UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 03, 2017


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

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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 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.

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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.

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Executive Overview

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

| (Dollars in thousands, except per share data) | For the Years Ended December 31, 2016 | 2015 | 2014 | Amount of Change 2016 to 2015 | 2015 to 2014 | Percent Change 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.

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- 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:

| (Dollars in thousands) | For the Years Ended December 31, 2016 | 2015 | 2014 | $ Change 2016 to 2015 | $ Change 2015 to 2014 | % Change 2016 to 2015 | % Change 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 | | |