

UNIVEST CORP OF PENNSYLVANIA

Form 10-Q

August 04, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

or

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

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1886144

(State or other jurisdiction of (IRS Employer incorporation or organization) Identification No.)

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (215) 721-2400

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

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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 | 26,664,157 |
| (Title of Class) | (Number of shares outstanding at July 31, 2017) |

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

| | (UNAUDITED) | |
|--|---------------------|----------------------------|
| (Dollars in thousands, except share data) | At June 30, 2017 | At December 31, 2016 |
| ASSETS | | |
| Cash and due from banks | \$48,821 | \$48,757 |
| Interest-earning deposits with other banks | 12,236 | 9,068 |
| Investment securities held-to-maturity (fair value \$43,737 and \$24,871 at June 30, 2017 and December 31, 2016, respectively) | 43,717 | 24,881 |
| Investment securities available-for-sale | 425,590 | 443,637 |
| Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost | 31,506 | 24,869 |
| Loans held for sale | 2,259 | 5,890 |
| Loans and leases held for investment | 3,510,170 | 3,285,886 |
| Less: Reserve for loan and lease losses | (20,910) | (17,499) |
| Net loans and leases held for investment | 3,489,260 | 3,268,387 |
| Premises and equipment, net | 65,581 | 63,638 |
| Goodwill | 172,559 | 172,559 |
| Other intangibles, net of accumulated amortization and fair value adjustments of \$19,743 and \$17,597 at June 30, 2017 and December 31, 2016, respectively | 15,235 | 16,651 |
| Bank owned life insurance | 99,437 | 99,948 |
| Accrued interest receivable and other assets | 47,326 | 52,243 |
| Total assets | \$4,453,527 | \$4,230,528 |
| LIABILITIES | | |
| Noninterest-bearing deposits | \$963,790 | \$918,337 |
| Interest-bearing deposits: | | |
| Demand deposits | 990,930 | 909,963 |
| Savings deposits | 846,522 | 803,078 |
| Time deposits | 546,838 | 626,189 |
| Total deposits | 3,348,080 | 3,257,567 |
| Short-term borrowings | 231,726 | 196,171 |
| Long-term debt | 216,610 | 127,522 |
| Subordinated notes | 94,209 | 94,087 |
| Accrued interest payable and other liabilities | 41,596 | 49,972 |
| Total liabilities | 3,932,221 | 3,725,319 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$5 par value: 48,000,000 shares authorized at June 30, 2017 and December 31, 2016; 28,911,799 shares issued at June 30, 2017 and December 31, 2016; 26,667,991 and 26,589,353 shares outstanding at June 30, 2017 and December 31, 2016, respectively | 144,559 | 144,559 |
| Additional paid-in capital | 231,289 | 230,494 |
| Retained earnings | 206,498 | 194,516 |
| Accumulated other comprehensive loss, net of tax benefit | (17,182) | (19,454) |
| Treasury stock, at cost; 2,243,808 and 2,322,446 shares at June 30, 2017 and December 31, 2016, respectively | (43,858) | (44,906) |

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| | | |
|--|-------------|-------------|
| Total shareholders' equity | 521,306 | 505,209 |
| Total liabilities and shareholders' equity | \$4,453,527 | \$4,230,528 |

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------------|----------|---------------------------------|----------|
| (Dollars in thousands, except per share data) | 2017 | 2016 | 2017 | 2016 |
| Interest income | | | | |
| Interest and fees on loans and leases: | | | | |
| Taxable | \$35,102 | \$22,311 | \$68,802 | \$44,161 |
| Exempt from federal income taxes | 2,084 | 1,774 | 4,119 | 3,490 |
| Total interest and fees on loans and leases | 37,186 | 24,085 | 72,921 | 47,651 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 1,833 | 1,188 | 3,521 | 2,462 |
| Exempt from federal income taxes | 576 | 710 | 1,175 | 1,444 |
| Interest on deposits with other banks | 38 | 9 | 55 | 37 |
| Interest and dividends on other earning assets | 397 | 120 | 754 | 252 |
| Total interest income | 40,030 | 26,112 | 78,426 | 51,846 |
| Interest expense | | | | |
| Interest on deposits | 2,461 | 1,458 | 4,652 | 2,991 |
| Interest on short-term borrowings | 325 | 320 | 587 | 323 |
| Interest on long-term debt and subordinated notes | 1,944 | 673 | 3,604 | 1,348 |
| Total interest expense | 4,730 | 2,451 | 8,843 | 4,662 |
| Net interest income | 35,300 | 23,661 | 69,583 | 47,184 |
| Provision for loan and lease losses | 2,766 | 830 | 5,211 | 1,156 |
| Net interest income after provision for loan and lease losses | 32,534 | 22,831 | 64,372 | 46,028 |
| Noninterest income | | | | |
| Trust fee income | 2,016 | 1,997 | 3,923 | 3,862 |
| Service charges on deposit accounts | 1,313 | 1,056 | 2,556 | 2,054 |
| Investment advisory commission and fee income | 3,333 | 2,776 | 6,514 | 5,447 |
| Insurance commission and fee income | 3,628 | 3,503 | 8,038 | 8,061 |
| Other service fee income | 2,245 | 1,931 | 4,232 | 3,762 |
| Bank owned life insurance income | 1,622 | 535 | 2,405 | 1,005 |
| Net gain on sales of investment securities | 21 | 413 | 36 | 457 |
| Net gain on mortgage banking activities | 1,537 | 1,711 | 2,650 | 2,929 |
| Other income | 294 | 79 | 625 | 255 |
| Total noninterest income | 16,009 | 14,001 | 30,979 | 27,832 |
| Noninterest expense | | | | |
| Salaries and benefits | 16,353 | 14,080 | 33,010 | 28,262 |
| Commissions | 2,374 | 2,363 | 4,424 | 4,258 |
| Net occupancy | 2,684 | 2,096 | 5,349 | 4,196 |
| Equipment | 1,031 | 750 | 2,024 | 1,526 |
| Data processing | 2,081 | 1,530 | 4,139 | 2,811 |
| Professional fees | 1,248 | 947 | 2,487 | 1,967 |
| Marketing and advertising | 475 | 513 | 854 | 1,051 |
| Deposit insurance premiums | 451 | 418 | 853 | 865 |
| Intangible expenses | 446 | 991 | 1,205 | 1,757 |
| Acquisition-related costs | — | 1,158 | — | 1,372 |
| Integration costs | — | 27 | — | 33 |

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| | | | | |
|----------------------------|----------|---------|----------|----------|
| Other expense | 5,405 | 4,673 | 10,233 | 8,387 |
| Total noninterest expense | 32,548 | 29,546 | 64,578 | 56,485 |
| Income before income taxes | 15,995 | 7,286 | 30,773 | 17,375 |
| Income taxes | 4,217 | 2,046 | 8,139 | 4,846 |
| Net income | \$11,778 | \$5,240 | \$22,634 | \$12,529 |
| Net income per share: | | | | |
| Basic | \$0.44 | \$0.27 | \$0.85 | \$0.64 |
| Diluted | 0.44 | 0.27 | 0.85 | 0.64 |
| Dividends declared | 0.20 | 0.20 | 0.40 | 0.40 |

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

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

| (Dollars in thousands) | Three Months Ended June 30, | | | | | |
|---|-----------------------------|-----------------------------|-------------------------|-------------------------|-----------------------------|-------------------------|
| | 2017 | | | 2016 | | |
| | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount |
| Income | \$15,995 | \$4,217 | \$11,778 | \$7,286 | \$2,046 | \$5,240 |
| Other comprehensive income: | | | | | | |
| Net unrealized gains on available-for-sale investment securities: | | | | | | |
| Net unrealized holding gains arising during the period | 2,632 | 921 | 1,711 | 2,084 | 730 | 1,354 |
| Less: reclassification adjustment for net gains on sales realized in net income (1) | (21) | (8) | (13) | (413) | (145) | (268) |
| Total net unrealized gains on available-for-sale investment securities | 2,611 | 913 | 1,698 | 1,671 | 585 | 1,086 |
| Net unrealized losses on interest rate swaps used in cash flow hedges: | | | | | | |
| Net unrealized holding losses arising during the period | (92) | (31) | (61) | (300) | (105) | (195) |
| Less: reclassification adjustment for net losses realized in net income (2) | 36 | 12 | 24 | 80 | 28 | 52 |
| Total net unrealized losses on interest rate swaps used in cash flow hedges | (56) | (19) | (37) | (220) | (77) | (143) |
| Defined benefit pension plans: | | | | | | |
| Amortization of net actuarial loss included in net periodic pension costs (3) | 299 | 104 | 195 | 329 | 115 | 214 |
| Accretion of prior service cost included in net periodic pension costs (3) | (71) | (25) | (46) | (70) | (24) | (46) |
| Total defined benefit pension plans | 228 | 79 | 149 | 259 | 91 | 168 |
| Other comprehensive income | 2,783 | 973 | 1,810 | 1,710 | 599 | 1,111 |
| Total comprehensive income | \$18,778 | \$5,190 | \$13,588 | \$8,996 | \$2,645 | \$6,351 |

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).

(2) Included in interest expense on deposits on the consolidated statements of income (before tax amount).

(3) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 7—Retirement Plans and Other Postretirement Benefits for additional details.

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

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| (Dollars in thousands) | Six Months Ended June 30, | | | | | |
|---|---------------------------|-----------------------------|-------------------------|-------------------------|-----------------------------|-------------------------|
| | 2017 | | | 2016 | | |
| | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount |
| Income | \$30,773 | \$8,139 | \$22,634 | \$17,375 | \$4,846 | \$12,529 |
| Other comprehensive income: | | | | | | |
| Net unrealized gains on available-for-sale investment securities: | | | | | | |
| Net unrealized holding gains arising during the period | 3,052 | 1,068 | 1,984 | 4,302 | 1,506 | 2,796 |
| Less: reclassification adjustment for net gains on sales realized in net income (1) | (36) | (13) | (23) | (457) | (160) | (297) |
| Total net unrealized gains on available-for-sale investment securities | 3,016 | 1,055 | 1,961 | 3,845 | 1,346 | 2,499 |
| Net unrealized gains (losses) on interest rate swaps used in cash flow hedges: | | | | | | |
| Net unrealized holding losses arising during the period | (85) | (29) | (56) | (926) | (324) | (602) |
| Less: reclassification adjustment for net losses realized in net income (2) | 107 | 37 | 70 | 161 | 56 | 105 |
| Total net unrealized gains (losses) on interest rate swaps used in cash flow hedges | 22 | 8 | 14 | (765) | (268) | (497) |
| Defined benefit pension plans: | | | | | | |
| Amortization of net actuarial loss included in net periodic pension costs (3) | 598 | 209 | 389 | 658 | 230 | 428 |
| Accretion of prior service cost included in net periodic pension costs (3) | (141) | (49) | (92) | (141) | (49) | (92) |
| Total defined benefit pension plans | 457 | 160 | 297 | 517 | 181 | 336 |
| Other comprehensive income | 3,495 | 1,223 | 2,272 | 3,597 | 1,259 | 2,338 |
| Total comprehensive income | \$34,268 | \$9,362 | \$24,906 | \$20,972 | \$6,105 | \$14,867 |

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).

(2) Included in interest expense on deposits on the consolidated statements of income (before tax amount).

(3) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 7—Retirement Plans and Other Postretirement Benefits for additional details.

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

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

| (Dollars in thousands, except share and per share data) | Common Shares Outstanding | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total |
|--|---------------------------|--------------|----------------------------|-------------------|---|----------------|------------|
| Six Months Ended June 30, 2017 | | | | | | | |
| Balance at December 31, 2016 | 26,589,353 | \$ 144,559 | \$ 230,494 | \$ 194,516 | \$ (19,454) | \$(44,906) | \$ 505,209 |
| Net income | — | — | — | 22,634 | — | — | 22,634 |
| Other comprehensive income, net of income tax | — | — | — | — | 2,272 | — | 2,272 |
| Cash dividends declared (\$0.40 per share) | — | — | — | (10,652) | — | — | (10,652) |
| Stock issued under dividend reinvestment and employee stock purchase plans | 43,415 | — | 72 | — | — | 1,157 | 1,229 |
| Exercise of stock options | 73,870 | — | (105) | — | — | 1,433 | 1,328 |
| Repurchase of cancelled restricted stock awards | (14,000) | — | 271 | — | — | (271) | — |
| Stock-based compensation | — | — | 1,708 | — | — | — | 1,708 |
| Purchases of treasury stock | (83,970) | — | — | — | — | (2,422) | (2,422) |
| Restricted stock awards granted | 59,323 | — | (1,151) | — | — | 1,151 | — |
| Balance at June 30, 2017 | 26,667,991 | \$ 144,559 | \$ 231,289 | \$ 206,498 | \$ (17,182) | \$(43,858) | \$ 521,306 |
| Six Months Ended June 30, 2016 | | | | | | | |
| Balance at December 31, 2015 | 19,530,930 | \$ 110,271 | \$ 121,280 | \$ 193,446 | \$ (16,708) | \$(46,715) | \$ 361,574 |
| Net income | — | — | — | 12,529 | — | — | 12,529 |
| Other comprehensive income, net of income tax | — | — | — | — | 2,338 | — | 2,338 |
| Cash dividends declared (\$0.40 per share) | — | — | — | (7,819) | — | — | (7,819) |
| Stock issued under dividend reinvestment and employee stock purchase plans | 61,281 | — | 25 | — | — | 1,206 | 1,231 |
| Exercise of stock options | 22,667 | — | (8) | — | — | 422 | 414 |
| Repurchase of cancelled restricted stock awards | (14,250) | — | 241 | — | — | (241) | — |
| Stock-based compensation | — | — | 944 | — | — | — | 944 |
| Purchases of treasury stock | (101,250) | — | — | — | — | (2,051) | (2,051) |
| Restricted stock awards granted | 58,580 | — | (1,083) | — | — | 1,083 | — |