UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2014.

or

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

Commission File Number: 0-7617

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| Common Stock, $5 par value | 16,214,805 |
| (Title of Class) | (Number of shares outstanding at October 31, 2014) |

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

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

| (Dollars in thousands, except share data) | (UNAUDITED) At September 30, 2014 | At December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $29,667 | $32,646 |
| Interest-earning deposits with other banks | 38,741 | 36,523 |
| Investment securities held-to-maturity (fair value $57,101 and $66,853 at September 30, 2014 and December 31, 2013, respectively) | 56,476 | 66,003 |
| Investment securities available-for-sale | 304,302 | 336,281 |
| Loans held for sale | 2,156 | 2,267 |
| Loans and leases held for investment | 1,597,736 | 1,541,484 |
| Less: Reserve for loan and lease losses | (21,762) | (24,494) |
| Net loans and leases held for investment | 1,575,974 | 1,516,990 |
| Premises and equipment, net | 35,532 | 34,129 |
| Goodwill | 67,717 | 57,517 |
| Other intangibles, net of accumulated amortization and fair value adjustments of $10,969 and $10,300 at September 30, 2014 and December 31, 2013, respectively | 12,625 | 8,178 |
| Bank owned life insurance | 61,804 | 60,637 |
| Accrued interest receivable and other assets | 37,202 | 40,388 |
| Total assets | $2,222,196 | $2,191,559 |
| LIABILITIES | | |
| Noninterest-bearing deposits | $436,189 | $411,714 |
| Interest-bearing deposits: | | |
| Demand deposits | 633,750 | 625,845 |
| Savings deposits | 529,028 | 536,150 |
| Time deposits | 261,176 | 270,789 |
| Total deposits | 1,860,143 | 1,844,498 |
| Customer repurchase agreements | 38,005 | 37,256 |
| Accrued interest payable and other liabilities | 34,234 | 29,299 |
| Total liabilities | 1,932,382 | 1,911,053 |
| SHAREHOLDERS’ EQUITY | | |
| Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2014 and December 31, 2013; 18,266,404 shares issued at September 30, 2014 and December 31, 2013; 16,220,249 and 16,287,812 shares outstanding at September 30, 2014 and December 31, 2013, respectively | 91,332 | 91,332 |
| Additional paid-in capital | 62,634 | 62,417 |
| Retained earnings | 179,903 | 172,602 |
| Accumulated other comprehensive loss, net of tax benefit | (6,901) | (9,955) |
| Treasury stock, at cost; 2,046,155 and 1,978,592 shares at September 30, 2014 and December 31, 2013, respectively | (37,154) | (35,890) |
| Total shareholders’ equity | 289,814 | 280,506 |
| Total liabilities and shareholders’ equity | $2,222,196 | $2,191,559 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands, except per share data) | 2014 | 2013 | 2014 | 2013 |
| Interest income | | | | |
| Interest and fees on loans and leases: | | | | |
| Taxable | $15,921 | $15,793 | $46,916 | $47,544 |
| Exempt from federal income taxes | 1,433 | 1,215 | 4,177 | 3,459 |
| Total interest and fees on loans and leases | 17,354 | 17,008 | 51,093 | 51,003 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 963 | 1,391 | 3,025 | 4,195 |
| Exempt from federal income taxes | 884 | 1,033 | 2,723 | 3,103 |
| Other interest income | 18 | 25 | 49 | 106 |
| Total interest income | 19,219 | 19,457 | 56,890 | 58,407 |
| Interest expense | | | | |
| Interest on deposits | 971 | 1,119 | 2,932 | 3,514 |
| Interest on short-term borrowings | 7 | 8 | 25 | 40 |
| Interest on long-term borrowings | — | 11 | — | 483 |
| Total interest expense | 978 | 1,138 | 2,957 | 4,037 |
| Net interest income | 18,241 | 18,319 | 53,933 | 54,370 |
| Provision for loan and lease losses | 233 | 4,094 | 2,959 | 9,614 |
| Net interest income after provision for loan and lease losses | 18,008 | 14,225 | 50,974 | 44,756 |
| Noninterest income | | | | |
| Trust fee income | 1,862 | 1,736 | 5,692 | 5,249 |
| Service charges on deposit accounts | 1,073 | 1,149 | 3,134 | 3,333 |
| Investment advisory commission and fee income | 3,086 | 1,740 | 9,144 | 5,654 |
| Insurance commission and fee income | 2,881 | 2,309 | 8,647 | 7,223 |
| Other service fee income | 1,767 | 1,929 | 5,471 | 5,454 |
| Bank owned life insurance income | 346 | 1,555 | 1,167 | 2,472 |
| Net gain on sales of investment securities | — | 1,426 | 557 | 2,950 |
| Net gain on mortgage banking activities | 616 | 935 | 1,484 | 4,047 |
| Net gain on sales of other real estate owned | 195 | 198 | 195 | 450 |
| Loss on termination of interest rate swap | — | — | — | (1,866) |
| Other | 684 | 225 | 1,084 | 702 |
| Total noninterest income | 12,510 | 13,202 | 36,575 | 35,668 |
| Noninterest expense | | | | |
| Salaries and benefits | 11,035 | 9,761 | 31,948 | 28,980 |
| Commissions | 2,200 | 2,026 | 5,585 | 6,529 |
| Net occupancy | 1,689 | 1,472 | 5,130 | 4,279 |
| Equipment | 1,426 | 1,225 | 4,170 | 3,619 |
| Professional fees | 744 | 764 | 2,399 | 2,340 |
| Marketing and advertising | 391 | 570 | 1,333 | 1,432 |
| Deposit insurance premiums | 386 | 381 | 1,162 | 1,173 |
| Intangible expenses (income) | 352 | 275 | 1,762 | (199) |
| Acquisition-related costs | 180 | 7 | 739 | 34 |
| Restructuring and integration charges | 8 | (5) | 8 | 534 |

| | | | | |
|---|---|---|---|---|
| Other | 3,608 | 3,512 | 10,456 | 10,789 |
| Total noninterest expense | 22,019 | 19,988 | 64,692 | 59,510 |
| Income before income taxes | 8,499 | 7,439 | 22,857 | 20,914 |
| Income taxes | 2,264 | 1,400 | 5,816 | 4,647 |
| Net income | $6,235 | $6,039 | $17,041 | $16,267 |
| Net income per share: | | | | |
| Basic | $0.38 | $0.36 | $1.05 | $0.97 |
| Diluted | 0.38 | 0.36 | 1.04 | 0.97 |
| Dividends declared | 0.20 | 0.20 | 0.60 | 0.60 |

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

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

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (Dollars in thousands) | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount |
| Income | $8,499 | $2,264 | $6,235 | $7,439 | $1,400 | $6,039 |
| Other comprehensive income: | | | | | | |
| Net unrealized (losses) gains on available-for-sale investment securities: | | | | | | |
| Net unrealized holding (losses) gains arising during the period | (486) | (170) | (316) | 442 | 155 | 287 |
| Less: reclassification adjustment for net gains on sales realized in net income | — | — | — | (1,426) | (499) | (927) |
| Total net unrealized losses on available-for-sale investment securities | (486) | (170) | (316) | (984) | (344) | (640) |
| Defined benefit pension plans: | | | | | | |
| Less: amortization of net actuarial loss included in net periodic pension costs | 168 | 59 | 109 | 320 | 112 | 208 |
| Less: accretion of prior service cost included in net periodic pension costs | (72) | (26) | (46) | (64) | (22) | (42) |
| Total defined benefit pension plans | 96 | 33 | 63 | 256 | 90 | 166 |
| Other comprehensive loss | (390) | (137) | (253) | (728) | (254) | (474) |
| Total comprehensive income | $8,109 | $2,127 | $5,982 | $6,711 | $1,146 | $5,565 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (Dollars in thousands) | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount | Before Tax Amount | Tax Expense (Benefit) | Net of Tax Amount |
| Income | $22,857 | $5,816 | $17,041 | $20,914 | $4,647 | $16,267 |
| Other comprehensive income: | | | | | | |
| Net unrealized gains (losses) on available-for-sale investment securities: | | | | | | |
| Net unrealized holding gains (losses) arising during the period | 4,972 | 1,741 | 3,231 | (10,163) | (3,557) | (6,606) |
| Less: reclassification adjustment for net gains on sales realized in net income | (557) | (195) | (362) | (2,950) | (1,032) | (1,918) |
| Total net unrealized gains (losses) on available-for-sale investment securities | 4,415 | 1,546 | 2,869 | (13,113) | (4,589) | (8,524) |
| Cash flow hedge derivative: | | | | | | |
| Net change in fair value of interest rate swap | — | — | — | 43 | 15 | 28 |
| Less: reclassification adjustment for loss on termination of interest rate swap realized in net income | — | — | — | 1,866 | 653 | 1,213 |
| Total cash flow hedge derivative | — | — | — | 1,909 | 668 | 1,241 |
| Defined benefit pension plans: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Less: amortization of net actuarial loss included in net periodic pension costs | 499 | 175 | 324 | 961 | 336 | 625 |
| Less: accretion of prior service cost included in net periodic pension costs | (216 ) | (77 ) | (139 ) | (191 ) | (66 ) | (125 ) |
| Total defined benefit pension plans | 283 | 98 | 185 | 770 | 270 | 500 |
| Other comprehensive income (loss) | 4,698 | 1,644 | 3,054 | (10,434 ) | (3,651 ) | (6,783 ) |
| Total comprehensive income | $27,555 | $7,460 | $20,095 | $10,480 | $996 | $9,484 |

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 |
|---|---|---|---|---|---|---|---|
| Nine Months Ended September 30, 2014 | | | | | | | |
| Balance at December 31, 2013 | 16,287,812 | $91,332 | $62,417 | $172,602 | $ (9,955) | $(35,890) | $280,506 |
| Net income | — | — | — | 17,041 | — | — | 17,041 |
| Other comprehensive income, net of income tax | — | — | — | — | 3,054 | — | 3,054 |
| Cash dividends declared ($0.60 per share) | — | — | — | (9,740) | — | — | (9,740) |
| Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs | 96,129 | — | 30 | — | — | 1,892 | 1,922 |
| Exercise of stock options | 9,500 | — | 11 | — | — | 173 | 184 |
| Repurchase of cancelled restricted stock awards | (43,452) | — | 735 | — | — | (735) | — |
| Stock-based compensation | — | — | 792 | — | — | — | 792 |
| Net tax deficiency on stock-based compensation | — | — | (2) | — | — | — | (2) |
| Purchases of treasury stock | (204,044) | — | — | — | — | (3,943) | (3,943) |
| Restricted stock awards granted | 74,304 | — | (1,349) | — | — | 1,349 | — |
| Balance at September 30, 2014 | 16,220,249 | $91,332 | $62,634 | $179,903 | $ (6,901) | $(37,154) | $289,814 |

| (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 |
|---|---|---|---|---|---|---|---|
| Nine Months Ended September 30, 2013 | | | | | | | |
| Balance at December 31, 2012 | 16,770,232 | $91,332 | $62,101 | $164,823 | $ (6,920) | $(27,059) | $284,277 |
| Net income | — | — | — | 16,267 | — | — | 16,267 |
| Other comprehensive loss, net of income tax benefit | — | — | — | — | (6,783) | — | (6,783) |
| Cash dividends declared ($0.60 per share) | — | — | — | (10,029) | — | — | (10,029) |
| Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs | 105,263 | — | 9 | (32) | — | 1,915 | 1,892 |
| Repurchase of cancelled restricted stock awards | (29,533) | — | 519 | — | — | (519) | — |
| Stock-based compensation | — | — | 616 | — | — | — | 616 |
| Net tax deficiency on stock-based compensation | — | — | (11) | — | — | — | (11) |
| Purchases of treasury stock | (627,406) | — | — | — | — | (11,475) | (11,475) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Restricted stock awards granted | 70,041 | — | (1,174 ) | (92 ) | — | 1,266 | — |
| Balance at September 30, 2013 | 16,288,597 | $91,332 | $62,060 | $170,937 | $ (13,703 ) | $(35,872 ) | $274,754 |

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

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

| | Nine Months Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | $17,041 | $16,267 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan and lease losses | 2,959 | 9,614 |
| Depreciation of premises and equipment | 2,288 | 2,196 |
| Net gain on sales of investment securities | (557) | (2,950) |
| Net gain on mortgage banking activities | (1,484) | (4,047) |
| Net gain on sales of other real estate owned | (195) | (450) |
| Loss on termination of interest rate swap | — | 1,866 |
| Bank owned life insurance income | (1,167) | (2,472) |
| Stock-based compensation | 792 | 616 |
| Intangible expenses (income) | 1,762 | (199) |
| Other adjustments to reconcile net income to cash provided by operating activities | 819 | 207 |
| Originations of loans held for sale | (86,457) | (233,408) |
| Proceeds from the sale of loans held for sale | 87,827 | 239,501 |
| Contributions to pension and other postretirement benefit plans | (159) | (2,090) |
| Decrease (increase) in accrued interest receivable and other assets | 1,359 | (991) |
| (Decrease) increase in accrued interest payable and other liabilities | (2,221) | 5,681 |
| Net cash provided by operating activities | 22,607 | 29,341 |
| Cash flows from investing activities: | | |
| Net cash paid due to acquisitions | (9,260) | (2,170) |
| Net capital expenditures | (3,158) | (2,777) |
| Proceeds from maturities and calls of securities held-to-maturity | 9,000 | — |
| Proceeds from maturities and calls of securities available-for-sale | 47,175 | 33,503 |
| Proceeds from sales of securities available-for-sale | 30,286 | 58,148 |
| Purchases of investment securities available-for-sale | (41,320) | (66,959) |
| Proceeds from sale of credit card portfolio | 8,943 | — |
| Net increase in loans and leases | (70,344) | (57,137) |
| Net (increase) decrease in interest-earning deposits | (2,101) | 14,739 |
| Proceeds from sales of other real estate owned | 891 | 4,183 |
| Net cash used in investing activities | (29,888) | (18,470) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 15,645 | 24,033 |
| Net increase (decrease) in short-term borrowings | 248 | (49,549) |
| Repayment of subordinated debt | — | (375) |
| Payment for repurchase of trust preferred securities | — | (20,619) |
| Purchases of treasury stock | (3,943) | (11,475) |
| Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs | 1,922 | 1,892 |
| Proceeds from exercise of stock options | 184 | — |
| Cash dividends paid | (9,754) | (6,693) |
| Net cash provided by (used in) financing activities | 4,302 | (62,786) |
| Net decrease in cash and due from banks | (2,979) | (51,915) |

| | | |
|---|---|---|
| Cash and due from banks at beginning of year | 32,646 | 98,399 |
| Cash and due from banks at end of period | $29,667 | $46,484 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | $3,122 | $4,801 |
| Cash paid for income taxes, net of refunds received | 5,188 | 4,336 |
| Non cash transactions: | | |
| Transfer of loans to other real estate owned | $— | $3,526 |
| Transfer of loans to loans held for sale | 8,926 | — |
| Contingent consideration recorded as goodwill | 6,105 | 454 |

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation
The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation) and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on March 4, 2014.
Use of Estimates
The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.
Recent Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (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. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, or January 1, 2017 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on its financial statements; however, it is anticipated the impact will be only related to timing.
In January 2014, the FASB issued an ASU regarding reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The ASU clarifies that when an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable

jurisdiction. The ASU was issued to eliminate diversity in practice on this topic. The amendment is effective for fiscal years and interim periods within those years beginning after December 15, 2014, or January 1, 2015 for the Corporation. The Corporation does not anticipate the adoption of this guidance will have a material impact on its financial statements but will result in expanded disclosures effective March 31, 2015.

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Note 2. Acquisitions

Sterner Insurance Associates

On July 1, 2014, the Corporation and its insurance subsidiary, Univest Insurance, completed the acquisition of Sterner Insurance Associates, a full service firm providing insurance and consultative risk management solutions to individuals and businesses throughout the Lehigh Valley, Berks, Bucks and Montgomery counties.

The Corporation paid \$3.9 million in cash and assumed liabilities of \$940 thousand at closing with additional contingent consideration to be paid in annual installments over the three-year period ending June 30, 2017, based on the achievement of certain levels of revenue growth and EBITDA (earnings before interest, taxes, depreciation and amortization). At the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of \$635 thousand in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from \$0 to a maximum of \$5.7 million cumulative over the next three years. As a result of the Sterner Insurance acquisition, the Corporation recorded goodwill of \$3.4 million (inclusive of the contingent consideration) and customer related intangibles of \$1.6 million. The goodwill is expected to be deductible for tax purposes. The customer related intangibles are being amortized over nine years using the sum-of-the-years-digits amortization method.

Valley Green Bank

On June 17, 2014, the Corporation, the Bank and Valley Green Bank (Valley Green) entered into an Agreement and Plan of Merger (Merger Agreement) pursuant to which Valley Green will be merged with and into the Bank in an all-stock transaction with an aggregate value of approximately \$76 million. Headquartered in the Mt. Airy neighborhood of Philadelphia, Pennsylvania, Valley Green had approximately \$390 million in assets, \$349 million in loans, and \$353 million in deposits at June 30, 2014 and operates three full-service banking offices and two loan production offices in the greater Philadelphia marketplace.

Under the terms of the Merger Agreement, Valley Green shareholders will receive shares of the Corporation’s common stock equal to \$27.00 for each share of Valley Green stock outstanding, subject to certain adjustments depending upon the changes in the price of the Corporation’s common stock. The final exchange ratio will be based upon an average closing price of the Corporation’s common stock over the 20 consecutive trading day period ending on the day prior to the closing date.

With the assumption of Valley Green’s three branches and two loan production offices in the Philadelphia marketplace, the Corporation enters a new small business and consumer market and expands its existing lending network within southeastern Pennsylvania. Upon the closing, Valley Green will operate as a separate division of the Bank, under the Valley Green brand. The transaction is anticipated to be accretive to the Corporation’s earnings per share in the first combined year of operations.

The Merger Agreement has been approved by the Boards of Directors of the Corporation, the Bank and Valley Green and remains subject to approval by the shareholders of both companies, as well as their regulatory authorities. The transaction is expected to qualify as a tax-free reorganization for federal income tax purposes. The transaction is expected to close in the first quarter of 2015.

Girard Partners

On January 27, 2014, the Corporation completed the acquisition of Girard Partners, a registered investment advisory firm with more than \$500 million in assets under management. The Corporation increased its assets under management to over \$3.0 billion at the acquisition date and expanded its advisory capabilities.

The Corporation paid \$5.4 million in cash at closing with additional contingent consideration to be paid in annual installments over the five-year period ending December 31, 2018, based on the achievement of certain levels of EBITDA. As of the effective date of the acquisition, January 1, 2014, the Corporation recorded the estimated fair value of the contingent consideration of \$5.5 million in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from \$0 to a maximum of \$14.5 million cumulative over the next 5 years. As a result of the Girard Partners acquisition, the Corporation recorded goodwill of \$6.8 million (inclusive of the contingent consideration) and customer related intangibles of \$4.3 million. The goodwill is expected to be deductible for tax purposes. The customer related intangibles are being amortized over 9 years using the sum-of-the-years-digits amortization method.

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Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at September 30, 2014 and December 31, 2013, by contractual maturity within each type:

| | At September 30, 2014 | | | | At December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Securities Held-to-Maturity | | | | | | | | |
| Corporate bonds: | | | | | | | | |
| Within 1 year | $15,150 | $178 | $— | $15,328 | $11,148 | $122 | $— | $11,270 |
| After 1 year to 5 years | 41,326 | 507 | (60) | 41,773 | 54,855 | 992 | (264) | 55,583 |
| | 56,476 | 685 | (60) | 57,101 | 66,003 | 1,114 | (264) | 66,853 |
| Total | $56,476 | $685 | $(60) | $57,101 | $66,003 | $1,114 | $(264) | $66,853 |
| Securities Available-for-Sale | | | | | | | | |
| U.S. treasuries: | | | | | | | | |
| After 1 year to 5 years | $4,971 | $— | $(181) | $4,790 | $— | $— | $— | $— |
| After 5 years to 10 years | — | — | — | — | 4,966 | — | (258) | 4,708 |
| | 4,971 | — | (181) | 4,790 | 4,966 | — | (258) | 4,708 |
| U.S. government corporations and agencies: | | | | | | | | |
| Within 1 year | — | — | — | — | 5,999 | 16 | — | 6,015 |
| After 1 year to 5 years | 123,207 | 48 | (852) | 122,403 | 112,989 | 114 | (1,226) | 111,877 |
| After 5 years to 10 years | — | — | — | — | 10,816 | — | (560) | 10,256 |
| | 123,207 | 48 | (852) | 122,403 | 129,804 | 130 | (1,786) | 128,148 |
| State and political subdivisions: | | | | | | | | |
| Within 1 year | 600 | 2 | — | 602 | 1,564 | 13 | — | 1,577 |
| After 1 year to 5 years | 10,443 | 48 | (18) | 10,473 | 5,305 | 14 | (29) | 5,290 |
| After 5 years to 10 years | 49,641 | 1,658 | (124) | 51,175 | 41,974 | 710 | (698) | 41,986 |
| Over 10 years | 42,246 | 1,921 | (10) | 44,157 | 57,899 | 1,227 | (322) | 58,804 |
| | 102,930 | 3,629 | (152) | 106,407 | 106,742 | 1,964 | (1,049) | 107,657 |
| Residential mortgage-backed securities: | | | | | | | | |
| After 1 year to 5 years | 5,096 | — | (32) | 5,064 | — | — | — | — |
| After 5 years to 10 years | 4,860 | — | (85) | 4,775 | 10,008 | 5 | (53) | 9,960 |
| Over 10 years | 3,681 | 45 | (12) | 3,714 | 25,721 | 20 | (221) | 25,520 |
| | 13,637 | 45 | (129) | 13,553 | 35,729 | 25 | (274) | 35,480 |
| Collateralized mortgage obligations: | | | | | | | | |
| After 1 year to 5 years | — | — | — | — | 73 | — | — | 73 |
| Over 10 years | 6,580 | 18 | (123) | 6,475 | 7,341 | 40 | (253) | 7,128 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 6,580 | 18 | (123) | 6,475 | 7,414 | 40 | (253) | 7,201 |
| Corporate bonds: | | | | | | | | |
| Within 1 year | 4,998 | 34 | — | 5,032 | — | — | — | — |
| After 1 year to 5 years | 17,590 | 30 | (235) | 17,385 | 18,838 | 52 | (411) | 18,479 |
| After 5 years to 10 years | 20,943 | 4 | (389) | 20,558 | 16,474 | 4 | (1,117) | 15,361 |
| | 43,531 | 68 | (624) | 42,975 | 35,312 | 56 | (1,528) | 33,840 |
| Money market mutual funds: | | | | | | | | |
| No stated maturity | 6,442 | — | — | 6,442 | 16,900 | — | — | 16,900 |
| | 6,442 | — | — | 6,442 | 16,900 | — | — | 16,900 |
| Equity securities: | | | | | | | | |
| No stated maturity | 854 | 403 | — | 1,257 | 1,679 | 668 | — | 2,347 |
| | 854 | 403 | — | 1,257 | 1,679 | 668 | — | 2,347 |
| Total | $302,152 | $4,211 | $(2,061) | $304,302 | $338,546 | $2,883 | $(5,148) | $336,281 |

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Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties. Unrealized losses in investment securities at September 30, 2014 and December 31, 2013 do not represent other-than-temporary impairments.

Securities with a carrying value of $231.5 million and $271.1 million at September 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes as required by law.

The following table presents information related to sales of securities available-for-sale during the nine months ended September 30, 2014 and 2013:

| | Nine Months Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2014 | 2013 |
| Securities available-for-sale: | | |
| Proceeds from sales | $30,286 | $58,148 |
| Gross realized gains on sales | 557 | 2,957 |
| Gross realized losses on sales | — | 7 |
| Tax expense related to net realized gains on sales | 195 | 1,032 |

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, interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation’s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2014 and 2013.

At September 30, 2014 and December 31, 2013, there were no investments in any single non-federal issuer representing more than 10% of shareholders’ equity.

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The following table shows the fair value of securities that were in an unrealized loss position at September 30, 2014 and December 31, 2013 by the length of time those securities were in a continuous loss position:

| | 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 September 30, 2014 | | | | | | |
| Securities Held-to-Maturity | | | | | | |
| Corporate bonds | $13,189 | $(39) | $4,993 | $(21) | $18,182 | $(60) |
| Total | $13,189 | $(39) | $4,993 | $(21) | $18,182 | $(60) |
| Securities Available-for-Sale | | | | | | |
| U.S. treasuries | $— | $— | $4,790 | $(181) | $4,790 | $(181) |
| U.S. government corporations and agencies | 19,948 | (52) | 77,353 | (800) | 97,301 | (852) |
| State and political subdivisions | 1,883 | (4) | 11,146 | (148) | 13,029 | (152) |
| Residential mortgage-backed securities | 12,391 | (129) | — | — | 12,391 | (129) |
| Collateralized mortgage obligations | — | — | 3,807 | (123) | 3,807 | (123) |
| Corporate bonds | 17,407 | (233) | 15,775 | (391) | 33,182 | (624) |
| Total | $51,629 | $(418) | $112,871 | $(1,643) | $164,500 | $(2,061) |
| At December 31, 2013 | | | | | | |
| Securities Held-to-Maturity | | | | | | |
| Corporate bonds | $19,942 | $(264) | $— | $— | | |