changes have imposed and may continue to impose additional costs, which could adversely impact our profitability.

Revenues and profitability from our insurance business may be adversely affected by market conditions, which could reduce insurance commissions and fees earned.

The revenues of our fee based insurance business are derived primarily from commissions from the sale of insurance policies, which commissions are generally calculated as a percentage of the policy premium. These insurance policy commissions can fluctuate as insurance carriers from time to time increase or decrease the premiums on the insurance products we sell. Due to the cyclical nature of the insurance market and the impact of other market and macro economic conditions on insurance premiums, commission levels may vary. The reduction of these commission rates, along with general volatility and/or declines in premiums, may adversely impact our profitability.

Risks Related to Our Common Stock

An investment in the Corporation's common stock is not an insured deposit.

The Corporation's common stock is not a bank deposit, is not insured by the FDIC or any other deposit insurance fund, and is subject to investment risk, including the loss of some or all of your investment. Our common stock is subject to the same market forces that affect the price of common stock in any public company.

The Corporation's stock price can be volatile.

The Corporation's stock price can fluctuate in response to a variety of factors, some of which are not under our control. These factors could cause the Corporation's stock price to decrease regardless of our operating results. These factors include, but are not limited to:

- our past and future dividend practice;
- our financial condition, performance, creditworthiness and prospects;
- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events.

The Corporation's common stock is listed for trading on the NASDAQ Global Select Market under the symbol "UVSP"; the trading volume has historically been less than that of larger financial services companies. Stock price volatility may make it more difficult for you to sell your common stock when you want and at prices you find attractive.

A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

Anti-takeover provisions could negatively impact our shareholders.

Certain provisions in the Corporation's Articles of Incorporation and Bylaws, as well as federal banking laws, regulatory approval requirements, and Pennsylvania law could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation's shareholders.

There may be future sales or other dilution of the Corporation’s equity, which may adversely affect the market price of our common stock.

The Corporation is generally not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of any additional shares of common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common stock or the exercise of such securities could be substantially dilutive to shareholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. The market price of our common stock could decline as a result of offerings or because of sales of shares of our common stock made after offerings or the perception that such sales could occur. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature

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of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

The Corporation relies on dividends from our subsidiaries for most of our revenue.

The Corporation is a bank holding company and our operations are conducted by our subsidiaries from which we receive dividends. The ability of our subsidiaries to pay dividends is subject to legal and regulatory limitations, profitability, financial condition, capital expenditures and other cash flow requirements. The ability of the Bank to pay cash dividends to the Corporation is limited by its obligation to maintain sufficient capital and by other restrictions on its cash dividends that are applicable to state member banks in the Federal Reserve System. If the Bank is not permitted to pay cash dividends to the Corporation, it is unlikely that we would be able to pay cash dividends on our common stock.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Corporation and its subsidiaries occupy fifty-five properties in Montgomery, Bucks, Philadelphia, Chester, Lehigh, Delaware, Lancaster and Cumberland counties in Pennsylvania, Camden and Cape May counties in New Jersey, Calvert County in Maryland and Lee County in Florida, most of which are used principally as banking offices. Business locations and hours are available on the Corporation's website at www.univest.net.

The Corporation owns its corporate headquarters buildings, which are shared with the Bank, Univest Investments, Inc., and Univest Insurance, Inc. in Souderton, Montgomery County. The Bank has a leased office used by Univest Investments, Inc. and for loan production located in Allentown, Lehigh County. The Bank owns an office used by Univest Capital, Inc. and Univest Insurance, Inc. located in West Chester, Chester County. Univest Insurance, Inc. occupies four additional locations, of which one is owned by Univest Insurance, Inc. in Coopersburg, Lehigh County and one is owned by the Bank, in Lansdale, Montgomery County; and two are leased, one in North Beach, Calvert County in Maryland and one in Cherry Hill, Camden County in New Jersey. Univest Capital, Inc. occupies one additional leased location in Bensalem, Bucks County. Girard occupies two leased offices, one located in King of Prussia, Montgomery County, and one located in Fort Meyers, Lee County in Florida. The Bank serves the area through its thirty-six traditional offices and one supermarket branch that offer traditional community banking and trust services. In Pennsylvania, fifteen banking offices are located in Montgomery County, of which nine are owned, four are leased and two are buildings owned on leased land; thirteen banking offices are located in Bucks County, of which seven are owned, four are leased and two are buildings owned on leased land; five banking offices are located in Philadelphia County, of which one is owned and four are leased; one leased banking office is located in Chester County; one leased banking office is located in Lehigh County; and one leased banking office is located in Lancaster County. In New Jersey, one owned banking office is located in Cape May County. The Bank has four additional regional leased offices, one primarily used for corporate banking and mortgage banking located in Doylestown, Bucks County, one used for administrative offices for loan production located in Philadelphia, Philadelphia County, one used for mortgage banking located in Mechanicsburg, Cumberland County, and one used for corporate lending in Lancaster, Lancaster County. The traditional office located in West Chester, Chester County, is also used for commercial banking and wealth management. The traditional office located in Hatboro, Montgomery County, is also used for corporate lending.

Additionally, the Bank provides banking and trust services for the residents and employees of fourteen retirement home communities. The Bank has nine off-premise automated teller machines, four of which are located in Montgomery County, three in Bucks County, one in Lehigh County and one in Chester County. The Bank provides banking services nationwide through the internet via its website www.univest.net.

Item 3. Legal Proceedings

Management is not aware of any litigation that would be probable of occurring or probable of having a material adverse effect on the consolidated balance sheet or statement of income of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation. In addition, there are no material proceedings pending or known to be threatened or contemplated against the Corporation or the Bank by government authorities.

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II

Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol "UVSP." At December 31, 2016, the Corporation had 2,785 stockholders of record.

Broadridge Corporate Issuer Solutions, Inc. (Broadridge), serves as the Corporation's transfer agent. Broadridge is located at 1155 Long Island Avenue, Edgewood, NY 11717. Shareholders can contact a representative by calling 866-321-8021.

Range of Market Prices of Common Stock and Cash Dividends

The following table shows the high and low sale prices of the Corporation's common stock. The table also presents the cash dividends declared per share for each quarter.

	Market Price		Cash Dividends Declared per Share
2016	High	Low	
January–March	$20.98	$18.43	$ 0.20
April–June	21.28	18.81	0.20
July–September	23.79	19.97	0.20
October–December	31.50	22.76	0.20
2015			
January–March	$20.61	$18.31	$ 0.20
April–June	20.92	18.77	0.20
July–September	20.88	18.55	0.20
October–December	21.19	18.77	0.20

For a description of regulatory restrictions on the ability of the Corporation and the Bank to pay dividends, see Note 21 "Regulatory Matters" included in the Notes to the Consolidated Financial Statements included herein under Item 8.

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Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation's common stock during the five years ended December 31, 2016, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100.00 was invested on December 31, 2011, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

Five Year Cumulative Total Return Summary

	2011	2012	2013	2014	2015	2016
Univest Corporation of Pennsylvania	100.00	122.37	154.34	157.18	168.56	258.50
NASDAQ Stock Market (US)	100.00	117.70	164.92	189.33	202.82	220.93
NASDAQ Banks	100.00	118.61	167.99	176.18	191.73	264.29

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Equity Compensation Plan Information

The Corporation has a shareholder approved 2013 Long-Term Incentive Plan which replaced the expired 2003 Long-Term Incentive Plan. Under the 2013 Long-Term Incentive Plan, the Corporation may grant options and share awards to employees and non-employee directors up to 3,355,786 shares of common stock, which includes 857,191 shares as a result of the completion of the acquisition of Fox Chase on July 1, 2016 and 473,483 shares as a result of the completion of the acquisition of Valley Green Bank on January 1, 2015. The number of shares of common stock available for issuance under the plan is subject to adjustment, as described in the plan. This includes, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the stock, substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the plan, in the number and option price of shares subject to outstanding options granted under the plan and in the number and price of shares subject to other awards, as described in the plan.

The following table sets forth information regarding outstanding options and shares under equity compensation plans at December 31, 2016:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plan approved by security holders	504,908	$ 19.06	2,747,871
Equity compensation plan not approved by security holders	—	—	—
Total	504,908	$ 19.06	2,747,871

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2016, under the Corporation's Board approved program:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - 31, 2016	—	$	——	1,080,246
November 1 - 30, 2016	—	—	—	1,080,246
December 1 – 31, 2016	—	—	—	1,080,246
Total	—	$	——	

1. Transactions are reported as of trade dates.

2. On October 23, 2013, the Corporation’s Board of Directors approved a new stock repurchase plan for the repurchase of up to 800,000 shares, or approximately 5% of the shares outstanding. On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. The repurchased shares limit is net of normal treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and equity compensation plans. The program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

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Item 6. Selected Financial Data

	For the Years Ended December 31,				
(Dollars in thousands, except per share data)	2016	2015	2014	2013	2012
Earnings					
Interest income	$126,607	$101,983	$76,192	$77,804	$80,865
Interest expense	12,382	8,065	3,996	5,117	8,174
Net interest income	114,225	93,918	72,196	72,687	72,691
Provision for loan and lease losses	4,821	3,802	3,607	11,228	10,035
Net interest income after provision for loan and lease losses	109,404	90,116	68,589	61,459	62,656
Noninterest income	55,963	52,425	48,344	46,559	40,049
Noninterest expense	141,981	105,515	87,254	81,133	76,282
Net income before income taxes	23,386	37,026	29,679	26,885	26,423
Income taxes	3,881	9,758	7,448	5,696	5,551
Net income	$19,505	$27,268	$22,231	$21,189	$20,872
Financial Condition at Year End					
Cash and interest-earning deposits	$57,825	$60,799	$38,565	$69,169	$146,112
Investment securities	468,518	370,760	368,630	402,284	499,579
Net loans and leases held for investment	3,268,387	2,161,385	1,605,963	1,516,990	1,457,116
Assets	4,230,528	2,879,451	2,235,321	2,191,559	2,304,841
Deposits	3,257,567	2,394,360	1,861,341	1,844,498	1,865,333
Borrowings	417,780	73,588	41,974	37,256	117,276
Shareholders' equity	505,209	361,574	284,554	280,506	284,277
Per Common Share Data					
Average shares outstanding (in thousands)	23,098	19,663	16,235	16,605	16,761
Earnings per share – basic	$0.85	$1.39	$1.37	$1.28	$1.25
Earnings per share – diluted	0.84	1.39	1.37	1.28	1.24
Dividends declared per share	0.80	0.80	0.80	0.80	0.80
Book value (at year-end)	19.00	18.51	17.54	17.22	16.95
Dividends declared to net income	94.51 %	57.35 %	58.40 %	62.70 %	64.25 %
Profitability Ratios					
Return on average assets	0.56 %	0.98 %	1.01 %	0.95 %	0.95 %
Return on average equity	4.46	7.58	7.74	7.53	7.39
Average equity to average assets	12.50	12.96	13.03	12.62	12.78
Asset Quality Ratios					
Nonaccrual loans and leases (including nonaccrual, troubled debt restructured loans and lease modifications) to loans and leases held for investment	0.55 %	0.65 %	1.07 %	1.51 %	2.17 %
Nonperforming loans and leases to loans and leases held for investment	0.67	0.91	1.43	2.05	3.11
Net charge-offs to average loans and leases outstanding	0.18	0.33	0.47	0.77	1.03
Allowance for loan and lease losses to total loans and leases held for investment	0.53	0.81	1.27	1.59	1.67
Allowance for loan and lease losses to total loans and leases held for investment (excluding acquired loans at period-end)	0.73	0.94	1.27	1.59	1.67
	97.67	124.29	119.18	105.42	77.01

Allowance for loan and lease losses to nonaccrual loans and leases					
Allowance for loan and leases losses to nonperforming loans and leases	78.98	89.00	88.84	77.53	53.76

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
(All dollar amounts presented within tables are in thousands, except per share data. "BP" equates to "basis points"; "N/ M" equates to "not meaningful"; "—" equates to "zero" or "doesn't round to a reportable number"; and "N/A" equates to "not appl
Certain amounts have been reclassified to conform to the current-year presentation.)

The information contained in this report may contain forward-looking statements, including statements relating to Univest Corporation of Pennsylvania (the Corporation) and its financial condition and results of operations that involve certain risks, uncertainties and assumptions. The Corporation's actual results may differ materially from those anticipated, expected or projected as discussed in forward-looking statements. A discussion of forward-looking statements and factors that might cause such a difference includes those discussed in Item 1. "Business," Item 1A. "Risk Factors," as well as those within this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report.
Critical Accounting Policies

The discussion below outlines the Corporation's critical accounting policies. For further information regarding accounting policies, refer to Note 1, "Summary of Significant Accounting Policies" included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K.

Management, in order to prepare the Corporation's financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that affect the amounts reported in the Corporation's financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the 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, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies.

Fair Value Measurement of Investment Securities Available-for-Sale and Assessment for Impairment of Certain Investment Securities: The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment in the balance sheet and statement of income for market value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management's intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that adjustments to either the balance sheet or statement of condition may be required.

Fair values for securities are determined using independent pricing services and market-participating brokers. The Corporation's independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the pricing service's evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. If at any time, the pricing service determines that it does have not sufficient verifiable information to value a particular security, the Corporation will utilize valuations from another pricing service. Management has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control.

Management evaluates debt securities for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the credit rating of each security. The Corporation evaluates its equity securities for other-than-temporary impairment. Other-than-temporary impairment charges are recorded when the Corporation determines the fair value of certain equity securities will not recover the cost basis 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 and the Corporation's positive intent and ability to hold these securities until recovery to the Corporation's cost basis occurs.

Reserve for Loan and Lease Losses: Reserves for loan and lease losses are provided using techniques that specifically identify losses on impaired loans and leases, estimate losses on pools of homogeneous loans and leases, and estimate the amount of unallocated reserve necessary to account for losses that are present in the loan and lease portfolio but not yet currently identifiable. The adequacies

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of these reserves are sensitive to changes in current economic conditions that may affect the ability of borrowers to make contractual payments as well as the value of the collateral committed to secure such payments. Rapid or sustained downturns in the economy may require increases in the allowance that may negatively impact the Corporation’s results of operations and statements of financial condition in the periods requiring additional reserves.
Purchase Accounting: The Corporation accounts for its acquisitions using the purchase accounting method. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. The Corporation completed the acquisitions of Fox Chase in July 2016 and Valley Green in January 2015, which generated significant amounts of fair value adjustments to assets and liabilities. The fair value adjustments assigned to assets and liabilities, as well as their related useful lives, are subject to judgment and estimation by management. In many cases, determining the fair value of the acquired assets and assumed liabilities requires the Corporation to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest, which requires the utilization of significant estimates and judgment in accounting for the acquisition.

The most significant fair value determination relates to the valuation of acquired loan portfolios. Level 3 inputs are utilized to value the portfolio and include the use of present value techniques employing cash flow estimates and incorporate assumptions that marketplace participants would use in estimating fair values. Specifically, management utilizes three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment, which are: 1) interest rate loan fair value analysis; 2) general credit fair value analysis; and 3) specific credit fair value analysis. For loans acquired with evidence of credit quality deterioration, the Corporation prepares a specific credit fair value adjustment. Actual performance of loans could differ from management’s initial estimates. If a loan outperforms the original fair value estimate, the difference between the original estimate and the actual performance of the loan is accreted into net interest income. Therefore, the net interest margin may initially increase due to the discount accretion. The yields on acquired loans is expected to decline as the acquired loan portfolio pays down or matures and the discount decreases. This could result in higher net interest margins and interest income in current periods and lower net interest rate margins and lower interest income in future periods. For more information, see Note 1 “Summary of Significant Accounting Policies" included in the Notes to the Consolidated Financial Statements included herein under Item 8.

Valuation of intangible assets is generally based on the estimated cash flows related to those assets, while the initial value assigned to goodwill is the residual of the purchase price over the fair value of all identifiable assets acquired and liabilities assumed. The most significant other intangible asset is the core deposit intangible (CDI). In oder to initially record the fair value of the CDI, the income approach is used. Estimates are based upon financial, economic, market and other conditions that exist at the time of the acquisition to develop the projected market interest rate, future interest and maintenance costs, and attrition rates. Useful lives are determined based on the expected future period of the benefit of the asset or liability, the assessment of which considers various characteristics of the asset or liability, including the historical cash flows.

Valuation of Goodwill and Other Intangible Assets: The Corporation completes a goodwill analysis at least on an annual basis or more often if events and circumstances indicate that there may be impairment. The Corporation also completes an impairment test for other intangible assets on an annual basis or more often if events and circumstances indicate a possible impairment. In accordance with ASC Topic 350, the Corporation has the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of the Corporation, including each of its identified reporting units is less than its carrying amount. If the results of the qualitative assessment indicate the potential for impairment, the Corporation would perform the two-step goodwill impairment test.

The Corporation performs the qualitative assessment at the reporting unit level including Banking, Wealth Management, and Insurance. The Corporation identifies the significant drivers of fair value including macroeconomic and microeconomic conditions, overall financial performance, management’s knowledge of the business, key assumptions used in the most recent fair value determination and assumptions at the time of acquisition. As part of this analysis, the Corporation considered the results of the most recent fair value determination performed as of October, 31, 2014, including the amount of excess between the unit’s fair value and carrying amount, changes in the reporting unit and the economic environment in which the reporting unit operates. The Corporation performs a qualitative assessment of the likely impact of the factors on the fair value of the reporting unit and considers what events and circumstances have occurred that may have impacted the drivers of fair value. The Corporation considers the overall financial performance of the reporting unit, including current and projected earnings, funding resources, cashflows, salary and benefits expense, capital and tangible capital as well as changes in management and customers, general economic conditions and the regulatory environment. The Corporation considers the reporting unit’s performance in comparison to peers and recent merger and acquisition data including trading multiples of independent publicly traded entities of comparable sizes. The Corporation also considers changes in its stock price and in comparison to the banking industry. During the fourth quarter of 2016, the Corporation determined based on the assessment of these qualitative factors and events and circumstances that may impact the drivers of fair value, it was more likely than not that the fair value of the Corporation and each of the reporting units was more than its carrying amount; therefore,

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the Corporation did not need to perform the two-step impairment test for the Corporation or the reporting units. The Corporation will perform the two-step impairment test as described below when the qualitative assessment indicates a material negative impact of the factors on the operating performance or cashflows of the Corporation and the reporting units which would more likely than not result in the fair value of the Corporation, including the reporting units, being less than its carrying amount.

There was no goodwill impairment and no material impairment of identifiable intangibles recorded during 2014 through 2016. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

For other identifiable intangible assets, changes in the useful life or economic value of acquired assets may require a reduction in the asset value carried on the financial statements of the Corporation and a related charge in the statement of income. Such changes in asset value could result from a change in market demand for the products or services offered by an acquired business or by reductions in the expected profit margins that can be obtained through the future delivery of the acquired product or service line.

Mortgage Servicing Rights: The Corporation has mortgage servicing rights for mortgages it originated, subsequently sold and retained servicing. The value of the rights is booked as income when the corresponding mortgages are sold. The income booked at sale is the economic value of the estimated net present value of the cash flows that will be received from servicing the loans over their entire future term in excess of the cost of servicing. The term of a servicing right can be reasonably estimated using prepayment assumptions of comparable assets priced in the secondary market. As mortgage rates being offered to the public decrease, the life of mortgage servicing rights tends to shorten, as borrowers have increased incentive to refinance. Shortened mortgage servicing lives may require changes in the value of the servicing rights that have already been recorded to be marked down. This may cause a material change in reported results of operations for the Corporation depending on the size of the servicing portfolio and the degree of change in the prepayment speed of the type and coupon of loans being serviced.

Deferred Tax Assets and Liabilities: The Corporation recognizes deferred tax assets and liabilities for the future effects of temporary differences, net operating loss carryforwards, and tax credits. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the statement of income in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in management’s judgment it is “more likely than not” that some portion of the asset will not be realized. Management may need to modify their judgments in this regard from one period to another should a material change occur in the business environment, tax legislation, or in any other business factor that could impair the Corporation’s ability to benefit from the asset in the future.

Benefit Plans: The Corporation has a retirement plan that it provides as a benefit to employees hired before December 8, 2009 and former employees who were also hired before December 8, 2009 and met the plan’s vesting requirements. The Corporation also provides supplemental retirement plans that it provides as a benefit to certain former executives. Determining the adequacy of the funding of these plans requires estimates of future salary rate increases, of long-term rates of investment return, mortality assumptions, and the use of an appropriate discount rate for the obligation. Changes in these estimates and assumptions due to changes in the economic environment or financial markets may result in material changes in the Corporation’s balance sheet or statement of income.

Stock-Based Compensation: The fair value of share based awards is recognized as compensation expense over the vesting period based on the grant-date fair value of the awards. The Corporation uses the Black-Scholes Model to estimate the fair value of each option on the date of grant. The Black-Scholes model estimates the fair value of employee stock options using a pricing model which takes into consideration the exercise price of the option, the expected life of the option, the current market price and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Corporation's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. The Corporation grants stock options to employees with an exercise price equal to the fair value of the shares at the date of grant. The Corporation grants both fixed and variable (performance-based) restricted stock to employees and non-employee directors. The performance-based restricted stock awards vest based upon the Corporation's performance against selected peers with respect to certain financial measures and internally developed earnings per share targets over a three-year period. The fair value of fixed restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period. The fair value of the performance-based restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period adjusted for a probability factor of achieving the performance goals.

Readers of the Corporation's financial statements should be aware that the estimates and assumptions used in the Corporation's current financial statements may need to be updated in future financial presentations for changes in circumstances, business or economic conditions in order to fairly represent the condition of the Corporation at that time.

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General

The Corporation earns revenues primarily from the margins and fees generated from the lending and depository services to customers as well as fee-based income from trust, insurance, mortgage banking and investment services to customers. The Corporation seeks to achieve adequate and reliable earnings through business growth while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. Growth is pursued through expansion of current customer relationships and development of additional relationships with new offices and strategic acquisitions. The Corporation has also taken steps in recent years to reduce its dependence on net interest income by intensifying its focus on fee-based income from trust, insurance, mortgage banking and investment services to customers.

The principal component of earnings for the Corporation is net interest income, the income earned on loans and investments less the cost of interest-bearing liabilities. The net interest margin, the ratio of net interest income to average earning assets, is impacted by several factors including market interest rates, economic conditions, loan and lease demand, and deposit activity. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation is in a slightly asset sensitive position and shall benefit modestly with increased net interest income should interest rates rise.

Executive Overview

The Corporation's consolidated net income, earnings per share and return on average assets and average equity were as follows:

	For the Years Ended December 31,			Amount of Change		Percent Change	
(Dollars in thousands, except per share data)	2016	2015	2014	2016 to 2015	2015 to 2014	2016 to 2015	2015 to 2014
Net income	$19,505	$27,268	$22,231	$(7,763)	$5,037	(28.5)%	22.7%
Net income per share:							
Basic	$0.85	$1.39	$1.37	$(0.54)	$0.02	(38.8)	1.5
Diluted	0.84	1.39	1.37	(0.55)	0.02	(39.6)	1.5
Return on average assets	0.56 %	0.98 %	1.01 %	(42) BP	(3) BP	(42.9)	(3.0)
Return on average equity	4.46	7.58	7.74	(312) BP	(16) BP	(41.2)	(2.1)

2016 versus 2015

The Corporation reported net income of $19.5 million or $0.84 diluted earnings per share for 2016 compared to net income of $27.3 million or $1.39 diluted earnings per share for 2015. The financial results for 2016 include the Fox Chase Bank acquisition, which the Corporation completed on July 1, 2016. The financial results for the year ended December 31, 2016 included acquisition and integration costs related to the Fox Chase acquisition plus restructuring costs related to facility closures and staffing rationalization of $11.8 million, net of tax, or $0.51 of diluted earnings per share. The results for the year ended December 31, 2016 also included $1.2 million, net of tax, or $0.05 of diluted earnings per share, related to the Corporation's agreement to settle its future obligations related to its acquisition of Girard Partners, Inc. during the fourth quarter of 2016. The financial results for the year ended December 31, 2015 included acquisition, integration and restructuring costs related to the Fox Chase acquisition, the Valley Green acquisition and its new financial center model of $2.9 million, net of tax, or $0.15 of diluted earnings per share.

- Net interest income on a tax-equivalent basis for 2016 was $119.7 million, an increase of $20.5 million, or 20.6%, compared to 2015. The net interest margin on a tax-equivalent basis for 2016 was 3.82%, compared to 3.96% for 2015. The increase in net interest income and decrease in net interest margin (tax equivalent) was mainly due to the impact of the Fox Chase acquisition, which occurred on July 1, 2016.

- The provision for loan and lease losses for 2016 was $4.8 million, compared to $3.8 million for 2015.

- Noninterest income for 2016 was $56.0 million, an increase of $3.5 million, or 6.7%, compared to 2015. Investment advisory commission and fee income increased $584 thousand and insurance commission and fee income increased $718 thousand. Bank owned life insurance income increased $1.6 million primarily due to proceeds from bank owned life insurance death benefits of $450 thousand recognized in the fourth quarter of 2016, acquired policies from Fox Chase of $26.1 million and in 2015, the purchase of $8.0 million and the transfer of $9.8 million of policies to a higher yielding account structure. The net gain on mortgage banking activities increased $1.2 million mainly due to higher mortgage volume. These favorable increases were partially offset by a decline in the net gain on sales of investment securities of $747 thousand.

- Noninterest expense for 2016 was $142.0 million, an increase of $36.5 million, or 34.6% compared to 2015. Acquisition and integration costs related to the Fox Chase acquisition and restructuring costs related to facility closures and staffing rationalization totaled $17.7 million for the year ended December 31, 2016. Acquisition, integration and restructuring costs related to the Fox Chase acquisition, the Valley Green acquisition and new financial center model were $4.2 million for the year ended December 31, 2015. Salaries and benefit expense increased $11.4 million for the year ended December 31, 2016, primarily attributable to higher staffing levels resulting from the Fox Chase acquisition, additional staff hired to support revenue generation across all business lines and the expansion into Lancaster County. Premises and equipment expenses increased $1.5 million primarily due to higher premises expense related to Fox Chase locations and expansion into Philadelphia, Lancaster County and the Lehigh Valley. Data processing expense increased $2.3 million due to increased investments in computer software as well as six months of Fox Chase processing expense. Intangible expenses increased $3.0 million as the Corporation reached an agreement to settle its future obligation related to its acquisition of Girard Partners, Inc.

- Gross loans and leases held for investment increased $1.1 billion from December 31, 2015, including $776.2 million of loans acquired from Fox Chase. Organic loan growth, which excludes the loans acquired from Fox Chase at June 30, 2016, was $330.7 million, or 11.2%, for the year ended December 31, 2016.

- Deposits increased $863.2 million from December 31, 2015, primarily due to $738.3 million of deposits acquired from Fox Chase. Organic deposit growth, which excludes the Fox Chase deposits at June 30, 2016, was $124.9 million or 4.0% for the year ended December 31, 2016.

- Borrowings increased $344.2 million from December 31, 2015, primarily due to long-term borrowings acquired from Fox Chase which consisted of $105.0 million of Federal Home Loan bank borrowings and commercial bank borrowings, the issuance by the Corporation of $45.0 million in subordinated notes on July 1, 2016 and an increase of $172.0 million in short-term borrowings.

- The effective income tax rate for the year ended December 31, 2016 was 16.6%, compared to 26.4% for the year ended December 31, 2015. These rates reflect the Corporation’s levels of tax exempt income for both periods relative to the overall level of taxable income.

- Total risk-based capital at December 31, 2016 under Basel III was 12.44% for the Corporation and 11.85% for the Bank, in excess of the regulatory minimum for well-capitalized status of 10.00%.

2015 versus 2014

The Corporation reported net income of $27.3 million or $1.39 diluted earnings per share for 2015, a 22.7% increase from reported net income of $22.2 million or $1.37 diluted earnings per share for 2014. The financial results for 2015 included the Valley Green Bank acquisition which the Corporation completed on January 1, 2015. The results for the year ended December 31, 2015 included acquisition, integration and restructuring costs related to the Valley Green acquisition, the Fox Chase acquisition and its new financial center model of $2.9 million, net of tax, or $0.15 of diluted earnings per share.

- Net interest income on a tax-equivalent basis for 2015 was $99.2 million, an increase of $22.0 million, or 28.5%, compared to 2014. The net interest margin on a tax-equivalent basis for 2015 was 3.96%, compared to 3.87% for 2014. The increase in net interest income was mainly due to the acquisition of Valley Green.

- The provision for loan and lease losses for 2015 was $3.8 million, compared to $3.6 million for 2014.

- Noninterest income for 2015 was $52.4 million, an increase of $4.1 million, or 8.4%, compared to 2014. The increase was primarily due to the acquisition of Sterner Insurance on July 1, 2014 and higher mortgage banking income partially offset by a decline in investment advisory commission and fee income.

- Noninterest expense for 2015 was $105.5 million, an increase of $18.3 million, or 20.9% compared to 2014. Noninterest expense was impacted by the Valley Green acquisition which included integration and acquisition-related costs totaling $2.0 million during 2015 and additional expenses related to staffing, branch offices and operations. Noninterest expense also included $540 thousand of acquisition-related costs associated with Fox Chase. In addition, noninterest expense for 2015 included restructuring charges of $1.6 million related to the consolidation of six financial centers under the Bank's new financial center model.

- Gross loans and leases grew $552.4 million, or 34.0% from December 31, 2014 which included $380.9 million of loans acquired from Valley Green. Organic loan growth, which excludes the loans acquired from Valley Green at December 31, 2014, was 10.5% for the year ended December 31, 2015. Deposits increased $533.0 million, or 28.6% from December 31, 2014, primarily due to $385.9 million of deposits acquired from Valley Green and an increase in public funds. Organic deposit growth, which excludes the loans acquired from Valley Green at December 31, 2014, was 7.9% for the year ended December 31, 2015.

On May 27, 2015, the Corporation's Board of Directors approved an increase of 1,000,000 shares in the common shares available for repurchase under the Corporation's share repurchase program, or approximately 5% of the Corporation's common stock outstanding as of May 27, 2015. During 2015, the Corporation repurchased 608,757 shares of common stock at a cost of $12.0 million under the share repurchase program.

Merger with Fox Chase Bancorp

On July 1, 2016, the Corporation completed the merger with Fox Chase Bancorp (Fox Chase), parent company of Fox Chase Bank, with an aggregate value of approximately $242.2 million based on the Corporation's June 30, 2016 closing share price. The fair value of total assets acquired as a result of the merger totaled $1.1 billion, loans totaled $776.2 million and deposits totaled

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$738.3 million. The Corporation's presence expanded in Bucks, Chester, Philadelphia and Montgomery counties in Pennsylvania and into Cape May county in New Jersey, complementing and expanding the Corporation's existing network of financial centers. For detailed information related to the transaction, see Note 3 "Acquisition" included in the Notes to the Consolidated Financial Statements included herein under Item 8.

Results of Operations

Net Interest Income

Table 1 presents a summary of the Corporation’s average balances, the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders’ equity on a tax-equivalent basis for the year ended December 31, 2016 compared to 2015 and for the year ended December 31, 2015 compared to 2014. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the weighted average tax-equivalent yield on interest-earning assets less the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders’ equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components.

Table 1, Table 2, and the interest income and net interest income analysis contains tax-equivalent financial information and measures determined by methods other than in accordance with U.S. GAAP. The management of the Corporation uses this non-GAAP financial information and measures in its analysis of the Corporation's performance. This financial information and measures should not be considered a substitute for GAAP basis financial information or measures nor should they be viewed as a substitute for operating results determined in accordance with GAAP. Management believes the presentation of the non-GAAP financial information and measures provide useful information that is essential to a proper understanding of the financial results of the Corporation.

2016 versus 2015

Net interest income on a tax-equivalent basis for the year ended December 31, 2016 was $119.7 million, an increase of $20.5 million, or 20.6%, compared to the same period in 2015. The tax-equivalent net interest margin for the year ended December 31, 2016 was 3.82% compared to 3.96% for 2015. The increase in net interest income and decrease in net interest margin was mainly due to the impact of the Fox Chase acquisition, which occurred on July 1, 2016. The favorable impact of acquisition accounting fair value adjustments was nine basis points for both years ended December 31, 2016 and 2015. The incremental subordinated debt issuance in July 2016 increased funding costs by four basis points for the year ended December 31, 2016 compared to 2015.

2015 versus 2014

Net interest income on a tax-equivalent basis for the year ended December 31, 2015 was $99.2 million, an increase of $22.0 million, or 28.5%, compared to the same period in 2014. The tax-equivalent net interest margin for the year ended December 31, 2015 was 3.96% compared to 3.87% for 2014. The increases in net interest income and net interest margin during the year ended December 31, 2015 was mainly due to the impact of the Valley Green acquisition, which occurred on January 1, 2015. The favorable impact of acquisition accounting fair value adjustments was nine basis points for the year ended December 31, 2015. The subordinated debt issuance increased funding costs by 10 basis points for the year ended December 31, 2015 compared to 2014.

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Table 1—Average Balances and Interest Rates—Tax-Equivalent Basis

	For the Years Ended December 31,								
	2016			2015			2014		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:									
Interest-earning deposits with other banks	$13,438	$61	0.45 %	$38,515	$95	0.25 %	$33,482	$81	0.24 %
U.S. government obligations	54,220	649	1.20	123,593	1,375	1.11	128,487	1,287	1.00
Obligations of states and political subdivisions	97,325	4,172	4.29	107,204	5,303	4.95	106,365	5,554	5.22
Other debt and equity securities	254,508	4,731	1.86	143,133	3,296	2.30	137,900	2,702	1.96
Federal funds sold and other earning assets (1)	16,370	790	4.83	9,936	525	5.28	5,987	307	5.13
Total interest-earning deposits, investments, federal funds sold and other earning assets	435,861	10,403	2.39	422,381	10,594	2.51	412,221	9,931	2.41
Commercial, financial and agricultural loans	552,322	21,964	3.98	422,507	16,901	4.00	392,747	15,636	3.98
Real estate—commercial and construction loans	1,146,293	52,232	4.56	849,161	39,275	4.63	608,602	26,454	4.35
Real estate—residential loans	633,886	28,101	4.43	499,208	22,789	4.57	293,610	11,987	4.08
Loans to individuals	30,501	1,654	5.42	29,653	1,587	5.35	33,675	2,040	6.06
Municipal loans and leases	261,057	11,556	4.43	208,236	9,890	4.75	180,914	8,767	4.85
Lease financings	75,914	6,168	8.12	72,052	6,240	8.66	71,287	6,404	8.98
Gross loans and leases	2,699,973	121,675	4.51	2,080,817	96,682	4.65	1,580,835	71,288	4.51
Total interest-earning assets	3,135,834	132,078	4.21	2,503,198	107,276	4.29	1,993,056	81,219	4.08
Cash and due from banks	37,050			33,025			32,710		
Reserve for loan and lease losses	(17,147)			(20,447)			(24,287)		

Premises and equipment, net	53,036			40,891			35,099		
Other assets	287,239			219,616			165,669		
Total assets	$3,496,012			$2,776,283			$2,202,247		
Liabilities:									
Interest-bearing checking deposits	$386,176	362	0.09	$369,611	269	0.07	$314,784	172	0.05
Money market savings	414,121	1,540	0.37	368,392	1,205	0.33	295,209	373	0.13
Regular savings	714,809	1,052	0.15	582,647	533	0.09	535,346	317	0.06
Time deposits	512,557	4,261	0.83	461,968	4,000	0.87	264,591	3,102	1.17
Total time and interest-bearing deposits	2,027,663	7,215	0.36	1,782,618	6,007	0.34	1,409,930	3,964	0.28
Short-term borrowings	103,238	748	0.72	35,932	35	0.10	41,215	32	0.08
Long-term debt	60,965	549	0.90	—	—	—	—	—	—
Subordinated notes (2)	71,851	3,870	5.39	37,431	2,023	5.40	—	—	—
Total borrowings	236,054	5,167	2.19	73,363	2,058	2.81	41,215	32	0.08
Total interest-bearing liabilities	2,263,717	12,382	0.55	1,855,981	8,065	0.43	1,451,145	3,996	0.28
Noninterest-bearing deposits	751,592			517,566			435,058		
Accrued expenses and other liabilities	43,605			43,011			29,006		
Total liabilities	3,058,914			2,416,558			1,915,209		
Shareholders' Equity:									
Common stock	127,509			110,271			91,332		
Additional paid-in capital	175,609			120,565			62,163		
Retained earnings and other equity	133,980			128,889			133,543		
Total shareholders' equity	437,098			359,725			287,038		
Total liabilities and shareholders' equity	$3,496,012			$2,776,283			$2,202,247		
Net interest income		$119,696			$99,211			$77,223	
Net interest spread			3.66			3.86			3.80
Effect of net interest-free funding sources			0.16			0.10			0.07
Net interest margin			3.82 %			3.96 %			3.87 %
Ratio of average interest-earning assets to average interest-bearing liabilities	138.53 %			134.87 %			137.34 %		

(1) Other earning assets include Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost.

(2) The interest rate on gross subordinated notes is calculated on a 30/360 day basis with a weighted average note rate of 5.07%, 5.10%, and 0.00% for the years ended December 31, 2016, 2015 and 2014, respectively. The balance is net of debt issuance costs which are amortized to interest expense.

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.

Tax-equivalent amounts for the years ended December 31, 2016, 2015 and 2014 have been calculated using the Corporation’s federal applicable rate of 35%.

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Table 2—Analysis of Changes in Net Interest Income

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the year ended December 31, 2016 compared to 2015 and for the year ended December 31, 2015 compared to 2014, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

	For the Years Ended December 31, 2016 Versus 2015			For the Years Ended December 31, 2015 Versus 2014		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$(85)	$51	$(34)	$11	$3	$14
U.S. government obligations	(829)	103	(726)	(50)	138	88
Obligations of states and political subdivisions	(462)	(669)	(1,131)	43	(294)	(251)
Other debt and equity securities	2,163	(728)	1,435	107	487	594
Federal funds sold and other earning assets	314	(49)	265	209	9	218
Interest on deposits, investments, federal funds sold and other earning assets	1,101	(1,292)	(191)	320	343	663
Commercial, financial and agricultural loans	5,149	(86)	5,063	1,186	79	1,265
Real estate—commercial and construction loans	13,560	(603)	12,957	11,026	1,795	12,821
Real estate—residential loans	6,026	(714)	5,312	9,220	1,582	10,802
Loans to individuals	46	21	67	(229)	(224)	(453)
Municipal loans and leases	2,369	(703)	1,666	1,307	(184)	1,123
Lease financings	326	(398)	(72)	68	(232)	(164)
Interest and fees on loans and leases	27,476	(2,483)	24,993	22,578	2,816	25,394
Total interest income	28,577	(3,775)	24,802	22,898	3,159	26,057
Interest expense:						
Interest-bearing checking deposits	13	80	93	29	68	97
Money market savings	170	165	335	115	717	832
Regular savings	132	387	519	32	184	216
Time deposits	444	(183)	261	1,850	(952)	898
Interest on time and interest-bearing deposits	759	449	1,208	2,026	17	2,043
Short-term borrowings	165	548	713	(4)	7	3
Long-term debt	549	—	549	—	—	—
Subordinated notes	1,851	(4)	1,847	2,023	—	2,023
Interest on borrowings	2,565	544	3,109	2,019	7	2,026
Total interest expense	3,324	993	4,317	4,045	24	4,069
Net interest income	$25,253	$(4,768)	$20,485	$18,853	$3,135	$21,988

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Interest Income

2016 versus 2015

Interest income on a tax-equivalent basis for the year ended December 31, 2016 was $132.1 million, an increase of $24.8 million from 2015. The increase was mainly due to the impact of the Fox Chase acquisition. The favorable impact of acquisition accounting fair value adjustments on interest-earning assets was five basis points for 2016. In addition, the positive benefit of interest income due to loan growth in commercial business, commercial real estate and residential real estate loans was partially offset by decreases in loan interest rates due to re-pricing and the competitive environment.

2015 versus 2014

Interest income on a tax-equivalent basis for the year ended December 31, 2015 was $107.3 million, an increase of $26.1 million from 2014. The increase was mainly due to the impact of the Valley Green acquisition. The favorable impact of acquisition accounting fair value adjustments on interest-earning assets was seven basis points for 2015. Growth in commercial real estate, residential real estate and municipal loans and leases was partially offset by decreases in loan interest rates due to re-pricing and the competitive environment.

Interest Expense

2016 versus 2015

Interest expense for the year ended December 31, 2016 was $12.4 million, an increase of $4.3 million, compared to $8.1 million for 2015. The increase was primarily due to the impact of the Fox Chase acquisition and increased borrowings during the year. The favorable impact of acquisition accounting fair value adjustments on interest-bearing liabilities was six basis points for 2016. The increase in interest expense was also due to the subordinated debt issuance in June 2016 which increased funding costs by four basis points for 2016 compared to 2015.

2015 versus 2014

Interest expense for the year ended December 31, 2015 was $8.1 million, an increase of $4.1 million, compared to $4.0 million for 2014. The increase was primarily due to the impact of the Valley Green acquisition. The favorable impact of acquisition accounting fair value adjustments on interest-bearing liabilities was two basis points for 2015. The increase in interest expense was also due to the subordinated debt issuance which increased funding costs by 10 basis points for 2015 compared to 2014.

Provision for Loan and Lease Losses

The provision for the years ended December 31, 2016, 2015, and 2014 was $4.8 million, $3.8 million, and $3.6 million, respectively. The increase in the provision for 2016 and 2015 was primarily to provide for organic loan growth during those years partially offset by improvements in historical loss factors utilized to calculate the reserve for loan and lease losses.

Noninterest Income

Noninterest income consists of trust fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities, net gains (losses) on mortgage banking activities and other miscellaneous types of income. Other service fee income primarily consists of fees from credit card companies for a portion of merchant charges paid to the credit card companies for the Bank’s customer debit card usage, non-customer debit card fees at the Bank's ATM, other merchant fees, mortgage servicing income and mortgage placement income. Bank owned life insurance income represents changes in the cash surrender value of bank-owned life insurance policies, which is affected by the market value of the underlying assets, and also includes any excess proceeds from death benefit claims. The net gain on mortgage banking activities consists of gains (losses) on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan sale commitments. Other noninterest income includes other miscellaneous income.

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The following table presents noninterest income for the periods indicated:

(Dollars in thousands)	For the Years Ended December 31,			$ Change		% Change	
	2016	2015	2014	2016 to 2015	2015 to 2014	2016 to 2015	2015 to 2014
Trust fee income	$7,741	$7,908	$7,835	$(167)	$73	(2.1)%	0.9 %
Service charges on deposit accounts	4,691	4,230	4,230	461	—	10.9	—
Investment advisory commission and fee income	11,357	10,773	11,904	584	(1,131)	5.4	(9.5)
Insurance commission and fee income	14,603	13,885	11,543	718	2,342	5.2	20.3
Other service fee income	7,903	7,379	7,189	524	190	7.1	2.6
Bank owned life insurance income	2,931	1,295	1,628	1,636	(333)	N/M	(20.5)
Net gain on sales of investment securities	518	1,265	635	(747)	630	(59.1)	99.2
Net gain on mortgage banking activities	6,027	4,838	2,182	1,189	2,656	24.6	N/M
Other income	192	852	1,198	(660)	(346)	(77.5)	(28.9)
Total noninterest income	$55,963	$52,425	$48,344	$3,538	$4,081	6.7 %	8.4 %

2016 versus 2015

Noninterest income for the year ended December 31, 2016 was $56.0 million, an increase of $3.5 million or 6.7% compared to 2015. Service charges on deposits increased $461 thousand or 10.9% for the year ended December 31, 2016 mostly due to fees on deposit accounts acquired from Fox Chase. Investment advisory commission and fee income increased $584 thousand or 5.4% for the year ended December 31, 2016 due to an increase in assets under management during 2016. This increase was primarily due to a combination of both increased new customer relationships and improvement in market performance during the second half of 2016. Insurance commission and fee income increased $718 thousand or 5.2% for the year ended December 31, 2016, primarily due to an increase in contingent commission income and growth in the group life and health and commercial product lines premiums. Bank owned life insurance (BOLI) income increased $1.6 million for the year ended December 31, 2016 primarily due to proceeds from bank owned life insurance death benefits of $450 thousand recognized in the fourth quarter of 2016, acquired policies from Fox Chase of $26.1 million, and the 2015 purchase of $8.0 million and transfer of $9.8 million of policies to a higher yielding account structure. The net gain on mortgage banking increased $1.2 million or 24.5% for the year ended December 31, 2016, mainly due to an increase in mortgage origination volume during 2016. Mortgage loan closings increased $48.7 million, or 23.3% for the year ended December 31, 2016 compared to the same period in 2015. These favorable increases were partially offset by a decline in the net gain on sales of investment securities for the year ended December 31, 2016 of $747 thousand compared to 2015.

2015 versus 2014

Noninterest income for the year ended December 31, 2015 was $52.4 million, an increase of $4.1 million or 8.4% compared to 2014. Insurance commission and fee income increased $2.3 million for the year ended December 31, 2015, primarily due to the acquisition of Sterner Insurance on July 1, 2014. The net gain on mortgage banking activities increased $2.7 million for the year ended December 31, 2015, mainly due to an increase in volume. Funded first mortgage volume increased $72.5 million or 55% for the year ended December 31, 2015, compared to 2014. In addition, the net gain on sales of investment securities increased $630 thousand for the year ended December 31, 2015. The increase in net gains on sales of investment securities is attributable to the Corporation's disciplined approach to evaluating market conditions for potential sales and timing of reinvestment. These favorable increases were partially offset by a decline in investment advisory commission and fee income of $1.1 million for the year ended December 31, 2015, primarily related to the fourth quarter of 2014 divestiture of approximately $375 million in marginally profitable assets under the supervision of independent consultants.

Noninterest Expense

The operating costs of the Corporation are known as noninterest expense, and include, but are not limited to, salaries and benefits, commissions, occupancy, equipment, data processing, professional services, intangible expenses, acquisition-related costs, integration costs and restructuring charges and other expenses.

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The following table presents noninterest expense for the periods indicated:

	For the Years Ended December 31,			$ Change		% Change	
(Dollars in thousands)	2016	2015	2014	2016 to 2015	2015 to 2014	2016 to 2015	2015 to 2014
Salaries and benefits	$61,518	$50,069	$42,245	$11,449	$7,824	22.9 %	18.5 %
Commissions	9,361	8,037	7,637	1,324	400	16.5	5.2
Net occupancy	9,638	8,430	7,023	1,208	1,407	14.3	20.0
Equipment	3,489	3,159	2,379	330	780	10.4	32.8
Data processing	6,981	4,660	3,791	2,321	869	49.8	22.9
Professional fees	4,547	3,839	3,164	708	675	18.4	21.3
Marketing and advertising	2,015	2,253	1,880	(238)	373	(10.6)	19.8
Deposit insurance premiums	1,713	1,730	1,561	(17)	169	(1.0)	10.8
Intangible expenses	5,528	2,567	2,167	2,961	400	N/M	18.5
Acquisition-related costs	10,257	1,047	1,270	9,210	(223)	N/M	(17.6)
Integration costs	5,667	1,490	8	4,177	1,482	N/M	N/M
Restructuring charges	1,731	1,642	—	89	1,642	5.4	N/M
Other expense	19,536	16,592	14,129	2,944	2,463	17.7	17.4
Total noninterest expense	$141,981	$105,515	$87,254	$36,466	$18,261	34.6 %	20.9 %

2016 versus 2015

Noninterest expense for the year ended December 31, 2016 was $142.0 million, an increase of $36.5 million or 34.6% compared to 2015. Acquisition and integration costs related to the Fox Chase acquisition and restructuring costs related to facility closures and staffing rationalization totaled $17.7 million for the year ended December 31, 2016. Acquisition, integration and restructuring costs related to the Fox Chase acquisition, the Valley Green acquisition and new financial center model were $4.2 million for the year ended December 31, 2015.

Salaries and benefit expense increased $11.4 million for the year ended December 31, 2016, primarily attributable to higher staffing levels resulting from the Fox Chase acquisition, additional staff hired to support revenue generation across all business lines and the expansion into Lancaster County. Included in salaries and benefit expense for the fourth quarter of 2016 is the cost of a pension settlement of $1.4 million as the Corporation offered lump sum payouts to former employees in its noncontributory retirement plan. This amount was recorded as a reclassification with the accumulated other comprehensive income component of equity and had no impact on the Corporation’s reported equity. This pension distribution was partially offset by the Corporation’s modification of its paid time off policy which resulted in a non-cash reduction in expense of $1.3 million during the fourth quarter of 2016. Commission expense increased $1.3 million for the year ended December 31, 2016, primarily due to commissions paid on increased mortgage banking activities, investment advisory fees and insurance revenues. Premises and equipment expenses increased $1.5 million for the year ended December 31, 2016, primarily due to higher premises expense related to Fox Chase locations and expansion into Philadelphia, Lancaster County and the Lehigh Valley. Data processing expense increased $2.3 million for the year ended December 31, 2016 due to increased investments in computer software as well as six months of Fox Chase processing expense. Intangible expenses increased $3.0 million for the year ended December 31, 2016 as the Corporation reached an agreement to settle its future obligation related to its acquisition of Girard Partners, Inc. during the fourth quarter of 2016.

2015 versus 2014

Noninterest expense for the year ended December 31, 2015 was $105.5 million, an increase of $18.3 million or 20.9% compared to 2014. Non-interest expense was impacted by the Valley Green acquisition which included integration and acquisition-related costs totaling $2.0 million for the year ended December 31, 2015 and $540 thousand in acquisition-related charges associated with Fox Chase. In addition, noninterest expense for the year ended December 31, 2015 included restructuring charges of $1.6 million recognized related to the consolidation of six financial centers under the new financial center model.

Salaries and benefit expense increased $7.8 million for the year ended December 31, 2015, primarily attributable to the Valley Green acquisition, additional staff hired to support revenue generation, increased pension plan expense and bonus accruals. The Sterner Insurance acquisition also impacted 2015 salaries and benefits expense. This increase was partially offset by higher deferred loan origination costs. Premises and equipment expenses increased $2.2 million for the year ended December 31, 2015, mainly due to the Valley Green acquisition.

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Tax Provision

The provision for income taxes was $3.9 million, $9.8 million and $7.4 million for the years ended December 31, 2016, 2015, and 2014, respectively, at effective rates of 16.6%, 26.4%, and 25.1%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities, loans and bank-owned life insurance partially offset by non-deductible merger expenses. The decrease in the effective tax rate from the prior year is mainly due a reduction in taxable income (primarily due to taxable acquisition-related, integration and restructuring expenses of $16.9 million).

Financial Condition

ASSETS

The following table presents assets at the dates indicated:

	At December 31,			
(Dollars in thousands)	2016	2015	$ Change	% Change
Cash and interest-earning deposits	$57,825	$60,799	$(2,974)	(4.9)%
Investment securities	468,518	370,760	97,758	26.4
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	24,869	8,880	15,989	N/M
Loans held for sale	5,890	4,680	1,210	25.9
Loans and leases held for investment	3,285,886	2,179,013	1,106,873	50.8
Reserve for loan and lease losses	(17,499)	(17,628)	129	0.7
Premises and equipment, net	63,638	42,156	21,482	51.0
Goodwill and other intangibles, net	189,210	125,277	63,933	51.0
Bank owned life insurance	99,948	71,560	28,388	39.7
Accrued interest receivable and other assets	52,243	33,954	18,289	53.9
Total assets	$4,230,528	$2,879,451	$1,351,077	46.9 %

Investment Securities

The investment portfolio is managed as part of the overall asset and liability management process to optimize income and market performance over an entire interest rate cycle while mitigating risk. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk, to take advantage of market conditions that create more economically beneficial returns on these investments, and to collateralize public fund deposits and certain long-term debt. The securities portfolio consists primarily of U.S. government agencies, municipals, residential mortgage-backed securities and corporate bonds.

Total investments at December 31, 2016 increased $97.8 million from December 31, 2015. Securities acquired from Fox Chase Bank of $230.7 million and purchases of $85.5 million were partially offset by sales of $77.3 million, maturities and pay-downs of $84.9 million, calls of $47.0 million and decreases in the fair value of available-for-sale investment securities of $6.8 million. The decreases in fair value of available-for-sale investment securities were primarily due to the increase in long-term interest rates during the fourth quarter of 2016.

Table 3—Investment Securities

The following table shows the carrying amount of investment securities at the dates indicated. Held-to-maturity and available-for-sale portfolios are combined.

	At December 31,		
(Dollars in thousands)	2016	2015	2014
U.S. treasuries	$—	$4,887	$4,845
U.S. government corporations and agencies	32,266	102,156	121,844

State and political subdivisions	88,350	102,032	102,774
Residential mortgage-backed securities	203,641	13,354	13,643
Collateralized mortgage obligations	4,554	3,133	3,725
Corporate bonds	128,008	127,665	108,787
Money market mutual funds	10,784	16,726	11,675
Equity securities	915	807	1,337
Total investment securities	$468,518	$370,760	$368,630

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Table 4—Investment Securities (Yields)

The following table shows the maturity distribution and weighted average yields of the investment securities at the dates indicated. Expected maturities will differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties; therefore, the stated yield may not be recognized in future periods. Additionally, residential mortgage-backed securities, which are collateralized by residential mortgage loans, typically prepay at a rate faster than stated maturity. Equity securities and money market mutual funds have no stated maturity and the current dividend yields may not be recognized in future periods. The weighted average yield is calculated by dividing income, which has not been tax equated on tax-exempt obligations, within each contractual maturity range by the outstanding amount of the related investment. Held-to-maturity and available-for-sale portfolios are combined.

(Dollars in thousands)	At December 31, 2016 Amount	2016 Yield	2015 Amount	2015 Yield	2014 Amount	2014 Yield
1 Year or less	$36,044	1.08%	$31,657	1.65%	$18,710	2.45%
After 1 Year to 5 Years	77,649	1.54	163,064	1.39	214,664	1.33
After 5 Years to 10 Years	93,477	2.66	59,067	3.14	75,988	3.13
After 10 Years	249,649	2.33	99,439	3.69	46,256	3.77
No stated maturity	11,699	0.23	17,533	0.16	13,012	0.25
Total	$468,518	2.12%	$370,760	2.25%	$368,630	2.03%

Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost

The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership as determined by the FHLB. The Bank is required to hold additional stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $10.1 million and $2.2 million at December 31, 2016 and 2015, respectively. FHLB stock increased $7.9 million mainly due to purchase requirements related to the increase in FHLB borrowings from the Fox Chase acquisition. Additionally, the FHLB might require its members to increase their capital stock investments. Changes in the credit ratings of the U.S. government and federal agencies, including the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on the FHLB operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation's investment in FHLB stock. The Corporation determined there was no other-than-temporary impairment of its investment in FHLB stock. Therefore, at December 31, 2016, the FHLB stock is recorded at cost.

At December 31, 2016 and 2015, the Bank held $14.6 million and $6.6 million, respectively, in Federal Reserve Bank stock as required by the Federal Reserve Bank. Federal Reserve Bank stock increased $8.0 million from December 31, 2015 due to the increase of capital with the acquisition of Fox Chase.

Loans and Leases

Gross loans and leases held for investment at December 31, 2016 increased $1.1 billion from December 31, 2015, including $776.2 million of loans acquired from Fox Chase. Organic loan growth, which excludes the loans acquired from Fox Chase at June 30, 2016, was 11.2% for the year ended December 31, 2016. Organic growth in loans was primarily in commercial business, commercial real estate and residential real estate loans. Loan growth in 2016 resulted from new and existing customer relationships and the Corporation's strategic move to expand its presence and hire a lending team in Lancaster County to seize opportunities as a result of market disruption caused by other bank acquisitions. Loan growth also resulted from opportunities brought by the Corporation's new lending personnel in its core market and through the acquisition of Fox Chase.

At December 31, 2016, there were no concentrations of loans or leases exceeding 10% of total loans and leases other than as disclosed in Table 5.

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Table 5—Loan and Lease Portfolio

The following table presents the composition of the loan and lease portfolio at the dates indicated:

	At December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Commercial, financial and agricultural	$823,266	$504,515	$457,827	$422,816	$468,421
Real estate-commercial	1,374,949	885,892	628,478	600,353	530,122
Real estate-construction	174,844	96,541	79,887	90,493	91,250
Real estate-residential	747,715	536,893	312,032	281,828	264,432
Loans to individuals	30,373	29,732	29,941	40,000	43,780
Lease financings	134,739	125,440	118,460	105,994	83,857
Total loans and leases held for investment, net of deferred income	$3,285,886	$2,179,013	$1,626,625	$1,541,484	$1,481,862

Table 6—Loan and Lease Maturities and Sensitivity to Changes in Interest Rates

The following table presents the maturity and interest rate sensitivity of the loan and lease portfolio at December 31, 2016:

(Dollars in thousands)	Total	Due in One Year or Less	Due after One Year to Five Years	Due After Five Years
Commercial, financial and agricultural	$823,266	$539,246	$164,358	$119,662
Real estate-commercial	1,374,949	385,099	744,143	245,707
Real estate-construction	174,844	117,491	32,947	24,406
Real estate-residential	747,715	262,561	225,221	259,933
Loans to individuals	30,373	17,556	8,047	4,770
Lease financings	134,739	49,249	85,055	435
Total gross loans and leases held for investment	$3,285,886	$1,371,202	$1,259,771	$654,913
Loans and leases with fixed predetermined interest rates	$1,573,453	$174,653	$935,748	$463,052
Loans and leases with variable or floating interest rates	1,712,433	1,196,549	324,023	191,861
Total gross loans and leases held for investment	$3,285,886	$1,371,202	$1,259,771	$654,913

The commercial mortgages and tax-exempt loans that are presently being written at both fixed and floating rates of interest primarily include loans typically written for five-year terms with a monthly payment based on up to a maximum twenty-five year amortization schedule. At each five-year anniversary date of the mortgage, the Bank usually has the right to require payment in full. If the loan is extended, the interest rate is renegotiated and the term of the loan is extended for an additional five years. These mortgages are included in the "Due in One to Five Years" category in the table above.

Asset Quality

The Bank's strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans and leases. Performance of the loan and lease portfolio is monitored on a regular basis by Bank management and lending officers.

Loans and leases are deemed impaired when, based on current information and events, it is probable that the Bank will be unable to collect all proceeds due according to the contractual terms of the agreement or when a loan or lease is classified as a troubled debt restructuring. Factors considered by management in determining impairment include payment status, borrower cash flows, collateral value and the probability of collecting scheduled principal and interest payments when due.

When a loan or lease, including a loan or lease that is impaired, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease is typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan or lease is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income is reversed and the amortization of net deferred fees is suspended. Interest payments received on nonaccrual loans and leases are either applied against principal or reported as interest income, according to management's judgment as to the ultimate collectability of principal.

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Loans or leases are usually restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

At December 31, 2016, the recorded investment in loans held for investment that were considered to be impaired was $43.9 million. The related reserve for loan losses was $235 thousand. At December 31, 2015, the recorded investment in loans that were considered to be impaired was $48.9 million. The related reserve for loan losses was $322 thousand. Impaired loans include nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. The impaired loan balances consisted mainly of commercial real estate loans and business loans. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management's judgments about the ultimate outcome of these credits. For the years ended December 31, 2016, 2015, and 2014, additional interest income that would have been recognized under the original terms for impaired loans was $909 thousand, $1.3 million and $1.2 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2016, 2015 and 2014 was $1.4 million, $1.6 million and $1.9 million, respectively.

Other real estate owned was $5.0 million at December 31, 2016, compared to $1.3 million at December 31, 2015. The increase of $3.7 million was primarily due to other real estate owned acquired from Fox Chase of $2.8 million. In addition, the Bank transferred five commercial real estate properties, two residential properties and a parcel of land with a total fair value of $2.3 million to other real estate owned. In the fourth quarter of 2016, one commercial real estate property and five residential properties with a total carrying value of $693 thousand were sold.

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Table 7—Nonaccrual and Past Due Loans and Leases; Troubled Debt Restructured Loans and Lease Modifications; Other Real Estate Owned; and Related Ratios

The following table details information pertaining to the Corporation's non-performing assets at the dates indicated:

	At December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:					
Loans held for investment:					
Commercial, financial and agricultural	$5,746	$6,915	$5,002	$4,253	$2,842
Real estate—commercial	5,651	4,314	4,413	8,091	14,340
Real estate—construction	—	—	5,931	9,159	13,588
Real estate—residential	5,983	2,514	1,611	1,402	976
Lease financings	536	440	380	330	386
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	17,916	14,183	17,337	23,235	32,132
Accruing troubled debt restructured loans and lease modifications not included in the above	3,252	5,245	5,469	7,943	13,457
Accruing loans and leases 90 days or more past due:					
Commercial, financial and agricultural	—	—	—	12	—
Real estate—residential	652	—	31	23	54
Loans to individuals	142	173	365	319	347
Lease financings	193	206	55	59	40
Total accruing loans and leases, 90 days or more past due	987	379	451	413	441
Total non-performing loans and leases	22,155	19,807	23,257	31,591	46,030
Other real estate owned	4,969	1,276	955	1,650	1,607
Total nonperforming assets	$27,124	$21,083	$24,212	$33,241	$47,637
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment	0.55 %	0.65 %	1.07 %	1.51 %	2.17 %
Nonperforming loans and leases / loans and leases held for investment	0.67	0.91	1.43	2.05	3.11
Nonperforming assets / total assets	0.64	0.73	1.09	1.52	2.07
Allowance for loan and lease losses / loans and leases held for investment	0.53	0.81	1.27	1.59	1.67
Allowance for loan and lease losses / loans and leases held for investment (excluding acquired loans at period-end)	0.73	0.94	1.27	1.59	1.67
Allowance for loan and lease losses / nonaccrual loans and leases	97.67	124.29	119.18	105.42	77.01
Allowance for loan and lease losses / nonperforming loans and leases	78.98	89.00	88.84	77.53	53.76
Allowance for loan and lease losses	$17,499	$17,628	$20,662	$24,494	$24,746
Acquired credit impaired loans	$7,352	$1,253	$—	$—	$—
Nonperforming loans and leases and acquired credit impaired loans / loans and leases held for investment	0.90	0.97	1.43	2.05	3.11
Nonperforming assets and acquired credit impaired loans / total assets	0.81	0.78	1.09	1.52	2.07
	$1,753	$93	$3,104	$1,583	$579

* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table

The following table provides additional information on the Corporation's nonaccrual loans held for investment:

	At December 31,			
(Dollars in thousands)	2016	2015	2014	2013
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	$17,916	$14,183	$17,337	$23,235
Nonaccrual loans and leases with partial charge-offs	5,000	6,451	6,465	8,958
Life-to-date partial charge-offs on nonaccrual loans and leases	2,857	3,853	1,831	9,120
Charge-off rate of nonaccrual loans and leases with partial charge-offs	36.4 %	37.4 %	22.1 %	50.4 %
Specific reserves on impaired loans	$235	$322	$998	$2,963

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Reserve for Loan and Lease Losses

The reserve for loan and lease losses is maintained at a level representing management's best estimate of known risks and inherent losses in the portfolio, based upon management's evaluation of the portfolio's collectability. Management evaluates the need to establish reserves against losses on loans and leases on a quarterly basis. When changes in the reserve are necessary, an adjustment is made.

The reserve for loan and lease losses consists of a reserve for impaired loans and leases and a general valuation allowance on the remainder of the portfolio. Although management determines the amount of each element of the reserve separately, the entire reserve for loan and lease losses is available for losses on the portfolio.

Reserve Required for Impaired Loans and Leases

A loan or lease is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect future payments of principal or interest as contractually due. The Bank applies its normal loan review procedures in determining if a loan is impaired, which includes reviewing the collectability of delinquent and internally classified loans on a regular basis and at least quarterly. In determining the likelihood of collecting principal and interest, the Bank considers all available and relevant information, including the borrower's actual and projected cash flows, balance sheet strength, liquidity and overall financial position. Additionally, all loans classified as a troubled debt restructurings are considered impaired. When a loan is classified as impaired, an impairment analysis is performed within the quarter in which a loan is identified as impaired to determine if a valuation allowance is needed. The Bank re-examines each impaired loan on a quarterly basis to determine if any adjustment to the net carrying amount of a loan is required. The Bank recognizes charge-offs associated with impaired loans when all or a portion of a loan is considered to be uncollectible. In measuring impairment, the Bank determines whether or not the loan is collateral dependent. A loan is collateral dependent if repayment is expected to be provided solely by the underlying collateral, which includes repayment from the proceeds from the sale of the collateral, cash flows from the continued operation of the collateral, or both, and there are no other available and reliable repayment sources. To determine the initial amount of impairment for a collateral dependent loan, the Bank utilizes a recent appraisal, an agreement of sale or a letter of intent. If the fair value of the underlying collateral, less costs to sell, is less than the loan's carrying amount, the Bank establishes a provision to the reserve for loan and lease losses in the amount of the difference between fair value, less costs to sell, and the loan or lease's carrying amount. In subsequent periods, the Bank takes into consideration current facts and circumstances in analyzing whether the fair value of the collateral has increased or decreased significantly such that a change to the corresponding valuation allowance is required. If current facts and circumstances are insufficient to determine fair value, the Bank obtains a new appraisal.

For loans that are not collateral dependent, the Bank establishes a specific reserve on impaired loans based on management's estimate of the discounted cash flows the Bank expects to receive from the borrower. Factors considered in evaluating such cash flows include: (1) the strength of the customer's personal or business cash flows and personal guarantees; (2) the borrower's effort to cure the delinquency; (3) the availability of other sources of repayment; (4) the type and value of collateral, if applicable; and (5) the strength of our collateral position, if applicable.

General Reserve on the Remainder of the Loan Portfolio

The Bank establishes a general reserve for loans and leases that are not considered impaired to recognize the inherent losses associated with lending activities. This general reserve is determined by segmenting the loan portfolio and assigning reserve factors to each category. The reserve factors are calculated using the Bank's historical losses and loss emergence periods, and are adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors include:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off and recovery practices not considered elsewhere in estimating credit losses;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in the experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of the institution’s loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

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- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. The reserve for these off-balance sheet credits was $385 thousand and $338 thousand at December 31, 2016 and 2015, respectively.

Table 8—Summary of Loan and Lease Loss Experience

The following table presents average loans and leases and summarizes loan and lease loss experience for the periods indicated.

	For the Years Ended December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Average amount of loans and leases outstanding	$2,699,973	$2,080,817	$1,580,835	$1,499,351	$1,465,448
Loan and lease loss reserve at beginning of period	$17,628	$20,662	$24,494	$24,746	$29,870
Charge-offs:					
Commercial, financial and agricultural loans	4,827	4,793	2,834	3,213	9,974
Real estate loans	1,007	2,353	4,644	8,974	4,959
Loans to individuals	395	549	796	641	578
Lease financings	759	801	576	791	1,224
Total charge-offs	6,988	8,496	8,850	13,619	16,735
Recoveries:					
Commercial, financial and agricultural loans	1,454	1,032	247	320	484
Real estate loans	260	238	618	1,130	401
Loans to individuals	133	176	265	174	130
Lease financings	191	214	281	515	561
Total recoveries	2,038	1,660	1,411	2,139	1,576
Net charge-offs	4,950	6,836	7,439	11,480	15,159
Provision to loan and lease loss reserve	4,646	3,623	3,607	11,228	10,035
Provision for acquired credit impaired loans	175	179	—	—	—
Loan and lease loss reserve at end of period	$17,499	$17,628	$20,662	$24,494	$24,746
Ratio of net charge-offs to average loans and leases	0.18 %	0.33 %	0.47 %	0.77 %	1.03 %

The decrease in charge-offs during 2016 compared to 2015 was mainly due to improvements in asset quality. The primary decrease in charge-off activity was in commercial real estate loans. The decrease in charge-offs during 2015 compared to 2014 was mainly due to improvements in asset quality. Decreased charge-off activity for commercial real estate loans was partially offset by increased charge-off activity for commercial, financial and agricultural loans.

Table 9—Loan and Lease Loss Reserves

The following table summarizes the allocation of the allowance for loan and lease losses and the percentage of loans and leases in each major loan category to total loans and leases held for investment at the dates indicated.

	At December 31,									
(Dollars in thousands)	2016		2015		2014		2013		2012	
	$7,037	25.1 %	$6,418	23.2 %	$6,920	28.1 %	$9,789	27.4 %	$11,594	31.5 %

Commercial, financial and agricultural loans										
Real estate loans	9,272	69.9	8,910	69.6	10,830	62.8	11,126	63.1	9,126	59.8
Loans to individuals	364	0.9	346	1.4	360	1.8	694	2.6	679	3.0
Lease financings	788	4.1	1,042	5.8	985	7.3	1,285	6.9	1,326	5.7
Unallocated	38	N/A	912	N/A	1,567	N/A	1,600	N/A	2,021	N/A
Total	$17,499	100.0%	$17,628	100.0%	$20,662	100.0%	$24,494	100.0%	$24,746	100.0%

The allowance for loan and lease losses to nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, was 97.67% at December 31, 2016, 124.29% at December 31, 2015 and 119.18% at December 31, 2014. At December 31, 2016, the specific allowance on impaired loans was $235 thousand, or 0.5% of the balance of impaired loans of $43.9 million. At December 31, 2015, the specific allowance on impaired loans was $322 thousand, or 0.7% of the balance of impaired loans of $48.9 million. At December 31, 2014, the specific allowance on impaired loans was $1.0 million, or 1.8% of the balance of impaired loans of $56.2 million.

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The ratio of the reserve for loan and lease losses to total loans and leases was 0.53% at December 31, 2016 compared to 0.81% at December 31, 2015 and 1.27% at December 31, 2014. Excluding the loans acquired in the Fox Chase Bank and Valley Green Bank acquisitions which were recorded at fair value, the ratio of the reserve for loan and lease losses to total loans and leases was 0.73% at December 31, 2016 and 0.94% at December 31, 2015.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has covenants not to compete, core deposit and customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of these intangible assets for the years ended December 31, 2016, 2015 and 2014 was $4.1 million, $3.6 million and $3.3 million, respectively. The Corporation also has goodwill with a net carrying value of $172.6 million at December 31, 2016 and $112.7 million at December 31, 2015, which is deemed to be an indefinite intangible asset and is not amortized. The increase in goodwill of $59.9 million was related to the Fox Chase Bank acquisition.

The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation also completes an impairment test for other identifiable intangible assets on an annual basis or more often if events and circumstances indicate there may be impairment. There was no impairment of goodwill and no material impairment of identifiable intangibles recorded during 2014 through 2016. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Bank Owned Life Insurance

The Bank purchases bank owned life insurance to protect itself against the loss of key employees due to death and to offset or finance the Corporation's future costs and obligations to its employees under its benefit plans. Bank owned life insurance increased $28.4 million primarily to due $26.1 million of policies acquired from Fox Chase.

LIABILITIES

The following table presents liabilities at the dates indicated:

	At December 31,			
(Dollars in thousands)	2016	2015	$ Change	% Change
Deposits	$3,257,567	$2,394,360	$863,207	36.1 %
Short-term borrowings	196,171	24,211	171,960	N/M
Long-term debt	127,522	—	127,522	—
Subordinated notes	94,087	49,377	44,710	90.5
Accrued interest payable and other liabilities	49,972	49,929	43	0.1
Total liabilities	$3,725,319	$2,517,877	$1,207,442	48.0 %

Deposits

Total deposits increased $863.2 million from December 31, 2015, primarily due to $738.3 million of deposits acquired from Fox Chase. Organic deposit growth, which excludes the Fox Chase deposits at June 30, 2016, was 4.0% from December 31, 2015.

Table 10—Deposits

The following table summarizes the average amount of deposits for the periods indicated:

(Dollars in thousands)	For the Years Ended December 31,		
	2016	2015	2014

Noninteresting-bearing deposits	$751,592	$517,566	$435,058
Interest-bearing checking deposits	386,176	369,611	314,784
Money market savings	414,121	368,392	295,209
Regular savings	714,809	582,647	535,346
Time deposits	512,557	461,968	264,591
Total average deposits	$2,779,255	$2,300,184	$1,844,988

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The following table summarizes the maturities of time deposits with balances of $100 thousand or more. Brokered deposits in the amount of $107.9 million at December 31, 2016 are not included in total certificates of deposit of $100 thousand or more.

(Dollars in thousands)	At December 31, 2016
Due Three Months or Less	$ 110,835
Due Over Three Months to Six Months	71,080
Due Over Six Months to Twelve Months	48,548
Due Over Twelve Months	60,507
Total	$ 290,970

Borrowings

Total borrowings increased $344.2 million from December 31, 2015 mainly due to an increase in long-term borrowings of $127.5 million of which: $105.0 million principal amount was remaining from the Fox Chase acquisition; $45.0 million was due to the issuance by the Corporation of aggregate principal amount of fixed-to-floating rate subordinated notes on July 1, 2016; and an increase of $172.0 million of short-term borrowings. Short-term borrowings at December 31, 2016 consisted of FHLB borrowings, federal funds purchased and customer repurchase agreements on an overnight basis totaling $196.2 million. Long-term debt at December 31, 2016 consisted of Federal Home Loan bank advances and commercial bank borrowings totaling $127.5 million and subordinated notes of $94.1 million. At December 31, 2016 and 2015, the Bank had outstanding short-term letters of credit with the FHLB totaling $148.5 million and $170.2 million, respectively, which were utilized to collateralize public funds deposits.

The following is a summary of borrowings by type. Short-term borrowings consist of overnight borrowings and term borrowings with an original maturity of one year or less. The long-term debt balances and weighted average interest rates include purchase accounting fair value adjustments, net of related amortization from the Fox Chase acquisition.

Table 11—Borrowings

The following table summarizes the Corporation's borrowing activity at the dates indicated:

(Dollars in thousands)	Balance at End of Year	Weighted Average Interest Rate		Maximum Amount Outstanding at Month End During the Year	Average Amount Outstanding During the Year	Weighted Average Interest Rate During the Year	
2016							
Short-term borrowings	$196,171	0.68	%	$ 282,333	$ 103,238	0.72	%
Long-term debt	127,522	0.93		127,826	60,965	0.90	
Subordinated notes	94,087	5.27		94,087	71,851	5.39	
2015							
Short-term borrowings	$24,211	0.05	%	$ 61,176	$ 35,932	0.10	%
Long-term debt	—	—		—	—	—	
Subordinated notes	49,377	5.36		49,377	37,431	5.40	
2014							
Short-term borrowings	$41,974	0.06	%	$ 65,376	$ 41,215	0.08	%
Long-term debt	—	—		—	—	—	

Subordinated notes	—	—	—	—	—

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SHAREHOLDERS' EQUITY

The following table presents total shareholders’ equity at the dates indicated:

(Dollars in thousands)	At December 31,			
	2016	2015	$ Change	% Change
Common stock	$144,559	$110,271	$34,288	31.1 %
Additional paid-in capital	230,494	121,280	109,214	90.1
Retained earnings	194,516	193,446	1,070	0.6
Accumulated other comprehensive loss	(19,454)	(16,708)	(2,746)	(16.4)
Treasury stock	(44,906)	(46,715)	1,809	3.9
Total shareholders’ equity	$505,209	$361,574	$143,635	39.7 %

The increase to shareholders' equity at December 31, 2016 of $143.6 million from December 31, 2015 was primarily related to the issuance of common stock of $34.3 million and additional paid-in capital of $109.9 million for the acquisition of Fox Chase Bank. Retained earnings at December 31, 2016, were impacted by net income of $19.5 million, partially offset by cash dividends declared of $18.4 million. Accumulated other comprehensive loss, net of tax, related to available-for-sale investment securities was $5.0 million and $592 thousand at December 31, 2016 and 2015, respectively. The increase of $4.4 million was primarily due to decreases in the fair value of available-for-sale securities related to the increase in long-term interest rates during the fourth quarter of 2016. Accumulated other comprehensive loss, net of tax benefits, related to pension and other post-retirement benefits was $14.3 million and $15.8 million at December 31, 2016 and 2015, respectively. During the fourth quarter of 2016, the Corporation offered lump sum payouts to former employees in its noncontributory retirement plan, which resulted in a pension settlement cost of $1.4 million. The amount represents a reclassification of accumulated other comprehensive income to pension expense (included in salaries and benefit expense in the statement of income) and had no impact on shareholders' equity. Treasury stock decreased primarily due to the issuance of restricted stock.

Capital Adequacy

Capital guidelines which banking regulators have adopted assign minimum capital requirements for categories of assets depending on their assigned risks. The components of risk-based capital for the Corporation are Tier 1 and Tier 2. Minimum required total risk-based capital is 8.00%. In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies’ capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The rules are discussed in Note 21 “Regulatory Matters,” included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K.

The Corporation adopted the new Basel III regulatory capital rules during the first quarter of 2015 under the transition rules, primarily relating to regulatory deductions and adjustments impacting common equity tier 1 capital and tier 1 capital, to be phased in over a three-year period beginning January 1, 2015. Additionally under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. During 2016, the Corporation and the Bank was required to hold a capital conservation buffer greater than 0.625% above its minimum risk-based capital requirements in order to avoid limitations on capital distributions. During 2017, the Corporation and the Bank must hold a capital conservation buffer greater than 1.25% above its minimum risk-based capital requirements in order to avoid limitations on capital distributions.

At December 31, 2016, the Corporation had a Tier 1 capital ratio of 9.42% and total risked-based capital ratio of 12.44%. At December 31, 2015, the Corporation had a Tier 1 capital ratio of 10.65% and total risked-based capital ratio of 13.35%. The Corporation continues to be in the “well-capitalized” category under regulatory standards. Details on the capital ratios can be found in Note 21 “Regulatory Matters,” included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K along with a discussion on dividend and other restrictions.

Asset/Liability Management

The primary functions of Asset/Liability Management are to assure adequate earnings, capital and liquidity while maintaining an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet cash flow requirements of customers and corporate needs. Management's objective to address interest-rate risk is to understand the Corporation's susceptibility to changes in interest rates and develop and implement strategies to minimize volatility while maximizing net interest income.
The Corporation uses both interest-sensitivity gap analysis and simulation modeling to quantify exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the impact of declining or rising interest rates on net interest income over a one-year and two-year horizon. The simulation uses expected cash flows and repricing

characteristics for all financial instruments at a point in time and incorporates company developed, market-based assumptions regarding growth, pricing, and optionality such as prepayment speeds. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value.

Credit Risk

Extending credit exposes the Corporation to credit risk, which is the risk that the principal balance of a loan and any related interest will not be collected due to the inability of the borrower to repay the loan. The Corporation manages credit risk in the loan portfolio through adherence to consistent standards, guidelines and limitations established by the Board of Directors. Written loan policies establish underwriting standards, lending limits and other standards or limits as deemed necessary and prudent.

The loan review department conducts ongoing, independent reviews of the lending process to ensure adherence to established policies and procedures, monitors compliance with applicable laws and regulations, provides objective measurement of the risk inherent in the loan portfolio, and ensures that proper documentation exists.

The Corporation focuses on both assessing the borrower’s capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower’s assets and by personal guarantees. Commercial real estate loans are originated primarily within the Southeastern Pennsylvania and New Jersey market areas at prudent loan-to-value ratios and are often supported by a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

The Corporation originates fixed-rate and adjustable-rate real estate-residential mortgage loans that are secured by the underlying 1- to 4-family residential properties for personal purposes. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

Credit risk in the consumer loan portfolio is controlled by strict adherence to underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. In the home equity loan portfolio, combined loan-to-value ratios are generally limited to 80%, but increased to 85% for the Corporation’s strongest profile borrower. Other credit considerations and compensating factors may warrant higher combined loan-to-value ratios.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk primarily by using $1.00 buyout leases, in which the entire cost of the leased equipment is included in the contractual payments, leaving no residual payment at the end of the lease term.

The Corporation closely monitors delinquencies as another means of maintaining asset quality. Collection efforts begin after a loan payment is missed, by attempting to contact all borrowers. If collection attempts fail, the Corporation will proceed to gain control of any and all collateral in a timely manner in order to minimize losses.

While liquidation and recovery efforts continue, officers continue to work with the borrowers, if appropriate, to recover all monies owed to the Corporation. The Corporation monitors delinquency trends and past due reports which are submitted to the Board of Directors.

Liquidity

The Corporation, in its role as a financial intermediary, is exposed to certain liquidity risks. Liquidity refers to the Corporation's ability to ensure that sufficient cash flow and liquid assets are available to satisfy demand for loans, deposit withdrawals, repayment of borrowings and brokered certificates of deposit at maturity, operating expenditures, and capital expansion. The Corporation manages liquidity risk by measuring and monitoring liquidity sources and estimated funding needs on a weekly basis. The Corporation has a contingency funding plan in place to address liquidity needs in the event of an institution-specific or a systemic financial crisis.

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Sources of Funds

Core deposits continue to be the largest significant funding source for the Corporation. These deposits are primarily generated from a base of consumer, business and public customers located in our primary service areas. The Corporation faces increased competition for these deposits from a large array of financial market participants, including banks, credit unions, savings institutions, mutual funds, security dealers and others.

The Corporation also utilizes a mix of short-term and long-term wholesale funding providers. Wholesale funding includes correspondent bank borrowings, secured borrowing lines from the Federal Home Loan Bank, the Federal Reserve Bank of Philadelphia and, at times, brokered deposits, or other similar sources.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $1.2 billion. At December 31, 2016 and 2015, the amount of overnight borrowings with the FHLB were $91.3 million and $0 thousand, respectively. At December 31, 2016 and 2015, the amount of long-term borrowings with the FHLB were $96.2 million and $0 thousand, respectively. At December 31, 2016 and 2015, the Bank had outstanding short-term letters of credit with the FHLB totaling $148.5 million and $170.2 million, respectively, which were utilized to collateralize public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB’s internal credit rating of the Bank.

The Corporation, through the Bank, maintains federal fund lines with several correspondent banks totaling $302.0 million and $122.0 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the Corporation had $80.0 million and $0 million, respectively, outstanding federal funds purchased with these correspondent banks. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation has a $10.0 million line of credit with a correspondent bank. At December 31, 2016, the Corporation had no outstanding borrowings under this line.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At December 31, 2016 and 2015, the Corporation had no outstanding borrowings under this line.

On April 25, 2016, Kroll Bond Rating Agency ("KBRA") affirmed its credit rating for the Corporation and the Bank with a stable outlook. Specifically, KBRA affirmed the Corporation's senior unsecured debt rating of BBB+, subordinated debt rating of BBB and short-term rating of K2. With regard to the Bank, KBRA affirmed the Bank's deposit rating of A-, short-term debt rating of K2 and short-term deposit rating of K2 while also assigning the Bank a senior unsecured debt rating of A-.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The following contractual obligations and commitments table presents, at December 31, 2016, significant fixed and determinable contractual obligations and commitments to third parties. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit and short-term and long-term borrowings. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its financial center network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market. The Bank will also use borrowings and brokered deposits to meet its obligations.

The table also shows the amounts and expected maturities of significant commitments at December 31, 2016. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Commitments to extend credit are the Bank's most significant commitment in both the under and over one year time periods.

Contractual Obligations and Commitments

The Corporation enters into contractual obligations in the normal course of business as a source of funds for its asset growth and its asset/liability management, to fund acquisitions and to meet required capital needs. These obligations require the Corporation to make cash payments over time as detailed in the table that follows.

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to manage the Corporation's exposure to fluctuation in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters of credit and forward loan sale contracts. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of these financial instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation’s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Corporation does not require and is not required to pledge collateral or other security to support financial instruments with credit risk. These commitments expire over time as detailed in Table 12.

Table 12—Contractual Obligations and Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows, including interest payable, at December 31, 2016. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

	Payments Due by Period				
(Dollars in thousands)	Total	Due in One Year or Less	Due after One Year to Three Years	Due after Three Years to Five Years	Due in Over Five Years
Short-term borrowings	$196,171	$196,171	$—	$—	$—
Long-term debt	129,965	67,825	41,824	20,316	—
Subordinated capital notes (a)	135,300	4,800	9,600	8,584	112,316
Time deposits (b)	634,772	413,580	180,438	25,885	14,869
Operating leases	59,093	3,115	6,288	6,244	43,446
Standby and commercial letters of credit	46,566	40,041	5,815	499	211
Commitments to extend credit (c)	980,647	276,209	133,641	59,233	511,564
Net asset/liability derivative loan commitments (d)	984	984	—	—	—
Other long-term obligations (e)	25,431	6,346	9,637	7,206	2,242
Total contractual obligations	$2,208,929	$1,009,071	$387,243	$127,967	$684,648

Notes: (a) Includes interest for fixed and variable rate components. As specified in the note agreements, the Corporation has the option to redeem the Notes in whole or in part at a redemption price equal to 100% of the principal amount of the redeemed Notes, plus accrued and unpaid interest to the date of the redemption.

(b) Includes interest on both fixed and variable rate obligations. The interest expense is based upon the fourth quarter average interest rate.

(c) Includes both revolving and straight lines of credit. Revolving lines are reported in the “Due in One Year or Less” category.

(d) Includes the fair value of these contractual arrangements at December 31, 2016.

(e) Represents obligations to the Corporation's third-party data processing provider and other vendors.

Interest Rate Sensitivity

Interest rate sensitivity is a function of the repricing characteristics of the Corporation's assets and liabilities. Minimizing the balance sheet's maturity and repricing risk is a continual focus in a changing interest rate environment. The Corporation uses a variety of techniques to assist in identifying the potential range of risk. A simulation model is utilized to prepare a maturity/repricing Gap analysis as well as an Earnings at Risk analysis under various interest rate scenarios.

The gap analysis identifies interest rate risk by identifying re-pricing gaps in the Corporation's balance sheet. The model is based on expected cash flows and re-pricing characteristics for all financial instruments at a point in time and incorporates Corporation developed, market influenced assumptions regarding the impact of changing interest rates on these financial instruments. All assets and liabilities are modeled to reflect some level of behavioral optionality, such as prepayments on loans, early call features on investments or a decline in deposit balance. These assumptions are based upon historic behavior however are inherently uncertain and thus cannot precisely predict the impact of changes in interest rates. While actual results will differ from simulated results due to customer behavioral change and/or market and regulatory influences, the following models are important tools to guide management.

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Table 13—Interest Rate Sensitivity Gap Analysis

The following table presents the Corporation's gap analysis at December 31, 2016:

(Dollars in thousands)	Within Three Months	After Three Months to Twelve Months	After One Year to Five Years	Over Five Years	Non-Rate Sensitive	Total
Assets:						
Cash and due from banks	$—	$—	$—	$—	$48,757	$48,757
Interest-earning deposits with other banks	9,068	—	—	—	—	9,068
Investment securities	108,397	63,730	208,975	87,416	—	468,518
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	—	—	—	—	24,869	24,869
Loans held for sale	5,890	—	—	—	—	5,890
Loans and leases, net of reserve for loan and lease losses	1,284,145	369,704	1,347,353	284,684	(17,499)	3,268,387
Other assets	—	—	—	—	405,039	405,039
Total assets	$1,407,500	$433,434	$1,556,328	$372,100	$461,166	$4,230,528
Liabilities and shareholders' equity:						
Noninterest-bearing deposits	$180,879	$64,029	$200,183	$473,246	$—	$918,337
Interest-bearing demand deposits	883,850	1,183	4,926	20,004	—	909,963
Savings deposits	766,207	4,835	18,224	13,812	—	803,078
Time deposits	157,958	237,890	210,613	19,728	—	626,189
Borrowings	196,171	65,000	155,000	1,609	—	417,780
Other liabilities	—	—	—	—	49,972	49,972
Shareholders' equity	—	—	—	—	505,209	505,209
Total liabilities and shareholders' equity	$2,185,065	$372,937	$588,946	$528,399	$555,181	$4,230,528
Interest rate swaps	$20,615	$—	$—	$—	$—	
Incremental gap	$(756,950)	$60,497	$967,382	$(156,299)	$(94,015)	
Cumulative gap	$(756,950)	$(696,453)	$270,929	$114,630		
Cumulative gap as a percentage of interest-earning assets	(20.08)%	(18.48)%	7.19%	3.04%		

The table above indicates that the Corporation should anticipate a greater amount of liabilities repricing over assets in the near term. Over time, this will reverse as the magnitude of the asset pricing change exceeds the liability pricing change. This table does not take into account the magnitude of repricing due to rate prices changes.

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Table 14—Net Interest Income - Summary of Interest Rate Simulation

Management also performs a simulation of net interest income to measure interest rate exposures. The following table demonstrates the anticipated impact of a parallel interest rate shift, or "shock," to the yield curve on the Corporation’s net interest income over the next twelve months. This simulation incorporates the same assumptions noted above and assumes a static balance sheet with no growth in interest-earning assets or interest-bearing liabilities over the next twelve months.

The changes to net interest income are shown in the below table at December 31, 2016. The results suggest the Corporation's year-end balance sheet is slightly asset sensitive as net interest income is projected to increase in a rising rate environment. The level of asset sensitivity increased slightly from prior year-end results. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

	Estimated Change in Net Interest Income Over Next 12 Months	
(Dollars in thousands)	Amount	Percent
Rate shock - Change in interest rates		
+300 basis points	$9,172	7.03 %
+200 basis points	6,231	4.77
+100 basis points	3,009	2.31
-100 basis points*	(4,700)	(3.60)

*Certain short-term interest rates are at or below 1.00%. Therefore, in a scenario where rates decline by 100bps, short-term interest rates will decline to zero, resulting in a non-parallel downward shift.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 1, “Summary of Significant Accounting Policies” of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. In the normal course of its business activities including lending, investing, receiving deposits and borrowing funds, the Corporation is subject to changes in the economic value and/or earnings potential of the assets and liabilities due to changes in interest rates. The Corporation’s Investment Asset/Liability Management Committee, is responsible for managing interest rate risk in a manner so as to provide adequate and reliable earnings. This is accomplished through the establishment of policy limits on maximum risk exposures, as well as the regular and timely monitoring of reports designed to quantify risk and return levels. The Corporation’s Board of Directors establishes policies that govern interest rate risk management.

Information with respect to quantitative and qualitative disclosures about market risk can be found in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” including Liquidity and Interest Rate Sensitivity.

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Item 8. Financial Statements and Supplementary Data

The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders
Univest Corporation of Pennsylvania:

We have audited the accompanying consolidated balance sheets of Univest Corporation of Pennsylvania and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Philadelphia, Pennsylvania
March 3, 2017

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	At December 31, 2016	2015
ASSETS		
Cash and due from banks	$48,757	$32,356
Interest-earning deposits with other banks	9,068	28,443
Investment securities held-to-maturity (fair value $24,871 and $41,061 at December 31, 2016 and 2015, respectively)	24,881	40,990
Investment securities available-for-sale	443,637	329,770
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	24,869	8,880
Loans held for sale	5,890	4,680
Loans and leases held for investment	3,285,886	2,179,013
Less: Reserve for loan and lease losses	(17,499)	(17,628)
Net loans and leases held for investment	3,268,387	2,161,385
Premises and equipment, net	63,638	42,156
Goodwill	172,559	112,657
Other intangibles, net of accumulated amortization and fair value adjustments of $17,597 and $15,360 at December 31, 2016 and 2015, respectively	16,651	12,620
Bank owned life insurance	99,948	71,560
Accrued interest receivable and other assets	52,243	33,954
Total assets	$4,230,528	$2,879,451
LIABILITIES		
Noninterest-bearing deposits	$918,337	$541,460
Interest-bearing deposits:		
Demand deposits	909,963	790,800
Savings deposits	803,078	607,694
Time deposits	626,189	454,406
Total deposits	3,257,567	2,394,360
Short-term borrowings	196,171	24,211
Long-term debt	127,522	—
Subordinated notes	94,087	49,377
Accrued interest payable and other liabilities	49,972	49,929
Total liabilities	3,725,319	2,517,877
SHAREHOLDERS’ EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at December 31, 2016 and 2015; 28,911,799 and 22,054,270 shares issued at December 31, 2016 and 2015, respectively; 26,589,353 and 19,530,930 shares outstanding at December 31, 2016 and 2015, respectively	144,559	110,271
Additional paid-in capital	230,494	121,280
Retained earnings	194,516	193,446
Accumulated other comprehensive loss, net of tax benefit	(19,454)	(16,708)
Treasury stock, at cost; 2,322,446 and 2,523,340 shares at December 31, 2016 and 2015, respectively	(44,906)	(46,715)
Total shareholders’ equity	505,209	361,574
Total liabilities and shareholders’ equity	$4,230,528	$2,879,451

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	For the Years Ended December 31, 2016	2015	2014
Interest income			
Interest and fees on loans and leases:			
Taxable	$110,119	$86,792	$62,521
Exempt from federal income taxes	7,545	6,452	5,684
Total interest and fees on loans and leases	117,664	93,244	68,205
Interest and dividends on investment securities:			
Taxable	5,380	4,671	3,989
Exempt from federal income taxes	2,712	3,447	3,610
Interest on deposits with other banks	61	95	81
Interest and dividends on other earning assets	790	526	307
Total interest income	126,607	101,983	76,192
Interest expense			
Interest on demand deposits	1,902	1,474	545
Interest on savings deposits	1,052	533	317
Interest on time deposits	4,261	4,000	3,102
Interest on short-term borrowings	748	35	32
Interest on long-term debt and subordinated notes	4,419	2,023	—
Total interest expense	12,382	8,065	3,996
Net interest income	114,225	93,918	72,196
Provision for loan and lease losses	4,821	3,802	3,607
Net interest income after provision for loan and lease losses	109,404	90,116	68,589
Noninterest income			
Trust fee income	7,741	7,908	7,835
Service charges on deposit accounts	4,691	4,230	4,230
Investment advisory commission and fee income	11,357	10,773	11,904
Insurance commission and fee income	14,603	13,885	11,543
Other service fee income	7,903	7,379	7,189
Bank owned life insurance income	2,931	1,295	1,628
Net gain on sales of investment securities	518	1,265	635
Net gain on mortgage banking activities	6,027	4,838	2,182
Other income	192	852	1,198
Total noninterest income	55,963	52,425	48,344
Noninterest expense			
Salaries and benefits	61,518	50,069	42,245
Commissions	9,361	8,037	7,637
Net occupancy	9,638	8,430	7,023
Equipment	3,489	3,159	2,379
Data processing	6,981	4,660	3,791
Professional fees	4,547	3,839	3,164
Marketing and advertising	2,015	2,253	1,880
Deposit insurance premiums	1,713	1,730	1,561
Intangible expenses	5,528	2,567	2,167

Acquisition-related costs	10,257	1,047	1,270
Integration costs	5,667	1,490	8
Restructuring charges	1,731	1,642	—
Other expense	19,536	16,592	14,129
Total noninterest expense	141,981	105,515	87,254
Income before income taxes	23,386	37,026	29,679
Income taxes	3,881	9,758	7,448
Net income	$19,505	$27,268	$22,231
Net income per share:			
Basic	$0.85	$1.39	$1.37
Diluted	0.84	1.39	1.37
Dividends declared	0.80	0.80	0.80

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	For the Years Ended December 31, 2016 Before Tax Amount	2016 Tax Expense (Benefit)	2016 Net of Tax Amount	2015 Before Tax Amount	2015 Tax Expense (Benefit)	2015 Net of Tax Amount	2014 Before Tax Amount	2014 Tax Expense (Benefit)	2014 Net of Tax Amount
Income	$23,386	$3,881	$19,505	$37,026	$9,758	$27,268	$29,679	$7,448	$22,231
Other comprehensive income:									
Net unrealized (losses) gains on available-for-sale investment securities:									
Net unrealized holding (losses) gains arising during the period	(6,245)	(2,186)	(4,059)	(2,283)	(799)	(1,484)	5,532	1,936	3,596
Less: reclassification adjustment for net gains on sales realized in net income (1)	(518)	(181)	(337)	(1,265)	(443)	(822)	(635)	(222)	(413)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income (2)	—	—	—	5	2	3	—	—	—
Total net unrealized (losses) gains on available-for-sale investment securities	(6,763)	(2,367)	(4,396)	(3,543)	(1,240)	(2,303)	4,897	1,714	3,183
Net unrealized gains (losses) on interest rate swaps used in cash flow hedges:									
Net unrealized holding losses arising during the period	(86)	(30)	(56)	(574)	(201)	(373)	(307)	(107)	(200)
Less: reclassification adjustment for net losses realized in net income (3)	308	108	200	377	132	245	66	23	43
Total net unrealized gains (losses) on interest rate swaps used in cash flow hedges	222	78	144	(197)	(69)	(128)	(241)	(84)	(157)
Defined benefit pension plans:									

Net unrealized gains (losses) arising during the period	(155)	(54)	(101)	(797)	(279)	(518)	(11,968)	(4,189)	(7,779)
Less: amortization of net actuarial loss included in net periodic pension costs (4)	1,321	462	859	1,362	477	885	666	233	433
Less: accretion of prior service cost included in net periodic pension costs (4)	(283)	(99)	(184)	(280)	(98)	(182)	(288)	(101)	(187)
Less: reclassification adjustment for net losses realized in net income (5)	1,434	502	932	—	—	—	—	—	—
Total defined benefit pension plans	2,317	811	1,506	285	100	185	(11,590)	(4,057)	(7,533)
Other comprehensive loss	(4,224)	(1,478)	(2,746)	(3,455)	(1,209)	(2,246)	(6,934)	(2,427)	(4,507)
Total comprehensive income	$19,162	$2,403	$16,759	$33,571	$8,549	$25,022	$22,745	$5,021	$17,724

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).
(2) Included in other noninterest income on the consolidated statement of income (before tax amount).
(3) Included in interest expense on demand deposits on the consolidated statements of income (before tax amount).
(4) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 12 - Retirement Plans and Other Postretirement Benefits for additional details.
(5) Included in pension cost (before tax amount). See Note 12 - Retirement Plans and Other Postretirement Benefits for additional details.

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(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
Balance at December 31, 2013	16,287,812	$91,332	$62,417	$172,602	$ (9,955)	$(35,890)	$280,506
Net income	—	—	—	22,231	—	—	22,231
Other comprehensive loss, net of income tax benefit	—	—	—	—	(4,507)	—	(4,507)
Cash dividends declared ($0.80 per share)	—	—	—	(12,982)	—	—	(12,982)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	124,151	—	43	—	—	2,419	2,462
Exercise of stock options	17,334	—	(5)	—	—	315	310
Repurchase of cancelled restricted stock awards	(43,452)	—	735	—	—	(735)	—
Stock-based compensation	—	—	1,141	—	—	—	1,141
Net tax deficiency on stock-based compensation	—	—	(2)	—	—	—	(2)
Purchases of treasury stock	(238,542)	—	—	—	—	(4,605)	(4,605)
Restricted stock awards granted	74,304	—	(1,349)	—	—	1,349	—
Balance at December 31, 2014	16,221,607	$91,332	$62,980	$181,851	$ (14,462)	$(37,147)	$284,554
Net income	—	—	—	27,268	—	—	27,268
Other comprehensive loss, net of income tax benefit	—	—	—	—	(2,246)	—	(2,246)
Cash dividends declared ($0.80 per share)	—	—	—	(15,673)	—	—	(15,673)
Stock issued under dividend reinvestment and employee stock purchase plans	123,391	—	52	—	—	2,382	2,434
Issuance of common stock, acquisition	3,787,866	18,939	57,727	—	—	—	76,666
Exercise of stock options	27,999	—	(54)	—	—	515	461
Repurchase of cancelled restricted stock awards	(19,934)	—	318	—	—	(318)	—
Stock-based compensation	—	—	1,421	—	—	—	1,421
Net tax benefit on stock-based compensation	—	—	31	—	—	—	31
Purchases of treasury stock	(675,754)	—	—	—	—	(13,342)	(13,342)
Restricted stock awards granted	65,755	—	(1,195)	—	—	1,195	—
Balance at December 31, 2015	19,530,930	$110,271	$121,280	$193,446	$ (16,708)	$(46,715)	$361,574

Net income	—	—	—	19,505	—	—	19,505
Other comprehensive loss, net of income tax benefit	—	—	—	—	(2,746)	—	(2,746)
Cash dividends declared ($0.80 per share)	—	—	—	(18,435)	—	—	(18,435)
Stock issued under dividend reinvestment and employee stock purchase plans	115,269	—	59	—	—	2,413	2,472
Issuance of common stock, acquisition	6,857,529	34,288	109,858	—	—	—	144,146
Exercise of stock options	261,050	—	59	—	—	4,909	4,968
Repurchase of cancelled restricted stock awards	(23,409)	—	418	—	—	(418)	—
Stock-based compensation	—	—	2,084	—	—	—	2,084
Purchases of treasury stock	(328,271)	—	—	—	—	(8,359)	(8,359)
Restricted stock awards granted	176,255	—	(3,264)	—	—	3,264	—
Balance at December 31, 2016	26,589,353	$144,559	$230,494	$194,516	$ (19,454)	$(44,906)	$505,209

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
(Dollars in thousands)	2016	2015	2014
Cash flows from operating activities:			
Net income	$19,505	$27,268	$22,231
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	4,821	3,802	3,607
Depreciation of premises and equipment	4,089	3,757	3,243
Net gain on sales of investment securities	(518)	(1,265)	(635)
Net gain on mortgage banking activities	(6,027)	(4,838)	(2,182)
Bank owned life insurance income	(2,931)	(1,295)	(1,628)
Net amortization on investment securities	1,853	1,284	1,690
Amortization, fair market value adjustments and capitalization of mortgage servicing rights	(521)	(368)	10
Net accretion of acquisition accounting fair value adjustments	(2,779)	(2,048)	—
Stock-based compensation	2,084	1,421	1,141
Intangible expenses	5,528	2,567	2,167
Other adjustments to reconcile net income to cash provided by operating activities	659	(133)	(822)
Deferred tax expense	942	3,816	4,162
Originations of loans held for sale	(258,202)	(209,464)	(131,461)
Proceeds from the sale of loans held for sale	262,948	212,613	132,278
Contributions to pension and other postretirement benefit plans	(2,261)	(2,271)	(254)
Decrease (increase) in accrued interest receivable and other assets	1,956	3,055	(3,237)
Increase (decrease) in accrued interest payable and other liabilities	2,160	1,442	(587)
Net cash provided by operating activities	33,306	39,343	29,723
Cash flows from investing activities:			
Net cash paid due to acquisitions	(94,835)	(2,967)	(9,260)
Net capital expenditures	(12,644)	(5,890)	(5,595)
Proceeds from maturities and calls of securities held-to-maturity	21,000	13,000	11,000
Proceeds from maturities and calls of securities available-for-sale	110,927	79,482	58,744
Proceeds from sales of securities available-for-sale	77,290	77,308	32,967
Purchases of investment securities held-to-maturity	(5,071)	—	—
Purchases of investment securities available-for-sale	(80,476)	(162,722)	(65,215)
Proceeds from sale of loans transferred to held for sale	—	4,000	—
Proceeds from sale of portfolio loans	2,435	—	—
Proceeds from sale of credit card portfolio	—	—	8,940
Net increase in loans and leases	(337,961)	(181,037)	(100,981)
Net decrease (increase) in interest-earning deposits	35,004	(16,954)	30,070
Net (increase) decrease in other investments	(11,773)	(3,718)	2,144
Proceeds from sales of other real estate owned	885	14	891
Net decrease in federal funds sold	—	17,442	—
Purchases of bank owned life insurance	—	(8,000)	—
Proceeds from bank owned life insurance	662	—	—
Net cash used in investing activities	(294,557)	(190,042)	(36,295)
Cash flows from financing activities:			
Net increase in deposits	125,425	147,572	16,843

Net increase (decrease) in short-term borrowings	123,207	(17,763)	4,217
Proceeds from issuance of long-term debt	20,000	—	—
Repayment of long-term debt	(15,000)	—	—
Proceeds from issuance of subordinated notes	44,515	49,267	—
Payment of contingent consideration on acquisitions	(2,552)	(2,631)	(310)
Purchases of treasury stock	(8,359)	(13,342)	(4,605)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	2,472	2,434	2,462
Proceeds from exercise of stock options, including excess tax benefits	4,968	534	310
Cash dividends paid	(17,024)	(15,011)	(12,996)
Net cash provided by financing activities	277,652	151,060	5,921
Net decrease (increase) in cash and due from banks	16,401	361	(651)
Cash and due from banks at beginning of year	32,356	31,995	32,646
Cash and due from banks at end of period	$48,757	$32,356	$31,995

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	For the Years Ended December 31,		
	2016	2015	2014
Supplemental disclosures of cash flow information:			
Cash paid for interest	$13,982	$8,099	$4,118
Cash paid for income taxes, net of refunds	8,053	2,142	5,899
Non cash transactions:			
Transfer of loans to other real estate owned	$2,347	$320	$—
Transfer of loans to loans held for sale	—	4,000	8,926
Assets acquired through acquisitions	1,090,395	425,185	—
Liabilities assumed through acquisitions	911,316	389,795	—
Contingent consideration recorded as goodwill	—	1,525	6,105

See accompanying notes to consolidated financial statements.

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(All dollar amounts presented in tables are in thousands, except per share data. “N/M” equates to “not meaningful”; “-“ equates to “zero” or “doesn’t round to a reportable number”; and “N/A” equates to “not applicable”.)

Note 1. Summary of Significant Accounting Policies

Organization

Univest Corporation of Pennsylvania (the Corporation) through its wholly owned subsidiary, Univest Bank and Trust Co. (the Bank), is engaged in domestic commercial and consumer banking services and provides a full range of banking and trust services to its customers. The Bank wholly owns Univest Capital, Inc., which provides lease financing, and Delview, Inc., who through its subsidiaries, Univest Investments, Inc., Univest Insurance, Inc. and Girard Partners provides financial planning, investment management, investment advisory, insurance products and brokerage services. Univest Investments, Inc., Univest Insurance, Inc. and Univest Capital, Inc. were formed to enhance the traditional banking and trust services provided by the Bank, along with the acquisition of Girard Partners. At December 31, 2016, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines its segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. For more detailed discussion and financial information on the business segments, see Note 23 “Segment Reporting.”

The Bank serves Montgomery, Bucks, Chester, Philadelphia, Lancaster and Lehigh Counties of Pennsylvania and Cape May County in New Jersey through thirty-seven banking offices and provides banking and trust services to the residents and employees of fourteen retirement communities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries; the Corporation’s primary subsidiary is the Bank. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current-year presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (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.

Interest-earning Deposits with Other Banks

Interest-earning deposits with other banks consist of deposit accounts with other financial institutions generally having maturities of three months or less. At times, such balances exceed the FDIC limits for insurance coverage.

Investment Securities

Securities are classified as investment securities held-to-maturity and carried at amortized cost if management has the positive intent and ability to hold the securities to maturity. Securities purchased with the intention of recognizing short-term profits are placed in the trading account and are carried at fair value. The Corporation did not have any trading account securities at December 31, 2016 or 2015. Securities not classified as held-to-maturity or trading are designated securities available-for-sale and carried at fair value with unrealized gains and losses, net of estimated income taxes, reflected in accumulated other comprehensive income, a separate component of shareholders' equity. Securities classified as available-for-sale are those securities that the Corporation intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including interest rates, changes in the maturity or mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations and other factors. Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

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Purchase premiums and discounts are recognized in interest income using the interest method over the expected life of the securities. Due to volatility in the financial markets, there is the risk that any future fair value could vary from that disclosed in the accompanying financial statements. Realized gains and losses on the sale of investment securities are recorded on the trade date, determined using the specific identification method and are included in the consolidated statements of income.

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the credit rating of each security. Unrealized losses on the Corporation’s investments in debt securities that are deemed in debt securities are temporary in nature are recognized in other comprehensive income, net of tax. Should it be determined that a security is impacted by deteriorating credit, the credit portion of the loss is recognized in earnings. 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 evaluates its equity securities for other-than-temporary impairment. Other-than-temporary impairment charges are recorded when the Corporation determines the fair value of certain equity securities will not recover the cost basis of the individual security 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.

Federal Home Loan Bank Stock, Federal Reserve Bank Stock and Certain Other Investments without Readily Determinable Fair Values

At December 31, 2016 and 2015, the Bank held $14.6 million and $6.6 million, respectively, in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership as determined by the FHLB. The Bank is required to hold additional stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $10.1 million and $2.2 million at December 31, 2016 and 2015, respectively. Additionally, the FHLB might require its members to increase their capital stock investments. Changes in the credit ratings of the U.S. government and federal agencies, including the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on its operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation’s investment in FHLB stock. Because ownership is restricted, the fair values of these investments are not readily determinable. As such, these investments are recorded at cost and evaluated for other-than-temporary impairment. The Corporation determined there was no other-than-temporary impairment of its investments in these stocks at December 31, 2016 or 2015.

Loans Held for Sale

The Corporation originates mortgage loans for investment and for sale. At origination, a mortgage loan is identified as either for sale or for investment. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Net unrealized losses are recognized by charges to non-interest income. Cash payments and cash receipts resulting from acquisitions and sales of loans are classified as operating cash flows if those loans are acquired specifically for resale. Cash receipts resulting from sales of loans that were not specifically acquired for resale are classified as investing cash inflows regardless of a change in the purpose for holding those loans.

Loans and Leases

Loans and leases are stated at the principal amount less net deferred fees and unearned discount. Interest income on commercial loans, real estate loans excluding residential real estate loans, and consumer loans is recorded on the outstanding balance method, using actual interest rates applied to daily principal balances. Interest on residential real estate loans is recorded based on the outstanding balance using the actual interest rate based upon a monthly interest calculation. Loan commitments are made to accommodate the financial needs of the customers. These commitments represent off-balance sheet items that are unfunded. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments. Accrual of interest income on loans and leases ceases when collectability of interest and/or principal is questionable. If it is determined that the collection of interest previously accrued is uncertain, such accrual is reversed and charged to current earnings. Loans and leases are considered past due based upon failure to comply with contractual terms.

A loan or lease is typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan or lease is currently performing. When a loan or lease, including a loan or lease that is impaired, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income is reversed and the amortization of the net deferred fees is suspended. Interest payments received on nonaccrual loans and leases are either applied against principal or reported as interest income, according to management’s judgment as to the ultimate collectability of principal. Loans and leases are usually restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. A loan or lease is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement or when a loan or lease is classified as a troubled debt restructuring. Interest on impaired loans and leases, which are not classified as nonaccrual, is recognized on the accrual basis.

Acquired Loans

Acquired loan portfolios are initially recorded at the acquisition date fair value. The fair value is based on guidance which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 inputs are utilized to value the portfolio and include the use of present value techniques employing cash flow estimates and incorporate assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information is not available, the Corporation uses assumptions in an effort to determine reasonable fair value. Specifically, management utilizes three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment. The three separate fair valuation methodologies used are: 1) interest rate loan fair value analysis; 2) general credit fair value analysis; and 3) specific credit fair value analysis. There is no carryover related allowance for loan losses.

For loans acquired without evidence of credit quality deterioration, the fair value adjustments to reflect the fair value of the loans and the fair value adjustments to reflect the general credit risk of the loan portfolio are substantially recognized as interest income on a level yield amortization method based upon the expected life of the loan. Subsequent to the acquisition, the Corporation records a provision for loan loss for the acquired non-impaired loans only when additional deterioration of the portfolio is identified over the projections utilized in the initial fair value analysis.

For loans acquired with evidence of credit quality deterioration , the Corporation prepares a specific credit fair value adjustment. Management reviews the acquired loan portfolio for loans meeting the definition of an impaired loan with deteriorated credit quality. Loans meeting this definition are reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount. The accretable discount amount is recognized over the life of the loans on a level yield basis as an adjustment to yield. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the derecognition of the loan at its carrying value with differences in actual results reflected in interest income. After the acquisition measurement period, the present value of any decreases in expected cash flows of purchased impaired loans will generally result in an impairment charge recorded as a provision for loan loss, resulting in an increase to the allowance.

Loan and Lease Fees

Fees collected upon loan or lease origination and certain direct costs of originating loans and leases are deferred and recognized over the contractual lives of the related loans and leases as yield adjustments using the interest method. Upon prepayment or other disposition of the underlying loans and leases before their contractual maturities, any associated unearned fees or unamortized costs are recognized.

Reserve for Loan and Lease Losses

The reserve for loan and lease losses is maintained at a level representing management's best estimate of known risks and inherent losses in the portfolio, based upon management's evaluation of the portfolio's collectability. Management evaluates the need to establish reserves against losses on loans on a quarterly basis. When changes in the reserve are necessary, an adjustment is made.

The reserve for loan and lease losses is adjusted through provisions for loan and lease losses charged against or credited to income. Loans deemed to be uncollectible are charged against the reserve for loan and lease losses, and any subsequent recoveries are credited to the reserve.

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Reserve Required for Impaired Loans and Leases

A loan or lease is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect future payments of principal or interest as contractually due. The Bank applies its normal loan review procedures in determining if a loan is impaired, which includes reviewing the collectability of delinquent and internally classified loans on a regular basis and at least quarterly. In determining the likelihood of collecting principal and interest, the Bank considers all available and relevant information, including the borrower's actual and projected cash flows, balance sheet strength, liquidity and overall financial position. Additionally, all loans classified as a troubled debt restructurings are considered impaired. When a loan is classified as impaired, an impairment analysis is performed within the quarter in which a loan is identified as impaired to determine if a valuation allowance is needed. The Bank re-examines each impaired loan on a quarterly basis to determine if any adjustment to the net carrying amount of a loan is required. The Bank recognizes charge-offs associated with impaired loans when all or a portion of a loan is considered to be uncollectible. In measuring impairment, the Bank determines whether or not the loan is collateral dependent. A loan is collateral dependent if repayment is expected to be provided solely by the underlying collateral, which includes repayment from the proceeds from the sale of the collateral, cash flows from the continued operation of the collateral, or both, and there are no other available and reliable repayment sources. To determine the initial amount of impairment for a collateral dependent loan, the Bank utilizes a recent appraisal, an agreement of sale or a letter of intent. If the fair value of the underlying collateral, less costs to sell, is less than the loan's carrying amount, the Bank establishes a provision to the reserve for loan and lease losses in the amount of the difference between fair value, less costs to sell, and the loan or lease's carrying amount. In subsequent periods, the Bank takes into consideration current facts and circumstances in analyzing whether the fair value of the collateral has increased or decreased significantly such that a change to the corresponding valuation allowance is required. If current facts and circumstances are insufficient to determine fair value, the Bank obtains a new appraisal.

For loans that are not collateral dependent, the Bank establishes a specific reserve on impaired loans based on management's estimate of the discounted cash flows the Bank expects to receive from the borrower. Factors considered in evaluating such cash flows include: (1) the strength of the customer's personal or business cash flows and personal guarantees; (2) the borrower's effort to cure the delinquency; (3) the availability of other sources of repayment; (4) the type and value of collateral, if applicable; and (5) the strength of our collateral position, if applicable.

General Reserve on the Remainder of the Portfolio

The Bank establishes a general reserve for loans and leases that are not considered impaired to recognize the inherent losses associated with lending activities. This general reserve is determined by segmenting the loan portfolio and assigning reserve factors to each category. The reserve factors are calculated using the Bank's historical losses and loss emergence periods, and are adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors include:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off and recovery practices not considered elsewhere in estimating credit losses;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in the experience, ability, and depth of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of the institution’s loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution’s existing portfolio.

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. In addition, the Bank's primary examiner, as a regular part of their examination process, may require the Bank to increase the level of reserves.

Premises and Equipment

Land is stated at cost, and premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method and charged to operating expenses over the estimated useful lives of the assets or, for leasehold improvements, over the life of the related lease if less than the estimated useful life of the asset. The estimated useful life for new buildings constructed on land owned is forty years, and for new buildings constructed on leased land, is the lesser of forty years or the lease term including anticipated renewable terms. The useful life of purchased existing buildings is the estimated remaining useful life at the time of the purchase. Land improvements are considered to have estimated useful lives of fifteen years or the lease term including anticipated renewable terms. Furniture, fixtures and equipment have estimated useful lives ranging from three to ten years. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

Goodwill and Other Intangible Assets

The Corporation accounts for its acquisitions using the purchase accounting method. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. Typically, this allocation results in the purchase price exceeding the fair value of net assets acquired, which is recorded as goodwill. Core deposit intangibles are a measure of the value of checking, money market and savings deposits acquired in business combinations accounted for under the purchase method. Core deposit intangibles are amortized using the sum of the year’s digits over their estimated useful lives of up to fifteen years. Customer related intangibles are amortized over their estimated useful lives of five to twelve years. Covenants not to compete are amortized over their three to five-year contractual lives on a straight-line basis. The Corporation completes a goodwill analysis at least on an annual basis or more often if events and circumstances indicate that there may be impairment. The Corporation also completes an impairment test for other intangible assets on an annual basis or more often if events and circumstances indicate a possible impairment. There can be no assurance that future impairment analyses will not result in a charge to earnings.

Mortgage servicing rights are recognized as separate assets when mortgage loans are sold and the servicing rights are retained. Capitalized mortgage servicing rights are reported in other intangible assets on the consolidated balance sheets and are amortized into noninterest income in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method and an accelerated amortization method for loan payoffs. Mortgage servicing rights are evaluated for impairment, on a quarterly basis, based upon the fair value of the servicing rights as compared to amortized cost. The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. Mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the unamortized capitalized amount.

Bank Owned Life Insurance

The Corporation has invested in bank-owned life insurance (BOLI). BOLI involves the purchasing of life insurance by the Corporation for certain employees. The Corporation is the owner and beneficiary of the policies, however certain policies include split-dollar endorsements. Under these endorsements, beneficiaries of the insured individuals are entitled to a portion of the proceeds from the policy upon death of the insured. The life insurance investment is carried at the net cash surrender value of the underlying policies. Changes in the net cash surrender value of these policies are reflected in noninterest income. Proceeds from and purchases of bank owned life insurance are reflected in the consolidated statements of cash flows under investing activities. The Corporation recognizes a liability for the future death benefit for certain endorsement split-dollar life insurance arrangements that provide an employee with a death benefit in a postretirement/termination period.

Other Real Estate Owned

Other real estate owned (OREO) represents properties acquired through customers’ loan defaults and is included in other assets. The real estate is originally stated at an amount equal to the fair value of the property, less estimated costs to sell. The fair value less cost to sell becomes the "original cost" of the OREO asset. The amount, if any, by which the carrying amount of the loan plus recorded accrued interest (the recorded loan amount) exceeds the fair value less cost to sell of the OREO, the loss is charged against the reserve for loan and lease losses at the time of foreclosure or repossession. If the fair value less cost to sell of the OREO asset when taken into possession is greater than the recorded loan amount, the excess is first applied as a recovery against any prior charge-offs of the loan and any remaining gain is recorded as other noninterest income. Subsequently, OREO will be reported at the lower of the original cost and the current the fair value less cost to sell. Subsequent write-downs and any gain or loss upon the sale of OREO is recorded in other noninterest income. Capital improvement expenses associated with the construction or repair of the property are capitalized as part of the cost of the OREO asset; however, the capitalized expenses may not increase the OREO asset's recorded value to an amount greater than the asset's fair value after improvements and less cost to sell. Overages and subsequent carrying costs are expensed as incurred.

Derivative Financial Instruments

The Corporation recognizes all derivative financial instruments on its balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the underlying forecasted transaction is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings immediately. To determine fair value, the Corporation uses third party pricing models that incorporate assumptions about market conditions and risks that are current at the reporting date.

The Corporation may use interest-rate swap agreements to modify interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. The Corporation accounts for its interest-rate swap contracts in cash flow hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows of assets or liabilities that are being hedged. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in accumulated other comprehensive income until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in earnings. The change in fair value of the ineffective part of the instrument would be charged to earnings, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods. In a fair value hedge, the fair values of the interest rate swap agreements and changes in the fair values of the hedged items are recorded in the Corporation’s consolidated balance sheet with the corresponding gain or loss being recognized in the consolidated statement of income. The difference between changes in the fair values of interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in net interest income in the consolidated statement of income. The Corporation performs an assessment, both at the inception of the hedge and quarterly thereafter, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items.

The Corporation has agreements with third-party financial institutions whereby the third-party financial institution enters into interest rate derivative contracts and foreign currency swap contracts with loan customers referred to them by the Corporation. The Corporation records the fair value of credit derivatives in other liabilities on the consolidated balance sheets. The Corporation recognizes changes in the fair value of credit derivatives, net of any fees received, in other noninterest income in the consolidated statements of income.

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale of mortgage loans to third-party investors to hedge the effect of changes in interest rates on the value of the interest rate locks. Forward loan sale commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. Both the interest rate locks and the forward loan sale commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the balance sheet date. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within the net gain on mortgage banking activities on the consolidated statements of income.

Income Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the applicable period. Deferred income taxes are provided for temporary differences between amounts reported for financial statement and tax purposes. Deferred income taxes are computed using the asset and liability method, such that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial reporting amounts and the tax basis of existing assets and liabilities based on currently enacted tax laws and tax rates in effect for the periods in which the differences are expected to reverse. Deferred tax assets are subject to management’s judgment based upon available evidence that future realizations are “more likely than not.” If management determines that the Corporation is not more likely than not, to realize some or all of the net deferred tax asset in the future, a charge to income tax expense may be required to reduce the value of the net deferred tax asset to the expected realizable value. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Penalties are recorded in noninterest expense in the year they are assessed and paid and are treated as a non-deductible expense for tax purposes. Interest is recorded in noninterest expense in the year it is assessed and paid and is treated as a deductible expense for tax purposes.

Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Effective December 31, 2009, the benefits previously accrued under the noncontributory retirement plan were frozen and the plan was amended and converted to a cash balance plan, with participants not losing any pension benefits already earned in the plan. Prior to the cash balance plan conversion effective December 31, 2009, the plan provided benefits based on a formula of each participant’s final average pay. Future benefits under the cash balance plan accrue by crediting participants annually with an amount equal to a percentage of earnings in that year based on years of credited service as defined in the plan. Employees hired on or after December 8, 2009 are not eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits to certain former executives, a portion of which is in excess of limits imposed on qualified plans by federal tax law; these plans are non-qualified benefit plans. These non-qualified benefit plans are not offered to new participants; all current participants are now retired. The Corporation provides certain postretirement healthcare and life insurance benefits for retired employees. The Corporation's measurement date for plan assets and obligation is fiscal year-end. The Corporation recognizes on its consolidated balance sheet the funded status of its defined pension plans and changes in the funded status of the plan in the year in which the changes occur. An under-funded position would create a liability and an over-funded position would create an asset, with a correlating deferred tax asset or liability. The net impact would be an adjustment to equity as accumulated other comprehensive income (loss). The Corporation recognizes as a component of other comprehensive income (loss), net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

The Corporation sponsors a 401(k) deferred salary savings plan, which is a qualified defined contribution plan, and which covers all employees of the Corporation and its subsidiaries, and provides that the Corporation make matching contributions as defined by the plan.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan (SNQPP) which was established in 1981 prior to the existence of a 401(k) deferred salary savings, employee stock purchase and long-term incentive plans and therefore is not offered to new participants; all current participants are now retired. These non-qualified plans are accounted for under guidance for deferred compensation arrangements.

Stock-Based Compensation

The fair value of share based awards is recognized as compensation expense over the vesting period based on the grant-date fair value of the awards. The Corporation uses the Black-Scholes Model to estimate the fair value of each option on the date of grant. The Black-Scholes Model estimates the fair value of employee stock options using a pricing model which takes into consideration the exercise price of the option, the expected life of the option, the current market price and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Corporation grants stock options to employees with an exercise price equal to the fair value of the shares at the date of grant. The Corporation grants both fixed and variable (performance-based) restricted stock. The performance-based restricted stock awards vest based upon the Corporation's performance against selected peers with respect to certain financial measures over a three-year period. The fair value of fixed restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period. The fair value of the performance-based restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period adjusted for a probability factor of achieving the performance goals.

Dividend Reinvestment and Employee Stock Purchase Plans

The Univest Dividend Reinvestment Plan allows for the issuance of 1,968,750 shares of common stock. During 2016 and 2015, 86,350 and 87,946 shares, respectively, were issued under the dividend reinvestment plan, with 377,885 shares available for future purchase at December 31, 2016.

The 1996 Employee Stock Purchase Plan allows for the issuance of 984,375 shares of common stock. Employees may elect to make contributions to the plan in an aggregate amount not less than 2% or more than 10% of such employee's total compensation. These contributions are then used to purchase stock during an offering period determined by the Corporation's Employee Stock Purchase Plan Committee. The purchase price of the stock is 90% of the closing sale price on the last trading day of each quarter. Compensation expense is recognized as the discount is greater than 5% of the fair value. During 2016 and 2015, 28,919 and 26,440 shares, respectively, were issued under the employee stock purchase plan, with 677,265 shares available for future purchase at December 31, 2016.

Marketing and Advertising Costs

The Corporation’s accounting policy is to expense marketing and advertising costs as incurred, when the advertisement first takes place, or over the expected useful life of the related asset, as would be the case with billboards.

Statement of Cash Flows

The Corporation has defined those items included in the caption “Cash and due from banks” as cash and cash equivalents.

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Trust Assets
Assets held by the Corporation in a fiduciary or agency capacity for its customers are not included in the consolidated financial statements since such items are not assets of the Corporation.
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. Diluted earnings per share reflect additional common shares that would have been outstanding if options on common shares had been exercised, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method. The effects of options to issue common stock are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive.
Recent Accounting Pronouncements
In November 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years for public business entities, or January 1, 2018 for the Corporation. The amendments in this ASU should be applied using a retrospective transition method to each period presented. The Corporation does not anticipate the adoption of this ASU will have a material impact on the statement of cash flows.
In August 2016, the FASB issued an ASU to provide guidance for eight cash flow classification issues for certain cash receipts and cash payments with the objective of reducing diversity in practice. The issues identified within the ASU include: debt prepayments or extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities that are SEC filers, or January 1, 2018 for the Corporation. The Corporation does not anticipate the adoption of this ASU will have a material impact on the financial statements.
In June 2016, the FASB issued an ASU to require businesses and other organizations to measure the current expected credit losses (CECL) on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in this ASU replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. An entity should apply the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). Acquired credit impaired loans for which the guidance in Accounting Standards Codification (ASC) Topic 310-30 has been previously applied should prospectively apply the guidance in this ASU. A prospective transition approach is required for debt securities for which an other-than-temporary impairment has been recognized before the effective date. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities that are SEC filers, or January 1, 2020 for the Corporation. The Corporation is in the

process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated that the allowance will increase upon adoption of CECL and that the increased allowance level will decrease regulatory capital and ratios.

In March 2016, the FASB issued an ASU to simplify and improve employee share-based payment accounting. Under the new guidance, all excess tax benefits and tax deficiencies are recognized as an income tax benefit or expense in the income statement. The additional paid-in capital pool is eliminated. Excess tax benefits and deficiencies are recognized in the period they are deducted on the income tax return. Excess tax benefits are recorded along with other income tax cash flows as an operating activity in the statement of cash flows. The recognition of excess tax benefits and deficiencies and changes to diluted earnings per share are 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 does not have a cumulative-effect adjustment upon adoption of this ASU. 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 adopted this ASU effective January 1, 2016 on a prospective basis. Prior periods have not been adjusted. All excess tax benefits and tax deficiencies for 2016 were recognized as a net income tax benefit in the statement of income. The additional paid-in capital pool was eliminated. The net impact of this adoption was $301 thousand in net income tax benefits recorded in the statement of income for the year ended December 31, 2016. The adoption of this ASU did not have a material impact on the Corporation's 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 adoption of this ASU did not have any impact on the Corporation's financial statements.

In February 2016, the FASB issued an ASU to revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The ASU is effective for the first interim period within annual periods beginning after December 15, 2018, or January 1, 2019, with early adoption permitted. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, the adoption of this ASU will impact the balance sheet for the recording of assets and liabilities for operating leases; any initial or continued impact of the recording of assets will have an impact on risk-based capital ratios under current regulatory guidance and possibly equity ratios.

In January 2016, the FASB issued an ASU to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU will require equity investments to be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment’s observable price. The ASU will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. A valuation allowance on a deferred tax asset related to available-for-sale securities will need to be included. For financial liabilities that are measured at fair value, the ASU requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The amendments in this ASU are effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017 or January 1, 2018 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements.

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

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

In May 2014, the FASB issued an ASU regarding revenue from contracts with customers which clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that would require an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued an ASU clarifying the implementation guidance on the principal-versus-agent considerations in the revenue recognition standard by instructing the participants in the sale to determine whether they control the good or service and are entitled to the gross amount of the transaction or are acting as an agent and should collect only a fee or commission for arranging the sale. In April 2016, the FASB issued an ASU clarifying the identification of performance obligations and licensing. In May 2016, the FASB issued an ASU providing some limited improvements and practical expedients. The original effective date of the guidance relating to revenue from contracts with customers was deferred in August 2015 by one year. This guidance is now effective for fiscal years and interim periods within those years beginning after December 15, 2017, or January 1, 2018 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated the impact will be only related to timing.

Note 2. Restrictions on Cash and Due from Banks and Interest-earning Deposit Accounts

The Bank maintains reserve balances under Federal Reserve Bank requirements. The reserve requirement at December 31, 2016 and 2015 was $6.6 million and $4.2 million, respectively, and was satisfied by vault cash held at the Bank’s branches. The average balances at the Federal Reserve Bank of Philadelphia were $10.2 million and $36.5 million for the years ended December 31, 2016 and 2015, respectively.

The Corporation maintains interest-earning deposit accounts at other financial institutions and pledges certain deposits as collateral for credit derivatives and interest rate swap agreements. Deposits pledged at December 31, 2016 and 2015 were $50 thousand and $460 thousand, respectively. See Note 17, "Derivative Instruments and Hedging Activities" for additional information.

Note 3. Acquisition

Fox Chase Bancorp

On July 1, 2016, the Corporation completed the merger of Fox Chase Bancorp into the Corporation and Fox Chase Bank into Univest Bank and Trust Co. Fox Chase Bank was a locally-managed institution with locations in Pennsylvania and New Jersey and headquartered in Hatboro, Pennsylvania. The Corporation's presence expanded in Bucks, Chester, Philadelphia and Montgomery counties in Pennsylvania and into Cape May county in New Jersey, complementing and expanding the Corporation's existing network of financial centers. The fair value of total assets acquired as a result of the merger totaled $1.1 billion, loans totaled $776.2 million and deposits totaled $738.3 million. In accordance with the terms of the Agreement and Plan of Merger, dated December 8, 2015, holders of shares of Fox Chase common stock received, in aggregate, $98.9 million in cash and 6,857,529 shares or approximately 26% of the

post transaction outstanding shares of the Corporation's common stock. The transaction was valued at $242.2 million based on Corporation’s June 30, 2016 closing share price of $21.02 as quoted on NASDAQ. The results of the combined entity’s operations are included in the Corporation's Consolidated Financial Statements from the date of acquisition. Goodwill of $59.9 million, which is the excess of the merger consideration over the estimated fair value of net assets acquired, was recorded in the Fox Chase acquisition and represents the anticipated revenue growth and reduced expenses as a result of the acquisition.
The acquisition of Fox Chase is being accounted for as a business combination using the acquisition method of accounting, which includes estimating the fair value of assets acquired, liabilities assumed and consideration paid as of the acquisition date.

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The following table summarized the consideration paid for Fox Chase and the fair value of assets acquired and liabilities assumed at the acquisition date:
(Dollars in thousands, except share data)

Purchase price consideration in common stock:		
Fox Chase common shares outstanding	11,754,852	
Fox Chase common shares settled for stock	7,047,096	
Exchange ratio	0.9731	
Univest shares issued	6,857,529	
Univest closing stock price at June 30, 2016	$ 21.02	
Purchase price assigned to Fox Chase common shares exchanged for Univest stock		$144,146
Fox Chase common shares settled for cash	4,707,756	
Purchase price for shares exchanged for cash	$ 21.00	
Purchase price assigned to Fox Chase common shares exchanged for cash		98,863
Purchase price assigned to cash in lieu of fractional shares		11
Purchase price assigned to Fox Chase options settled for cash		4,255
Purchase price consideration - ESOP and Equity Incentive Plan		(5,041)
Total purchase price		$242,234
Fair value of assets acquired:		
Cash and due from banks	$ 3,253	
Interest-earning deposits with other banks	15,629	
Investment securities available-for-sale	230,682	
Loans held for investment	776,214	
Premises and equipment, net	13,146	
Other real estate owned	2,510	
Core deposit intangible *	5,268	
Bank owned life insurance	26,119	
Accrued interest receivable and other assets	20,827	
Total identifiable assets		$1,093,648
Fair value of liabilities assumed:		
Deposits - noninterest bearing	$ 35,285	
Deposits - interest bearing	702,978	
Short-term borrowings	48,500	
Long-term debt	123,448	
Accrued interest payable and other liabilities	1,105	
Total liabilities		$911,316
Identifiable net assets		182,332
Goodwill resulting from merger *		$59,902

* Goodwill is not deductible for federal income tax purposes. The goodwill and core deposit intangible are allocated to the Banking business segment.

The following is a description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed. In many cases, determining the fair value of the acquired assets and assumed liabilities required the Corporation to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest, which required the utilization of significant estimates and judgment in accounting for the acquisition.
Cash and due from banks: The fair value of cash and due from banks is their stated value.

Investment securities available-for-sale: The estimated fair values of the investment securities available for sale, primarily comprised of U.S. government agency mortgage-backed securities and corporate bonds, were determined using Level 2 inputs in the fair value hierarchy. The fair values were determined using independent pricing services and market-participating brokers. The Corporation's independent pricing service utilized evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the pricing service's evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. Management reviewed the data and assumptions used in pricing the securities. A fair value premium of $3.4 million was recorded and is being amortized over the estimated useful life of the investments (estimated average remaining life of 3.7 years) using the interest rate method.

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Loans held for investment: The most significant fair value determination related to the valuation of acquired loans. The acquisition resulted in loans acquired with and without evidence of credit quality deterioration. There was no carryover related allowance for loan and lease losses.

The acquired loan portfolio was valued based on current guidance which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 inputs were utilized to value the portfolio and included the use of present value techniques employing cash flow estimates and incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Corporation used assumptions in an effort to determine reasonable fair value. Specifically, management utilized three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment. The three separate fair valuation methodologies used were: 1) interest rate fair value analysis; 2) general credit fair value analysis; and 3) specific credit fair value analysis.

For loans acquired without evidence of credit quality deterioration, the Corporation prepared the interest rate fair value analysis. Loans were grouped by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment. Additionally a general credit fair value adjustment was calculated using a two part general credit fair value analysis: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for qualitative factors, liquidity and an additional discount for loans considered to have heightened risk but not considered impaired.

The expected lifetime losses were calculated using an average of historical losses of the Bank, Fox Chase Bank and peer banks. The Corporation also estimated an environmental factor to apply to each loan type. The environment factor represents potential discount which may arise due to general economic conditions. Fox Chase's loan portfolio without evidence of credit quality deterioration was recorded at a current fair value of $762.5 million. A fair value premium of $4.7 million was recognized to reflect the fair values of loans. A fair value discount of $8.5 million was recognized to reflect the general credit risk of the loan portfolio. The adjustment is being substantially recognized as interest income over approximately 10 years on a level yield amortization method based upon the expected life of the loans.

For loans acquired with evidence of credit quality deterioration the Corporation prepared a specific credit fair value adjustment. Management reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan with deteriorated credit quality. Loans meeting this definition were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount. The accretable discount amount is being recognized over the life of the loans on a level yield basis as an adjustment to yield. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the derecognition of the loan at its carrying value with differences in actual results reflected in interest income.

At the acquisition date, the Corporation recorded $13.7 million of acquired impaired loans. The aggregate expected cash flows less the acquisition date fair value results in an accretable discount amount of $283 thousand, which is being recognized over the life of the loans on a level yield basis as an adjustment to yield. Contractual cashflows not expected to be collected of $11.1 million resulted in an unaccretable fair value discount of $5.7 million.

The following is a summary of the acquired impaired loans at July 1, 2016 resulting from the acquisition with Fox Chase:

(Dollars in thousands)

Contractually required principal and interest payments	$25,141
Contractual cash flows not expected to be collected (nonaccretable difference)	(11,120)
Cash flows expected to be collected	14,021
Interest component of expected cash flows (accretable discount)	(283)
Fair value of loans acquired with a deterioration of credit quality	$13,738

Bank premises: The Corporation assumed ten owned properties. The fair value was determined taking into consideration the highest and best use of the properties from a market participant perspective. For those properties that the Corporation have held-for-sale, the fair value is reduced by the costs to sell. The fair value of bank premises were determined using Level 2 inputs in the fair value hierarchy. The fair value of the buildings of $4.4 million is being amortized over an estimated life of 30 years.

Other real estate owned: The Corporation assumed five other real estate owned properties. The fair value was determined taking into consideration the highest and best use of the properties from a market participant perspective, including management assumptions when comparative data is not available, and is reduced by the costs to sell. The fair value of other real estate owned was determined using Level 3 inputs in the fair value hierarchy.

Bank owned life insurance: The fair value was determined at the cash surrender value of the policies.

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Core deposit intangible: Core deposit intangible represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of the acquisition. The core deposit intangible fair value represents the future economic benefit, including the present value of future tax benefits, of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources and was valued utilizing Level 3 inputs. The core deposit intangible of $5.3 million is being amortized using the sum of the years digits method over an estimated life of 10 years.

Deposits: The fair values of demand and saving deposits, with no stated maturities, approximated the carrying value as these accounts are payable on demand. The fair values of time deposits with fixed maturities were estimated by discounting the final maturity using current market interest rate for similar instruments. A fair value premium of $831 thousand was recorded and is recognized as a reduction to interest expense using a level yield amortization method over the life of the time deposit. The fair value of time deposits were determined using Level 2 inputs in the fair value hierarchy.

Federal funds: Federal funds are overnight funds. The fair value of federal funds was determined to be the carrying balance due to the using Level 2 inputs in the fair value hierarchy.

Long-term debt: Fair values of long-term debt were estimated using discounted cash flow analysis based on rates currently available to the Bank for advances with similar terms and remaining maturities. The fair value of long-term borrowings was determined using Level 2 inputs in the fair value hierarchy. A fair value premium of $3.4 million was recognized and is recognized as a reduction to interest expense using a level yield amortization method over the life of the debt.

Deferred tax assets and liabilities: Deferred tax assets and liabilities were established for purchase accounting fair value adjustments as the future amortization/accretion of these adjustments represent temporary differences between book income and taxable income.

Direct costs related to the acquisition were expensed as incurred. For the year ended December 31, 2016, the Corporation incurred $15.9 million of Fox Chase integration and acquisition-related costs, which have been separately stated in the Corporation's consolidated statements of income.

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Supplemental Pro Forma Financial Information (unaudited)

The following unaudited pro forma combined consolidated financial information for the years ended December 31, 2016 and 2015 combine the historical consolidated results of the Corporation and Fox Chase and give effect to the merger as if the merger occurred on January 1, 2016 and January 1, 2015, respectively. The pro forma information has been prepared to include the estimated adjustments necessary to record the assets and liabilities of Fox Chase at their respective fair values. Furthermore, the unaudited proforma information does not reflect management's estimate of any revenue-enhancing opportunities or anticipated cost savings.

The pro forma data is not necessarily indicative of the operating results that the Corporation would have achieved had it completed the merger as of the beginning of the period presented and should not be considered as representative of future operations.

	Pro Forma For the Years Ended December 31,	
(Dollars in thousands, except share data)	2016	2015
Net interest income	$132,581	$130,452
Noninterest income	58,189	55,158
Noninterest expense*	168,170	132,600
Net income*	11,933	38,767
Earnings per share:*		
Basic	0.45	1.46
Diluted	0.45	1.46

* Includes acquisition, integration and restructuring costs as summarized below.

	Pro Forma For the Years Ended December 31,	
(Dollars in thousands, except share data)	2016	2015
Acquisition and integration costs	$(29,433)	(3,028)
Acquisition and integration costs, net of tax	(19,939)	(2,156)
Earnings per share:		
Basic	(0.76)	(0.08)
Diluted	(0.76)	(0.08)
Restructuring charges	(1,731)	(1,642)
Restructuring charges, net of tax	(1,125)	(1,067)
Earnings per share:		
Basic	(0.04)	(0.04)
Diluted	(0.04)	(0.04)

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Note 4. 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 December 31, 2016 and 2015, by contractual maturity within each type:

(Dollars in thousands)	At December 31, 2016				At December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Residential mortgage-backed securities:								
Over 10 years	$5,071	$ —	$(3)	$5,068	$—	$ —	$—	$—
	5,071	—	(3)	5,068	—	—	—	—
Corporate bonds:								
Within 1 year	19,810	2	(9)	19,803	21,047	134	—	21,181
After 1 year to 5 years	—	—	—	—	19,943	1	(64)	19,880
	19,810	2	(9)	19,803	40,990	135	(64)	41,061
Total	$24,881	$ 2	$(12)	$24,871	$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	15,000	20	—	15,020	10,389	—	(29)	10,360
After 1 year to 5 years	17,265	—	(19)	17,246	92,148	26	(378)	91,796
	32,265	20	(19)	32,266	102,537	26	(407)	102,156
State and political subdivisions:								
Within 1 year	964	—	(1)	963	—	—	—	—
After 1 year to 5 years	18,705	38	(75)	18,668	17,362	80	(29)	17,413
After 5 years to 10 years	55,541	829	(426)	55,944	47,969	1,188	(32)	49,125
Over 10 years	12,663	226	(114)	12,775	34,334	1,160	—	35,494
	87,873	1,093	(616)	88,350	99,665	2,428	(61)	102,032
Residential mortgage-backed securities:								
After 1 year to 5 years	6,086	—	(66)	6,020	9,713	12	(13)	9,712
After 5 years to 10 years	23,479	—	(622)	22,857	60	—	—	60
Over 10 years	174,388	99	(4,794)	169,693	3,517	65	—	3,582
	203,953	99	(5,482)	198,570	13,290	77	(13)	13,354
Collateralized mortgage obligations:								
Over 10 years	4,659	—	(105)	4,554	3,215	—	(82)	3,133
	4,659	—	(105)	4,554	3,215	—	(82)	3,133
Corporate bonds:								
Within 1 year	250	—	—	250	250	—	—	250
After 1 year to 5 years	35,923	34	(241)	35,716	19,446	25	(158)	19,313
After 5 years to 10 years	15,193	—	(516)	14,677	10,148	—	(266)	9,882
Over 10 years	60,000	27	(2,472)	57,555	60,000	—	(2,770)	57,230
	111,366	61	(3,229)	108,198	89,844	25	(3,194)	86,675

Money market mutual funds:								
No stated maturity	10,784	—	—	10,784	16,726	—	—	16,726
	10,784	—	—	10,784	16,726	—	—	16,726
Equity securities:								
No stated maturity	411	504	—	915	426	381	—	807
	411	504	—	915	426	381	—	807
Total	$451,311	$ 1,777	$ (9,451)	$443,637	$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 and mortgage-backed securities typically prepay at a rate faster than contractually due. Unrealized losses in investment securities at December 31, 2016 and 2015 do not represent other-than-temporary impairments.

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Securities with a carrying value of $356.7 million and $210.1 million at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes as required by law. In addition, securities of $1.4 million were pledged to secure credit derivatives and interest rate swaps at December 31, 2016. See Note 17, "Derivative Instruments and Hedging Activities" for additional information.

The following table presents information related to sales of securities available-for-sale during the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
(Dollars in thousands)	2016	2015	2014
Securities available-for-sale:			
Proceeds from sales	$77,290	$77,308	$32,967
Gross realized gains on sales	600	1,295	635
Gross realized losses on sales	82	30	—
Tax expense related to net realized gains on sales	181	443	222

The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the years ended December 31, 2016, 2015 and 2014. The Corporation realized other-than-temporary impairment charges to noninterest income of $0 thousand, $5 thousand, and $0 thousand on its equity portfolio during the years ended December 31, 2016, 2015 and 2014, respectively.

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

The following table shows the fair value of securities that were in an unrealized loss position at December 31, 2016 and 2015 by the length of time those securities were in a continuous loss position. For the investment securities in an unrealized loss position, the Corporation has concluded, based on its analysis, that the unrealized losses are primarily caused by the movement of interest rates and current market conditions. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. It is more likely than not that the Corporation will not be required to sell the investments before a recovery of carrying value.

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2016						
Securities Held-to-Maturity						
Residential mortgage-backed securities	$5,068	$(3)	$—	$—	$5,068	$(3)
Corporate bonds	9,779	(9)	—	—	9,779	(9)
Total	$14,847	$(12)	$—	$—	$14,847	$(12)
Securities Available-for-Sale						
U.S. government corporations and agencies	$11,850	$(19)	$—	$—	$11,850	$(19)
State and political subdivisions	40,771	(610)	423	(6)	41,194	(616)
Residential mortgage-backed securities	192,782	(5,482)	—	—	192,782	(5,482)
Collateralized mortgage obligations	2,013	(26)	2,542	(79)	4,555	(105)
Corporate bonds	58,535	(1,333)	33,104	(1,896)	91,639	(3,229)
Total	$305,951	$(7,470)	$36,069	$(1,981)	$342,020	$(9,451)
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)

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Note 5. Loans and Leases

Summary of Major Loan and Lease Categories

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

	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 December 31, 2016 totaled $895.1 million, including $673.4 million of loans from the Fox Chase acquisition and $221.7 million from the Valley Green Bank acquisition. At December 31, 2016, loans acquired with deteriorated credit quality, or acquired credit impaired loans, were $6.4 million from the Fox Chase acquisition and $990 thousand from the Valley Green Bank acquisition. Acquired credit impaired loans are accounted for in accordance with Accounting Standards Codification (ASC) Topic 310-30. See Note 3, "Acquisition" for additional information.

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

(Dollars in thousands)	At December 31, 2016	At December 31, 2015
Outstanding principal balance	$ 8,993	$ 3,551
Carrying amount	7,352	1,253
Allowance for loan losses	—	8

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

	For the Years Ended December 31,	
(Dollars in thousands)	2016	2015
Beginning of period	$144	$—
Acquisition of credit impaired loans	283	305
Reclassification from nonaccretable discount	1,329	574
Accretable yield amortized to interest income	(1,672)	(717)
Disposals	(34)	(18)
End of period	$50	$144

The Corporation is a lessor of equipment under agreements expiring at various dates through the year 2024. At December 31, 2016 and 2015, the schedule of minimum lease payments receivable is as follows:

	At December 31,	
(Dollars in thousands)	2016	2015
Within 1 year	$56,872	$54,093
After 1 year through 2 years	41,931	40,250
After 2 years through 3 years	28,340	25,940
After 3 years through 4 years	16,369	13,914
After 4 years through 5 years	6,753	4,853
Thereafter	444	219
Total future minimum lease payments receivable	150,709	139,269
Less: Unearned income	(15,970)	(13,829)
Total lease financing receivables, net of unearned income	$134,739	$125,440

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Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases 90 days or more past due which are accruing interest at December 31, 2016 and 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 December 31, 2016								
Commercial, financial and agricultural	$ 1,536	$ 256	$ 1,335	$ 3,127	$ 819,550	$ 589	$ 823,266	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	1,482	1,560	2,591	5,633	1,363,606	5,710	1,374,949	—
Construction	202	—	—	202	174,642	—	174,844	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,390	428	1,539	3,357	289,927	784	294,068	—
Residential secured for personal purpose	3,243	905	879	5,027	285,512	269	290,808	481
Home equity secured for personal purpose	717	142	521	1,380	161,459	—	162,839	171
Loans to individuals	324	95	142	561	29,812	—	30,373	142
Lease financings	1,731	1,418	729	3,878	130,861	—	134,739	193
Total	$ 10,625	$ 4,804	$ 7,736	$ 23,165	$ 3,255,369	$ 7,352	$ 3,285,886	$ 987
At December 31, 2015								
Commercial, financial and agricultural	$ 864	$ 298	$ 4,279	$ 5,441	$ 498,757	$ 317	$ 504,515	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	12,103	—	1,102	13,205	872,174	513	885,892	—
Construction	—	—	—	—	96,541	—	96,541	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,406	2,356	727	4,489	213,871	423	218,783	—
Residential secured for personal purpose	990	69	309	1,368	179,787	—	181,155	—
Home equity secured for personal purpose	777	52	174	1,003	135,952	—	136,955	—
Loans to individuals	198	97	173	468	29,264	—	29,732	173

Lease financings	1,294	652	646	2,592	122,848	—	125,440	206
Total	$17,632	$3,524	$7,410	$28,566	$2,149,194	$1,253	$2,179,013	$ 379

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Non-Performing Loans and Leases

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

	At December 31, 2016				2015			
(Dollars in thousands)	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	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Non-Performing Loans and Leases
Commercial, financial and agricultural	$5,746	$ 967	$ —	$ 6,713	$6,915	$ 1,602	$ —	$ 8,517
Real estate—commercial real estate and construction:								
Commercial real estate	5,651	1,519	—	7,170	4,314	2,449	—	6,763
Real estate—residential and home equity:								
Residential secured for business purpose	4,898	766	—	5,664	1,863	763	—	2,626
Residential secured for personal purpose	560	—	481	1,041	376	421	—	797
Home equity secured for personal purpose	525	—	171	696	275	—	—	275
Loans to individuals	—	—	142	142	—	—	173	173
Lease financings	536	—	193	729	440	10	206	656
Total	$17,916	$ 3,252	$ 987	$ 22,155	$14,183	$ 5,245	$ 379	$ 19,807

* Includes nonaccrual troubled debt restructured loans and lease modifications of $1.8 million and $93 thousand at December 31, 2016 and December 31, 2015, respectively.

Credit Quality Indicators

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

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

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

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades

The following table presents classifications for originated loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At December 31, 2016					
Grade:					
1. Cash secured/ 2. Fully secured	$ 272	$ —	$ 13,714	$ 162	$ 14,148
3. Strong	14,980	2,045	—	—	17,025
4. Satisfactory	35,529	38,861	—	367	74,757
5. Acceptable	465,675	676,212	110,650	133,716	1,386,253
6. Pre-watch	113,499	128,646	18,213	12,025	272,383
7. Special Mention	8,820	22,439	314	1,199	32,772
8. Substandard	24,446	41,378	—	4,462	70,286
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	$ 663,221	$ 909,581	$ 142,891	$ 151,931	$ 1,867,624
At December 31, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	$ 968	$ —	$ 5,417	$ —	$ 6,385
3. Strong	17,328	10,877	—	—	28,205
4. Satisfactory	36,697	36,023	450	9	73,179
5. Acceptable	328,140	530,766	72,630	78,659	1,010,195
6. Pre-watch	61,098	119,117	13,262	7,161	200,638
7. Special Mention	6,074	20,286	—	2,347	28,707
8. Substandard	29,675	42,273	145	6,104	78,197
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	$ 479,980	$ 759,342	$ 91,904	$ 94,280	$ 1,425,506

The following table presents classifications for acquired loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At December 31, 2016					
Grade:					
1. Cash secured/ 2. Fully secured	$ 583	$ —	$ —	$ —	$ 583
3. Strong	—	—	—	—	—
4. Satisfactory	4,399	1,018	—	—	5,417
5. Acceptable	113,512	282,199	20,565	117,322	533,598
6. Pre-watch	31,697	163,623	11,388	14,405	221,113
7. Special Mention	73	7,705	—	6,245	14,023
8. Substandard	9,781	10,823	—	4,165	24,769
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	$ 160,045	$ 465,368	$ 31,953	$ 142,137	$ 799,503
At December 31, 2015					

Grade:					
1. Cash secured/ 2. Fully secured	$ 1,411	$ —	$ —	$ —	$1,411
3. Strong	—	—	—	—	—
4. Satisfactory	1,181	3,561	—	608	5,350
5. Acceptable	18,446	102,122	4,637	113,002	238,207
6. Pre-watch	2,273	10,365	—	8,153	20,791
7. Special Mention	417	8,853	—	367	9,637
8. Substandard	807	1,649	—	2,373	4,829
9. Doubtful	—	—	—	—	—
10. Loss	—	—	—	—	—
Total	$ 24,535	$ 126,550	$ 4,637	$ 124,503	$280,225

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Credit Exposure—Real Estate—Residential Secured for Personal Purpose, Real Estate—Home Equity Secured for Personal Purpose, Loans to Individuals, Lease Financing Credit Risk Profile by Payment Activity

The Corporation monitors the credit risk profile by payment activity for the following classifications of loans and leases: residential real estate loans secured for a personal purpose, home equity loans secured for a personal purpose, loans to individuals and lease financings. Nonperforming loans and leases are loans past due 90 days or more, loans and leases on nonaccrual of interest and troubled debt restructured loans and lease modifications. Performing loans and leases are reviewed only if the loan becomes 60 days or more past due. Nonperforming loans and leases are reviewed monthly. Performing loans and leases have a nominal to moderate risk of loss.

The following table presents classifications for originated loans:

(Dollars in thousands)	Real Estate—Residential Secured for Personal Purpose	Real Estate—Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financing	Total
At December 31, 2016					
Performing	$ 210,208	$ 147,286	$ 29,968	$ 134,010	$ 521,472
Nonperforming	169	696	142	729	1,736
Total	$ 210,377	$ 147,982	$ 30,110	$ 134,739	$ 523,208
At December 31, 2015					
Performing	$ 177,053	$ 125,086	$ 29,233	$ 124,784	$ 456,156
Nonperforming	797	275	173	656	1,901
Total	$ 177,850	$ 125,361	$ 29,406	$ 125,440	$ 458,057

The following table presents classifications for acquired loans:

(Dollars in thousands)	Real Estate—Residential Secured for Personal Purpose	Real Estate—Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financing	Total
At December 31, 2016					
Performing	$ 79,559	$ 14,857	$ 263	$ —	$ 94,679
Nonperforming	872	—	—	—	872
Total	$ 80,431	$ 14,857	$ 263	$ —	$ 95,551
At December 31, 2015					
Performing	$ 3,305	$ 11,594	$ 326	$ —	$ 15,225
Nonperforming	—	—	—	—	—
Total	$ 3,305	$ 11,594	$ 326	$ —	$ 15,225

Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans, and impact the value of the associated collateral.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans with a business purpose are generally perceived as having more risk of default than residential real estate loans with a personal purpose and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties and factors affecting residential real estate borrowers.

Commercial, financial and agricultural business loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business. Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest). During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral. Included in real estate-construction is track development financing. Risk factors related to track development financing include the demand for residential housing and the real estate valuation market. When projects move slower than anticipated, the properties may have significantly lower values than when the original underwriting was completed, resulting in lower collateral values to support the loan. Extended time frames also cause the interest carrying cost for a project to be higher than the builder projected, negatively impacting the builder’s profit and cash flow and, therefore, their ability to make principal and interest payments.

Commercial real estate loans and residential real estate loans with a business purpose secured by owner-occupied properties are dependent upon the successful operation of the borrower’s business. If the operating company suffers difficulties in terms of sales volume and/or profitability, the borrower’s ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans secured for a business purpose are more susceptible to a risk of loss during a downturn in the business cycle. While the Corporation has strict underwriting, review, and monitoring procedures in place, these procedures cannot eliminate all of the risks related to these loans.

The Corporation focuses on both assessing the borrower’s capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower’s assets and by personal guarantees. Commercial real estate and residential real estate loans secured for a business purpose are originated primarily within the Southeastern Pennsylvania market area at conservative loan-to-value ratios and often with a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

The Corporation originates fixed-rate and adjustable-rate real estate-residential mortgage loans that are secured by the underlying 1-to-4 family residential properties for personal purposes. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

In the real estate-home equity loan portfolio secured for a personal purpose, credit exposure is minimized by the evaluation of the creditworthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to the Corporation’s underwriting policies. Combined loan-to-value ratios are generally limited to 80%, but increased to 85% for the Corporation’s strongest profile borrower. Other credit considerations and compensating factors may support higher combined loan-to-value ratios.

Credit risk for direct consumer loans is controlled by strict adherence to underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. These loans are included within the portfolio of loans to individuals.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk primarily by using $1.00 buyout leases, in which the entire cost of the leased equipment is included in the contractual payments, leaving no residual payment at the end of the lease term.

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Reserve for Loan and Lease Losses and Recorded Investment in Loans and Leases

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses for the years ended December 31, 2016, 2015 and 2014:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial and Construction	Real Estate—Residential Secured for Business Purpose	Real Estate—Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
For the Year Ended December 31, 2016								
Reserve for loan and lease losses:								
Beginning balance	$ 6,418	$ 6,572	$ 763	$ 1,575	$ 346	$ 1,042	$ 912	$ 17,628
Charge-offs	(4,827)	(307)	(522)	(178)	(395)	(759)	N/A	(6,988)
Recoveries	1,454	101	71	88	133	191	N/A	2,038
Provision (recovery of provision)	3,992	961	462	(489)	280	314	(874)	4,646
Provision (recovery of provision) for acquired credit impaired loans	—	178	—	(3)	—	—	—	175
Ending balance	$ 7,037	$ 7,505	$ 774	$ 993	$ 364	$ 788	$ 38	$ 17,499
For the Year Ended December 31, 2015								
Reserve for loan and lease losses:								
Beginning balance	$ 6,920	$ 8,943	$ 763	$ 1,124	$ 360	$ 985	$ 1,567	$ 20,662
Charge-offs*	(4,793)	(1,895)	(179)	(279)	(549)	(801)	N/A	(8,496)
Recoveries	1,032	200	28	10	176	214	N/A	1,660
Provision (recovery of provision)	3,259	(684)	43	657	359	644	(655)	3,623
Provision for acquired credit impaired loans	—	8	108	63	—	—	—	179
Ending balance	$ 6,418	$ 6,572	$ 763	$ 1,575	$ 346	$ 1,042	$ 912	$ 17,628
For the Year Ended December 31, 2014								
Reserve for loan and lease losses:								
Beginning balance	$ 9,789	$ 8,780	$ 1,062	$ 1,284	$ 694	$ 1,285	$ 1,600	$ 24,494
Charge-offs	(2,834)	(4,363)	(140)	(141)	(796)	(576)	N/A	(8,850)
Recoveries	247	524	60	34	265	281	N/A	1,411
(Recovery of provision) provision	(282)	4,002	(219)	(53)	197	(5)	(33)	3,607
	—	—	—	—	—	—	—	—

Provision for acquired credit impaired loans								
Ending balance	$ 6,920	$ 8,943	$ 763	$ 1,124	$ 360	$ 985	$ 1,567	$20,662

* Includes charge-offs of $1.3 million on two real estate construction loans for one borrower which were subsequently transferred to loans held for sale in the second quarter of 2015 and sold in the fourth quarter of 2015.
N/A – Not applicable

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The following presents, by portfolio segment, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method at December 31, 2016 and 2015:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial and Construction	Real Estate—Residential Secured for Business Purpose	Real Estate—Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At December 31, 2016								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 19	$ 25	$ 191	$—	$—	$—	N/A	$ 235
Ending balance: collectively evaluated for impairment	7,018	7,480	583	993	364	788	38	17,264
Total ending balance	$ 7,037	$ 7,505	$ 774	$ 993	$ 364	$ 788	$ 38	$ 17,499
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 11,077	$ 25,066	$ 6,687	$ 1,085	$—	$—		$ 43,915
Ending balance: collectively evaluated for impairment	652,144	1,027,406	145,244	357,274	30,110	134,739		2,346,917
Loans measured at fair value	—	2,138	—	—	—	—		2,138
Acquired non-credit impaired loans	159,456	489,473	141,353	95,019	263	—		885,564
Acquired credit impaired loans	589	5,710	784	269	—	—		7,352
Total ending balance	$ 823,266	$ 1,549,793	$ 294,068	$ 453,647	$ 30,373	$ 134,739		$ 3,285,886
At December 31, 2015								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 208	$—	$ 45	$ 69	$—	$—	N/A	$ 322
Ending balance: collectively evaluated for impairment	6,210	6,564	718	1,506	346	1,042	912	17,298
	—	8	—	—	—	—	—	8

Ending balance: acquired credit impaired loans evaluated for impairment								
Total ending balance	$ 6,418	$ 6,572	$ 763	$ 1,575	$ 346	$ 1,042	$ 912	$ 17,628
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 12,881	$ 30,088	$ 4,892	$ 1,072	$ —	$ —		$ 48,933
Ending balance: collectively evaluated for impairment	467,099	821,158	89,388	302,139	29,406	125,440		1,834,630
Acquired non-credit impaired loans	24,218	130,674	124,080	14,899	326	—		294,197
Acquired credit impaired loans	317	513	423	—	—	—		1,253
Total ending balance	$ 504,515	$ 982,433	$ 218,783	$ 318,110	$ 29,732	$ 125,440		$ 2,179,013

N/A – Not applicable

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Subsequent to the acquisition, the Corporation records a provision for loan loss for the acquired non-impaired loans only when additional deterioration of the portfolio is identified over the projections utilized in the initial fair value analysis. After the acquisition measurement period, the present value of any decreases in expected cash flows of purchased impaired loans will generally result in an impairment charge recorded as a provision for loan loss, resulting in an increase to the allowance.

Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not a reserve for credit losses and the amounts for which there is a reserve for credit losses at December 31, 2016 and 2015. The impaired loans exclude loans acquired with deteriorated credit quality.

	At December 31,					
	2016			2015		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Reserve	Recorded Investment	Unpaid Principal Balance	Related Reserve
Impaired loans with no related reserve recorded:						
Commercial, financial and agricultural	$10,911	$12,561		$10,337	$13,318	
Real estate—commercial real estate	24,469	25,342		30,088	30,996	
Real estate—residential secured for business purpose	5,704	6,253		4,597	4,717	
Real estate—residential secured for personal purpose	560	594		545	554	
Real estate—home equity secured for personal purpose	525	528		170	170	
Total impaired loans with no related reserve recorded	$42,169	$45,278		$45,737	$49,755	
Impaired loans with a reserve recorded:						
Commercial, financial and agricultural	$166	$166	$ 19	$2,544	$2,544	$ 208
Real estate—commercial real estate	597	597	25	—	—	—
Real estate—residential secured for business purpose	983	1,105	191	295	295	45
Real estate—residential secured for personal purpose	—	—	—	252	252	16
Real estate—home equity secured for personal purpose	—	—	—	105	105	53
Total impaired loans with a reserve recorded	$1,746	$1,868	$ 235	$3,196	$3,196	$ 322
Total impaired loans:						
Commercial, financial and agricultural	$11,077	$12,727	$ 19	$12,881	$15,862	$ 208
Real estate—commercial real estate	25,066	25,939	25	30,088	30,996	—
Real estate—residential secured for business purpose	6,687	7,358	191	4,892	5,012	45
Real estate—residential secured for personal purpose	560	594	—	797	806	16
Real estate—home equity secured for personal purpose	525	528	—	275	275	53
Total impaired loans	$43,915	$47,146	$ 235	$48,933	$52,951	$ 322

Impaired loans includes nonaccrual loans, accruing troubled debt restructured loans and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. These loans are individually measured to determine the amount of potential impairment. The loans are reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans' initial effective interest rates. Impaired loans included other accruing impaired loans of $23.3 million and $30.0 million at December 31, 2016 and 2015, respectively. Specific reserves on other accruing impaired loans were $84 thousand and $186 thousand at December 31, 2016 and 2015, respectively.

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The following presents by class of loans, the average recorded investment in impaired loans and an analysis of interest on impaired loans. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Therefore, interest income on accruing impaired loans is recognized using the accrual method.

	For the Years Ended December 31,								
	2016			2015			2014		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Loans held for sale	$—	$ —	$ —	$1,832	$ —	$ 110	$—	$ —	$ —
Loans held for investment:									
Commercial, financial and agricultural	13,126	258	381	15,383	423	481	15,334	540	258
Real estate—commercial real estate	26,698	1,106	272	23,692	996	330	26,662	1,143	323
Real estate—construction	—	—	—	3,164	—	162	10,412	103	463
Real estate—residential secured for business purpose	4,084	67	207	3,805	144	161	2,524	77	61
Real estate—residential secured for personal purpose	498	2	24	729	2	43	719	—	49
Real estate—home equity secured for personal purpose	440	—	25	184	—	11	106	—	10
Total	$44,846	$ 1,433	$ 909	$48,789	$ 1,565	$ 1,298	$55,761	$ 1,863	$ 1,164

* Includes interest income recognized on a cash basis for nonaccrual loans of $8 thousand, $37 thousand and $23 thousand for the years ended December 31, 2016, 2015 and 2014, respectively and interest income recognized on the accrual method for accruing impaired loans of $1.4 million, $1.5 million and $1.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Any income accrued on 1-to-4 family residential properties after the loan becomes 90 days past due, which is not placed on non-accrual, is held in a reserve for uncollected interest. The reserve for uncollected interest was $10 thousand and $0 thousand at December 31, 2016 and 2015, respectively.

The Bank maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded. The reserve for these off-balance sheet credits was $385 thousand and $381 thousand at December 31, 2016 and 2015, respectively.

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Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and nonaccrual loans that were restructured during the years ended December 31, 2016 and 2015:

	For the Years Ended December 31,							
	2016				2015			
(Dollars in thousands)	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Reserve	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Reserve
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	1	$ 1,545	$ 1,545	$ —	4	$ 1,140	$ 1,140	$ —
Real estate—commercial real estate	—	—	—	—	1	405	405	—
Real estate—residential secured for business purpose	1	415	415	—	1	353	353	—
Total	2	$ 1,960	$ 1,960	$ —	6	$ 1,898	$ 1,898	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	$ —	$ —	1	$ 122	$ 122	$ 22
Real estate—residential secured for business purpose	1	313	312	—	—	—	—	—
Real estate—residential secured for personal purpose	1	34	34	—	—	—	—	—
Real estate—home equity secured for personal purpose	1	152	152	—	—	—	—	—
Total	3	$ 499	$ 498	$ —	1	$ 122	$ 122	$ 22

The Corporation grants concessions primarily related to extensions of interest-only payment periods and an occasional payment modification. These modifications typically are for a short-term basis up to one year. The goal when restructuring a credit is to establish a reasonable period of time to provide cash flow relief to customers experiencing cash flow difficulties. Accruing troubled debt restructured loans are primarily comprised of loans on which interest is being accrued under the restructured terms, and the loans are current or less than ninety days past due.

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The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the years ended December 31, 2016 and 2015:

	Interest Only Term Extension		Temporary Payment Reduction		Maturity Date Extension		Amortization Period Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
For the Year Ended December 31, 2016										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	—	$ —	—	$ —	1	$ 1,545	1	$ 1,545
Real estate—residential secured for business purpose	1	415	—	—	—	—	—	—	1	415
Total	1	$ 415	—	$ —	—	$ —	1	$ 1,545	2	$ 1,960
Nonaccrual Troubled Debt Restructured Loans:										
Real estate—residential secured for business purpose	—	$ —	—	$ —	1	$ 312	—	$ —	1	$ 312
Real estate—residential secured for personal purpose	—	—	—	—	1	34	—	—	1	34
Real estate—home equity secured for personal purpose	—	—	—	—	1	152	—	—	1	152
Total	—	$ —	—	$ —	3	$ 498	—	$ —	3	$ 498
For the Year Ended December 31, 2015										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	1	$ 143	1	$ 500	2	$ 497	4	$ 1,140
Real estate—commercial real estate	—	—	—	—	—	—	1	405	1	405
Real estate—residential secured for business purpose	—	—	1	353	—	—	—	—	1	353
Total	—	$ —	2	$ 496	1	$ 500	3	$ 902	6	$ 1,898
Nonaccrual Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	1	$ 122	—	$ —	—	$ —	1	$ 122
Total	—	$ —	1	$ 122	—	$ —	—	$ —	1	$ 122

The following presents, by class of loans, information regarding accruing and nonaccrual troubled debt restructured loans, for which there were payment defaults within twelve months of the restructuring date:

	For the Years Ended December 31,			
	2016		2015	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Accruing Troubled Debt Restructured Loans:				

Total	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:				
Commercial, financial and agricultural	—	$ —	1	$ 143
Real estate—residential secured for personal purpose	1	34	—	—
Total	1	$ 34	1	$ 143

The following presents, by class of loans, information regarding consumer mortgages collateralized by residential real estate property that are in the process of foreclosure at December 31, 2016 and 2015:

(Dollars in thousands)	At December 31, 2016	At December 31, 2015
Real estate-residential secured for personal purpose	$ —	$ 313
Real estate-home equity secured for personal purpose	180	60
Total	$ 180	$ 373

The Corporation held no foreclosed consumer residential real estate property at December 31, 2016 and 2015.

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Note 6. Premises and Equipment

The following table reflects the components of premises and equipment:

(Dollars in thousands)	At December 31, 2016	2015
Land and land improvements	$14,033	$11,527
Premises and improvements	55,862	40,850
Furniture and equipment	32,948	26,461
Total cost	102,843	78,838
Less: accumulated depreciation	(39,205)	(36,682)
Net book value	$63,638	$42,156

The following table summarizes rental expense charged to operations for the periods indicated:

(Dollars in thousands)	For the Years Ended December 31, 2016	2015	2014
Rental expense	$3,791	$3,167	$2,732
Sublease rental income	(138)	(195)	(238)
Net rental expense	$3,653	$2,972	$2,494

Note 7. Goodwill and Other Intangible Assets

The Corporation has covenants not to compete, core deposit and customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets for the years ended December 31, 2016, 2015 and 2014 was $4.1 million, $3.6 million and $3.3 million, respectively. In 2016, 2015 and 2014, impairment on customer-related intangibles was recognized in other noninterest expense in the amount of $0 thousand, $0 thousand and $31 thousand, respectively. The Corporation also has goodwill with a net carrying amount of $172.6 million at December 31, 2016, which is deemed to be an indefinite intangible asset and is not amortized. The Corporation recorded goodwill of $59.9 million and core deposit intangibles of $5.3 million related to the Fox Chase Bank acquisition on July 1, 2016.

In accordance with ASC Topic 350, the Corporation performed a qualitative assessment of goodwill during the fourth quarter of 2016 and determined it was more likely than not that the fair value of the Corporation, including each of the identified reporting units, was more than its carrying amount; therefore, the Corporation did not need to perform the two-step impairment test for the Corporation or the reporting units. The Corporation completed the most recent impairment test for goodwill during the fourth quarter of 2014.

The Corporation also completed an impairment test for other intangible assets during the fourth quarter of 2016. There was no goodwill impairment or material impairment of identifiable intangibles recorded during 2014 through 2016.

Changes in the carrying amount of the Corporation's goodwill by business segment for the years ended December 31, 2016 and 2015 were as follows:

(Dollars in thousands)	Banking	Wealth Management	Insurance	Consolidated
Balance at December 31, 2014	$35,058	$ 15,434	$ 17,225	$ 67,717
Addition to goodwill from acquisitions	43,516	—	1,424	44,940
Balance at December 31, 2015	78,574	15,434	18,649	112,657
Addition to goodwill from acquisitions	59,902	—	—	59,902
Balance at December 31, 2016	$138,476	$ 15,434	$ 18,649	$ 172,559

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The following table reflects the components of intangible assets at the dates indicated:

(Dollars in thousands)	At December 31, 2016			At December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount
Amortized intangible assets:						
Covenants not to compete	$710	$ 205	$ 505	$—	$ —	$ —
Core deposit intangibles	6,788	1,004	5,784	1,520	276	1,244
Customer related intangibles	12,381	8,504	3,877	14,227	8,728	5,499
Mortgage servicing rights	14,369	7,884	6,485	12,233	6,356	5,877
Total amortized intangible assets	$34,248	$ 17,597	$ 16,651	$27,980	$ 15,360	$ 12,620

The estimated aggregate amortization expense for covenants not to compete and core deposit and customer related intangibles for each of the five succeeding fiscal years and thereafter follows:

Year (Dollars in thousands)	Amount
2017	$ 2,829
2018	2,114
2019	1,565
2020	1,200
2021	923
Thereafter	1,535

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheet. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method and an accelerated amortization method for loan payoffs. Mortgage servicing rights are subject to impairment testing on a quarterly basis. The aggregate fair value of these rights was $9.5 million and $8.0 million at December 31, 2016 and 2015, respectively. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at December 31, 2016 and 2015.

Changes in the mortgage servicing rights balance are summarized as follows:

	For the Years Ended December 31,		
(Dollars in thousands)	2016	2015	2014
Beginning of period	$5,877	$5,509	$5,519
Servicing rights capitalized	2,049	1,674	1,118
Acquired servicing rights	87	—	—
Amortization of servicing rights	(1,528)	(1,306)	(1,378)
Changes in valuation allowance	—	—	250
End of period	$6,485	$5,877	$5,509
Mortgage loans serviced for others	$965,729	$863,947	$796,835

Activity in the valuation allowance for mortgage servicing rights was as follows:

	For the Years Ended December 31,		
(Dollars in thousands)	2016	2015	2014
Valuation allowance, beginning of period	$—	$ —	$(250)
Additions	—	—	—
Reductions	—	—	250
Direct write-downs	—	—	—

Valuation allowance, end of period	$—	$—	$—

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The estimated amortization expense of mortgage servicing rights for each of the five succeeding fiscal years and thereafter is as follows:

Year (Dollars in thousands)	Amount
2017	$ 941
2018	825
2019	716
2020	619
2021	533