UNIVEST FINANCIAL Corp
Form 10-Q
May 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2019.

or

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

Commission File Number: 0-7617

UNIVEST FINANCIAL CORPORATION
(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	Trading symbol	Name of exchange on which registered
Common Stock, $5 par value	UVSP	The NASDAQ Stock Market

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, $5 par value	29,287,509
(Title of Class)	(Number of shares outstanding at April 30, 2019)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
UNIVEST FINANCIAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	(UNAUDITED) At March 31, 2019	At December 31, 2018
ASSETS		
Cash and due from banks	$46,465	$61,573
Interest-earning deposits with other banks	19,676	47,847
Cash and cash equivalents	66,141	109,420
Investment securities held-to-maturity (fair value $148,960 and $141,575 at March 31, 2019 and December 31, 2018, respectively)	148,470	142,634
Investment securities available-for-sale	315,648	328,507
Investments in equity securities	2,765	2,165
Federal Home Loan Bank, Federal Reserve Bank and other stock, at cost	32,699	28,337
Loans held for sale	921	1,754
Loans and leases held for investment	4,067,879	4,006,574
Less: Reserve for loan and lease losses	(31,602)	(29,364)
Net loans and leases held for investment	4,036,277	3,977,210
Premises and equipment, net	59,091	59,559
Operating lease right-of-use assets	36,099	—
Goodwill	172,559	172,559
Other intangibles, net of accumulated amortization	11,530	11,990
Bank owned life insurance	112,551	111,599
Accrued interest receivable and other assets	40,776	38,613
Total assets	$5,035,527	$4,984,347
LIABILITIES		
Noninterest-bearing deposits	$1,103,674	$1,055,919
Interest-bearing deposits:		
Demand deposits	1,441,540	1,377,171
Savings deposits	819,255	782,766
Time deposits	638,684	670,077
Total deposits	4,003,153	3,885,933
Short-term borrowings	73,185	189,768
Long-term debt	145,263	145,330
Subordinated notes	94,635	94,574
Operating lease liabilities	39,102	—
Accrued interest payable and other liabilities	42,583	44,609
Total liabilities	4,397,921	4,360,214
SHAREHOLDERS’ EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at March 31, 2019 and December 31, 2018; 31,556,799 shares issued at March 31, 2019 and December 31, 2018; 29,272,502 and 29,270,852 shares outstanding at March 31, 2019 and December 31, 2018, respectively	157,784	157,784
Additional paid-in capital	293,255	292,401
Retained earnings	256,746	248,167

Accumulated other comprehensive loss, net of tax benefit	(24,238)	(28,416)
Treasury stock, at cost; 2,284,297 and 2,285,947 shares at March 31, 2019 and December 31, 2018, respectively	(45,941)	(45,803)
Total shareholders’ equity	637,606	624,133
Total liabilities and shareholders’ equity	$5,035,527	$4,984,347

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

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UNIVEST FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2019	2018
Interest income		
Interest and fees on loans and leases:		
Taxable	$45,682	$37,950
Exempt from federal income taxes	2,683	2,347
Total interest and fees on loans and leases	48,365	40,297
Interest and dividends on investment securities:		
Taxable	2,713	2,189
Exempt from federal income taxes	431	468
Interest on deposits with other banks	269	76
Interest and dividends on other earning assets	586	504
Total interest income	52,364	43,534
Interest expense		
Interest on deposits	8,203	3,691
Interest on short-term borrowings	638	645
Interest on long-term debt and subordinated notes	2,000	1,926
Total interest expense	10,841	6,262
Net interest income	41,523	37,272
Provision for loan and lease losses	2,685	2,053
Net interest income after provision for loan and lease losses	38,838	35,219
Noninterest income		
Trust fee income	1,887	1,996
Service charges on deposit accounts	1,435	1,327
Investment advisory commission and fee income	3,789	3,683
Insurance commission and fee income	5,144	4,888
Other service fee income	2,267	2,169
Bank owned life insurance income	952	669
Net gain on sales of investment securities	1	10
Net gain on mortgage banking activities	483	716
Other income	339	124
Total noninterest income	16,297	15,582
Noninterest expense		
Salaries, benefits and commissions	21,564	20,647
Net occupancy	2,611	2,757
Equipment	990	1,023
Data processing	2,514	2,232
Professional fees	1,264	1,355
Marketing and advertising	316	381
Deposit insurance premiums	452	391
Intangible expenses	426	612
Restructuring charges	—	571
Other expense	5,420	5,156
Total noninterest expense	35,557	35,125

Income before income taxes	19,578	15,676
Income tax expense	3,499	2,826
Net income	$16,079	$12,850
Net income per share:		
Basic	$0.55	$0.44
Diluted	0.55	0.44

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

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

(Dollars in thousands)	Three Months Ended March 31, 2019 Before Tax Amount	2019 Tax Expense (Benefit)	2019 Net of Tax Amount	2018 Before Tax Amount	2018 Tax Expense (Benefit)	2018 Net of Tax Amount
Income	$19,578	$3,499	$16,079	$15,676	$2,826	$12,850
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	5,120	1,075	4,045	(6,338)	(1,331)	(5,007)
Less: reclassification adjustment for net gains on sales realized in net income (1)	(1)	—	(1)	(10)	(2)	(8)
Total net unrealized gains (losses) on available-for-sale investment securities	5,119	1,075	4,044	(6,348)	(1,333)	(5,015)
Net unrealized (losses) gains on interest rate swaps used in cash flow hedges:						
Net unrealized holding (losses) gains arising during the period	(168)	(36)	(132)	212	45	167
Less: reclassification adjustment for net (gains) losses realized in net income (2)	(16)	(3)	(13)	20	4	16
Total net unrealized (losses) gains on interest rate swaps used in cash flow hedges	(184)	(39)	(145)	232	49	183
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs (3)	294	62	232	281	59	222
Accretion of prior service cost included in net periodic pension costs (3)	(45)	(9)	(36)	(71)	(15)	(56)
Total defined benefit pension plans	249	53	196	210	44	166
Other comprehensive income (loss)	5,184	1,089	4,095	(5,906)	(1,240)	(4,666)
Total comprehensive income	$24,762	$4,588	$20,174	$9,770	$1,586	$8,184

(1) Included in net gain on sales of investment securities on the consolidated statements of income (before tax amount).
(2) Included in interest expense on deposits on the consolidated statements of income (before tax amount).
(3) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (before tax amount). See Note 8, "Retirement Plans and Other Postretirement Benefits" for additional details.

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

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

(Dollars in thousands, except per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Three Months Ended March 31, 2019							
Balance at December 31, 2018	29,270,852	$157,784	$292,401	$248,167	$ (28,416)	$(45,803)	$624,133
Adjustment to initially apply ASU No. 2016-02 for leases (1)	—	—	—	(1,525)	—	—	(1,525)
Adjustment to initially apply ASU No. 2017-12 for derivatives (1)	—	—	—	(83)	83	—	—
Adjustment to initially apply ASU No. 2017-08 for premium amortization on purchased callable debt securities (1)	—	—	—	(39)	—	—	(39)
Net income	—	—	—	16,079	—	—	16,079
Other comprehensive income, net of income tax	—	—	—	—	4,095	—	4,095
Cash dividends declared ($0.20 per share)	—	—	—	(5,853)	—	—	(5,853)
Stock issued under dividend reinvestment and employee stock purchase plans	25,743	—	30	—	—	541	571
Exercise of stock options	30,500	—	(91)	—	—	612	521
Stock-based compensation	—	—	574	—	—	—	574
Purchases of treasury stock	(37,244)	—	—	—	—	(950)	(950)
Cancellations of performance-based restricted stock awards	(17,349)	—	341	—	—	(341)	—
Balance at March 31, 2019	29,272,502	$157,784	$293,255	$256,746	$ (24,238)	$(45,941)	$637,606

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Three Months Ended March 31, 2018							
Balance at December 31, 2017	29,334,859	$157,784	$290,133	$216,761	$ (17,771)	$(43,533)	$603,374
Adjustment to initially apply ASU No. 2016-01 for equity securities measured at fair value	—	—	—	433	(433)	—	—
Adjustment to initially apply ASU No. 2018-02 for reclassification of stranded net tax charges	—	—	—	3,921	(3,921)	—	—
Net income	—	—	—	12,850	—	—	12,850
Other comprehensive loss, net of income tax benefit	—	—	—	—	(4,666)	—	(4,666)

Cash dividends declared ($0.20 per share)	—	—	—	(5,868)	—	—	(5,868)
Stock issued under dividend reinvestment and employee stock purchase plans	20,253	—	44	—	—	525	569
Exercise of stock options	14,158	—	(9)	—	—	277	268
Stock-based compensation	—	—	847	—	—	—	847
Purchases of treasury stock	(23,539)	—	—	—	—	(655)	(655)
Restricted stock awards granted, net of cancellations	46,203	—	(920)	—	—	920	—
Balance at March 31, 2018	29,391,934	$157,784	$290,095	$228,097	$ (26,791)	$(42,466)	$606,719

(1) See Note 1, "Summary of Significant Accounting Policies - Accounting Pronouncements Adopted in 2019" for additional information.

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

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

	Three Months Ended March 31,	
(Dollars in thousands)	2019	2018
Cash flows from operating activities:		
Net income	$16,079	$12,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,685	2,053
Depreciation of premises and equipment	1,318	1,408
Net amortization of investment securities premiums and discounts	379	402
Net gain on sales of investment securities	(1)	(10)
Net gain on mortgage banking activities	(483)	(716)
Bank owned life insurance income	(952)	(669)
Net accretion of acquisition accounting fair value adjustments	(60)	(146)
Stock-based compensation	577	847
Intangible expenses	426	612
Other adjustments to reconcile net income to cash used in operating activities	(145)	(18)
Originations of loans held for sale	(30,422)	(35,151)
Proceeds from the sale of loans held for sale	31,745	37,003
Contributions to pension and other postretirement benefit plans	(66)	(67)
Increase in accrued interest receivable and other assets	(3,709)	(3,307)
(Decrease) increase in accrued interest payable and other liabilities	(316)	2,805
Net cash provided by operating activities	17,055	17,896
Cash flows from investing activities:		
Net capital expenditures	(850)	(1,009)
Proceeds from maturities, calls and principal repayments of securities held-to-maturity	4,288	1,721
Proceeds from maturities, calls and principal repayments of securities available-for-sale	17,085	19,423
Proceeds from sales of securities available-for-sale	491	1,010
Purchases of investment securities held-to-maturity	(10,309)	(30,641)
Purchases of investment securities available-for-sale	—	(1,487)
Proceeds from sales of money market mutual funds	10	1,016
Purchases of money market mutual funds	(606)	(6,205)
Net increase in other investments	(4,362)	(5,597)
Net increase in loans and leases	(61,582)	(69,830)
Proceeds from sales of other real estate owned	599	—
Purchases of bank owned life insurance	—	(777)
Net cash used in investing activities	(55,236)	(92,376)
Cash flows from financing activities:		
Net increase (decrease) in deposits	117,239	(57,575)
Net (decrease) increase in short-term borrowings	(116,583)	110,995
Payment of contingent consideration on acquisitions	(33)	(34)
Purchases of treasury stock	(950)	(655)
Stock issued under dividend reinvestment and employee stock purchase plans	571	569
Proceeds from exercise of stock options	521	268
Cash dividends paid	(5,863)	(5,866)
Net cash (used in) provided by financing activities	(5,098)	47,702
Net decrease in cash and cash equivalents	(43,279)	(26,778)

Cash and cash equivalents at beginning of year	109,420	75,409
Cash and cash equivalents at end of period	$66,141	$48,631
Supplemental disclosures of cash flow information:		
Cash paid for interest	$10,629	$6,361
Cash paid for income taxes, net of refunds	25	145

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

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UNIVEST FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to the Condensed Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation
The accompanying unaudited consolidated financial statements include the accounts of Univest Financial Corporation (the Corporation) and its wholly owned subsidiaries. The Corporation’s direct subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the three-month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019 or for any other period. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant’s Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on February 28, 2019.
Use of Estimates
The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale and reserve for loan and lease losses.
Accounting Pronouncements Adopted in 2019
In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "Leases (Topic 842)" and subsequent related updates to revise the accounting for leases. Under the new guidance, lessees are required to recognize a lease liability and a right-of-use asset for all leases based on the present value of future lease payments using an estimated incremental borrowing rate. Lessor accounting activities are largely unchanged from existing lease accounting. Disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This new guidance was effective for the first interim period within annual periods beginning after December 15, 2018, or January 1, 2019 for the Corporation.

The Corporation adopted this guidance, and subsequent related updates, on a modified retrospective basis through a cumulative-effect adjustment to retained earnings, representing the difference between the value of the Corporation’s lease liabilities and related right-of-use assets and the existing deferred rent liability, at January 1, 2019. The Corporation elected the package of practical expedients, which includes a provision which allows for the grandfathering of lease classification, among other items, and the hindsight practical expedient to determine the lease term. All leases in which the Corporation is the lessee were classified as operating leases and continue to be classified as such. On January 1, 2019, the Corporation recorded $39.6 million of operating lease liabilities and $36.6 million of related right-of-use assets and released $1.0 million of existing deferred rent liability. The resulting cumulative effect adjustment of $1.5 million, net of tax, was recorded to retained earnings at January 1, 2019. The initial and continued impact of the recording of operating lease assets had and will continue to have a negative impact on all Corporation and Bank regulatory capital ratios. Additionally, the Corporation early adopted (ASU) No. 2019-01, "Codification Improvements" , as of January 1, 2019, which serves as an an update to (ASU) No. 2016-02, and is effective for the first interim period within annual periods beginning after December 15, 2019, or January 1, 2020, for the Corporation. See Note 4, "Loans and Leases" and Note 14, "Leases" for applicable disclosures including quantitative and qualitative information about the Corporation’s leases.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" and subsequent related updates. The amendments in this update expand and refine hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU amends the presentation and disclosure requirements and changes how entities assess effectiveness. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness and requires all items that affect earnings be presented in the same income statement line as the hedged items. The

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amendments in this guidance permit the use of the Overnight Index Swap rate based on Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes to facilitate the LIBOR to SOFR transition. This guidance was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities, or January 1, 2019 for the Corporation. The amended presentation and disclosure guidance was required only prospectively. The Corporation adopted this guidance on a modified retrospective basis through a cumulative-effect adjustment to retained earnings effective January 1, 2019. The Corporation recorded a cumulative-effect adjustment of $83 thousand related to ineffectiveness on a cash flow hedge, which was reclassified from retained earnings to accumulated other comprehensive income, effective January 1, 2019.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.” This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date rather than the maturity of the security. Securities within the scope of this guidance are those that have explicit, non-contingent call features that are callable at fixed prices and on preset dates. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, or January 1, 2019 for the Corporation. At December 31, 2018, the Corporation had $11.3 million of callable debt securities. The Corporation adopted this guidance on a modified retrospective basis through a cumulative-effect adjustment to retained earnings effective January 1, 2019. The Corporation recorded a cumulative-effect adjustment resulting in a reduction in the unamortized premium balance for certain callable debt securities of $49 thousand and a reduction in retained earnings of approximately $39 thousand, net of tax, for the incremental amortization.

Recent Accounting Pronouncements Yet to Be Adopted

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in this ASU replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. An entity should apply the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). Acquired credit impaired loans for which the guidance in Accounting Standards Codification (ASC) Topic 310-30 has been previously applied should prospectively apply the guidance in this ASU. A prospective transition approach is required for debt securities for which other-than-temporary impairment has been recognized before the effective date. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities that are SEC filers, or January 1, 2020 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated that the reserve for loan and lease losses will increase upon adoption of CECL and that the increased reserve level will decrease shareholders' equity and impact regulatory capital and ratios.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." This ASU applies to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. Disclosures removed by this ASU are the amount and reasons for transfers between Level 1 and Level 2, the policy for timing of transfers between levels and the valuation processes for Level 3 measurements. This ASU modifies disclosures relating to investments in certain entities that calculate net asset value. Additional disclosures required by this ASU include: 1) change in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and 2) range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The prospective method of transition is required for the new disclosure requirements. The other amendments should be applied retrospectively. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years or January 1, 2020 for the Corporation. Early adoption is permitted. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements but will result in revised disclosures for fair value.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This ASU eliminates Step 2 of the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds

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the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or for the Corporation's goodwill impairment test in 2020. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statements.

In August 2018, the FASB issued ASU No. 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." The amendments in this ASU modify the disclosure requirements for employers that sponsor defined benefit plans or other postretirement plans. Disclosures removed by this ASU include the following: 1) amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit costs over the next fiscal year; 2) amount and timing of plan assets expected to be returned to the employer; and 3) the effects of a one percentage point change in assumed health care cost trend rates on the net periodic benefit costs and the benefit obligation for postretirement health care benefits. Additional disclosures required by this ASU include: 1) the weighted-average interest crediting rates used in an entity's cash balance pension plans and other similar plans and 2) explanations for reasons for significant changes in the benefit obligation or plan assets. All amendments should be applied retrospectively. This ASU is effective for fiscal years ending after December 15, 2020 or December 31, 2020 for the Corporation. The Corporation does not expect the adoption of this ASU will have a material impact on the Corporation's financial statement disclosures but will result in revised disclosures for retirement plans and other postretirement benefits.

Note 2. Earnings per Share

The Corporation uses the two-class method to calculate earnings per share as the unvested restricted stock awards outstanding under the Corporation's equity incentive plans are participating shares with nonforfeitable rights to dividends. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the number of weighted average shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if options on common shares had been exercised, as well as any adjustment to income that would result from the assumed issuance, and if restricted stock units were vested. Potential common shares that may be issued by the Corporation relate to outstanding stock options and restricted stock units, and are determined using the treasury stock method. The effects of options to issue common stock and unvested restricted stock units are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. Anti-dilutive options are those options with weighted average exercise prices in excess of the weighted average market value. Anti-dilutive restricted stock units are those with hypothetical repurchases of shares, under the treasury stock method, exceeding the average restricted stock units outstanding for the periods presented.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
(Dollars and shares in thousands, except per share data)	2019	2018
Numerator:		
Net income	$16,079	$12,850
Net income allocated to unvested restricted stock awards	(67)	(97)
Net income allocated to common shares	$16,012	$12,753
Denominator:		
Weighted average shares outstanding	29,277	29,355

Average unvested restricted stock awards	(131)	(215)
Denominator for basic earnings per share—weighted-average shares outstanding	29,146	29,140
Effect of dilutive securities—employee stock options and restricted stock units	59	94
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	29,205	29,234
Basic earnings per share	$0.55	$0.44
Diluted earnings per share	$0.55	$0.44
Average anti-dilutive options and restricted stock units excluded from computation of diluted earnings per share	348	217

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Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at March 31, 2019 and December 31, 2018, by contractual maturity within each type:

(Dollars in thousands)	At March 31, 2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
U.S. government corporations and agencies:								
After 1 year to 5 years	$6,997	$ —	$(46)	$6,951	$6,996	$ —	$(104)	$6,892
	6,997	—	(46)	6,951	6,996	—	(104)	6,892
Residential mortgage-backed securities:								
After 5 years to 10 years	11,005	23	(54)	10,974	11,573	—	(135)	11,438
Over 10 years	130,468	852	(285)	131,035	124,065	287	(1,107)	123,245
	141,473	875	(339)	142,009	135,638	287	(1,242)	134,683
Total	$148,470	$ 875	$(385)	$148,960	$142,634	$ 287	$(1,346)	$141,575
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	$10,067	$ —	$(41)	$10,026	$15,108	$ —	$(90)	$15,018
After 1 year to 5 years	302	—	(5)	297	303	—	(6)	297
	10,369	—	(46)	10,323	15,411	—	(96)	15,315
State and political subdivisions:								
Within 1 year	3,483	6	—	3,489	5,900	4	(6)	5,898
After 1 year to 5 years	17,439	83	(1)	17,521	15,459	36	(56)	15,439
After 5 years to 10 years	40,506	458	—	40,964	43,923	318	(163)	44,078
	61,428	547	(1)	61,974	65,282	358	(225)	65,415
Residential mortgage-backed securities:								
After 1 year to 5 years	6,204	11	(75)	6,140	5,799	3	(70)	5,732
After 5 years to 10 years	46,409	14	(711)	45,712	49,904	6	(1,381)	48,529
Over 10 years	97,524	52	(1,663)	95,913	100,873	26	(3,398)	97,501
	150,137	77	(2,449)	147,765	156,576	35	(4,849)	151,762
Collateralized mortgage obligations:								
After 5 years to 10 years	1,589	—	(60)	1,529	1,677	—	(78)	1,599
Over 10 years	1,260	—	(3)	1,257	1,305	—	(16)	1,289
	2,849	—	(63)	2,786	2,982	—	(94)	2,888
Corporate bonds:								
Within 1 year	8,299	—	(42)	8,257	7,806	—	(68)	7,738
After 1 year to 5 years	16,512	7	(104)	16,415	18,508	1	(332)	18,177
After 5 years to 10 years	15,139	—	(289)	14,850	16,146	—	(392)	15,754
Over 10 years	60,000	—	(6,722)	53,278	60,000	—	(8,542)	51,458
	99,950	7	(7,157)	92,800	102,460	1	(9,334)	93,127
Total	$324,733	$ 631	$(9,716)	$315,648	$342,711	$ 394	$(14,598)	$328,507

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties and mortgage-backed securities typically prepay at a rate faster than contractually due.

Securities with a carrying value of $374.5 million and $344.5 million at March 31, 2019 and December 31, 2018, respectively, were pledged to secure public deposits and other contractual obligations. In addition, securities of $298 thousand and $296 thousand were pledged to secure credit derivatives and interest rate swaps at March 31, 2019 and December 31, 2018, respectively. See Note 11, "Derivative Instruments and Hedging Activities" for additional information.

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The following table presents information related to sales of securities available-for-sale during the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(Dollars in thousands)	2019	2018
Securities available-for-sale:		
Proceeds from sales	$491	$1,010
Gross realized gains on sales	1	10
Tax expense related to net realized gains on sales	—	2

At March 31, 2019 and December 31, 2018, there were no reportable investments in any single issuer representing more than 10% of shareholders' equity.

The following table shows the fair value of securities that were in an unrealized loss position at March 31, 2019 and December 31, 2018 by the length of time those securities were in a continuous loss position. For the investment securities in an unrealized loss position, the Corporation has concluded, based on its analysis, that the unrealized losses are primarily caused by the movement of interest rates and current market conditions and are not other-than temporary impairment of the securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. It is more likely than not that the Corporation will not be required to sell the investments before a recovery of carrying value.

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2019						
Securities Held-to-Maturity						
U.S. government corporations and agencies	$—	$ —	$6,951	$ (46)	$6,951	$ (46)
Residential mortgage-backed securities	8,054	(2)	40,353	(337)	48,407	(339)
Total	$8,054	$ (2)	$47,304	$ (383)	$55,358	$ (385)
Securities Available-for-Sale						
U.S. government corporations and agencies	$—	$ —	$10,323	$ (46)	$10,323	$ (46)
State and political subdivisions	1,045	—	1,018	(1)	2,063	(1)
Residential mortgage-backed securities	—	—	141,650	(2,449)	141,650	(2,449)
Collateralized mortgage obligations	—	—	2,786	(63)	2,786	(63)
Corporate bonds	1,489	(10)	88,304	(7,147)	89,793	(7,157)
Total	$2,534	$ (10)	$244,081			