UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2013.**

or

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

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

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

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

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

Not applicable

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

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

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

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

Large accelerated filer ¨	Accelerated filer 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 x No

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

Common Stock, $5 par value	**16,283,354**
(Title of Class)	**(Number of shares outstanding at October 31, 2013)**

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At September 30, 2013	(SEE NOTE) At December 31, 2012
ASSETS		
Cash and due from banks	$ 46,484	$ 98,399
Interest-earning deposits with other banks	32,974	47,713
Investment securities held-to-maturity (fair value $70,079 and $71,327 at September 30, 2013 and December 31, 2012, respectively)	69,214	69,845
Investment securities available-for-sale	393,359	429,734
Loans held for sale	3,489	4,530
Loans and leases held for investment	1,526,241	1,481,862
Less: Reserve for loan and lease losses	(24,835)	(24,746)
Net loans and leases held for investment	1,501,406	1,457,116
Premises and equipment, net	33,797	33,222
Goodwill	57,517	56,238
Other intangibles, net of accumulated amortization and fair value adjustments of $9,783 and $10,475 at September 30, 2013 and December 31, 2012, respectively	8,475	6,456
Bank owned life insurance	60,144	61,409
Accrued interest receivable and other assets	46,137	40,179
Total assets	$ 2,252,996	$ 2,304,841
LIABILITIES		
Demand deposits, noninterest-bearing	$ 394,983	$ 368,948
Demand deposits, interest-bearing	658,417	638,483
Savings deposits	545,864	526,391
Time deposits	289,782	331,511
Total deposits	1,889,046	1,865,333
Customer repurchase agreements	46,733	96,282
Accrued interest payable and other liabilities	42,463	37,955
Subordinated notes		375
Junior subordinated debt owed to unconsolidated subsidiary trust		20,619
Total liabilities	1,978,242	2,020,564

SHAREHOLDERS EQUITY				
Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2013 and December 31, 2012; 18,266,404 shares issued at September 30, 2013 and December 31, 2012; 16,288,597 and 16,770,232 shares outstanding at September 30, 2013 and December 31, 2012, respectively		**91,332**		91,332
Additional paid-in capital		**62,060**		62,101
Retained earnings		**170,937**		164,823
Accumulated other comprehensive loss, net of taxes		**(13,703)**		(6,920)
Treasury stock, at cost; 1,977,807 and 1,496,172 shares at September 30, 2013 and December 31, 2012, respectively		**(35,872)**		(27,059)
Total shareholders equity		**274,754**		284,277
Total liabilities and shareholders equity	**$**	**2,252,996**	$	2,304,841

Note: The consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. See accompanying notes to the unaudited consolidated financial statements.

2

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 15,793**	$ 16,332	**$ 47,544**	$ 49,082
Exempt from federal income taxes	**1,215**	1,143	**3,459**	3,565
Total interest and fees on loans and leases	**17,008**	17,475	**51,003**	52,647
Interest and dividends on investment securities:				
Taxable	**1,391**	1,354	**4,195**	4,588
Exempt from federal income taxes	**1,033**	1,103	**3,103**	3,310
Other interest income	**25**	45	**106**	121
Total interest income	**19,457**	19,977	**58,407**	60,666
Interest expense				
Interest on deposits	**1,119**	1,624	**3,514**	5,131
Interest on short-term borrowings	**8**	33	**40**	295
Interest on long-term borrowings	**11**	301	**483**	910
Total interest expense	**1,138**	1,958	**4,037**	6,336
Net interest income	**18,319**	18,019	**54,370**	54,330
Provision for loan and lease losses	**4,094**	2,210	**9,614**	7,653
Net interest income after provision for loan and lease losses	**14,225**	15,809	**44,756**	46,677
Noninterest income				
Trust fee income	**1,736**	1,625	**5,249**	4,875
Service charges on deposit accounts	**1,149**	1,122	**3,333**	3,301
Investment advisory commission and fee income	**1,536**	1,350	**5,048**	3,956
Insurance commission and fee income	**2,513**	2,129	**7,829**	6,453
Other service fee income	**1,929**	1,053	**5,454**	3,943
Bank owned life insurance income	**1,555**	463	**2,472**	2,305
Other-than-temporary impairment on equity securities		(4)		(13)
Net gain on sales of investment securities	**1,426**	9	**2,950**	291
Net gain on mortgage banking activities	**935**	2,171	**4,047**	4,517
Net gain (loss) on sales and dispositions of fixed assets		1,321	**(6)**	1,312

Net gain (loss) on sales and write-downs of other real estate owned	**198**	(621)	**450**	(1,723)
Loss on termination of interest rate swap			**(1,866)**	
Other	**225**	243	**708**	665
Total noninterest income	**13,202**	10,861	**35,668**	29,882
Noninterest expense				
Salaries and benefits	**9,761**	8,944	**28,980**	28,185
Commissions	**2,026**	1,884	**6,529**	4,939
Net occupancy	**1,472**	1,445	**4,279**	4,241
Equipment	**1,225**	1,152	**3,619**	3,297
Marketing and advertising	**570**	340	**1,432**	1,243
Deposit insurance premiums	**381**	406	**1,173**	1,279
Restructuring charges	**(5)**		**534**	
Other	**4,558**	4,887	**12,964**	13,386
Total noninterest expense	**19,988**	19,058	**59,510**	56,570
Income before income taxes	**7,439**	7,612	**20,914**	19,989
Income taxes	**1,400**	1,842	**4,647**	4,193
Net income	**$ 6,039**	$ 5,770	**$ 16,267**	$ 15,796
Net income per share:				
Basic	**$ .36**	$ .34	**$ .97**	$ .94
Diluted	**.36**	.34	**.97**	.94
Dividends declared	**.20**	.20	**.60**	.60

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

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30, 2013			**2012**		
(Dollars in thousands)	**Before Tax Amount**	**Tax Expense (Benefit)**	**Net of Tax Amount**	**Before Tax Amount**	**Tax Expense (Benefit)**	**Net of Tax Amount**
Income	**$ 7,439**	**$ 1,400**	**$ 6,039**	$ 7,612	$ 1,842	$ 5,770
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	**442**	**155**	**287**	2,698	944	1,754
Less: reclassification adjustment for net gains on sales realized in net income	**(1,426)**	**(499)**	**(927)**	(9)	(3)	(6)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income				4	2	2
Total net unrealized (losses) gains on available-for-sale investment securities	**(984)**	**(344)**	**(640)**	2,693	943	1,750
Cash flow hedge derivative:						
Net change in fair value of interest rate swap				(213)	(75)	(138)
Total cash flow hedge derivative				(213)	(75)	(138)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**320**	**112**	**208**	293	103	190
Less: accretion of prior service cost included in net periodic pension costs	**(64)**	**(22)**	**(42)**	(64)	(22)	(42)
Total defined benefit pension plans	**256**	**90**	**166**	229	81	148
Other comprehensive (loss) income	**(728)**	**(254)**	**(474)**	2,709	949	1,760
Total comprehensive income	**$ 6,711**	**$ 1,146**	**$ 5,565**	$ 10,321	$ 2,791	$ 7,530

	Nine Months Ended September 30, 2013	**2012**
(Dollars in thousands)		

	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	**$ 20,914**	**$ 4,647**	**$ 16,267**	$ 19,989	$ 4,193	$ 15,796
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	**(10,163)**	**(3,557)**	**(6,606)**	3,215	1,125	2,090
Less: reclassification adjustment for net gains on sales realized in net income	**(2,950)**	**(1,032)**	**(1,918)**	(291)	(102)	(189)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income				13	5	8
Total net unrealized (losses) gains on available-for-sale investment securities	**(13,113)**	**(4,589)**	**(8,524)**	2,937	1,028	1,909
Cash flow hedge derivative:						
Net change in fair value of interest rate swap	**43**	**15**	**28**	(602)	(211)	(391)
Less: reclassification adjustment for loss on termination of interest rate swap realized in net income	**1,866**	**653**	**1,213**			
Total cash flow hedge derivative	**1,909**	**668**	**1,241**	(602)	(211)	(391)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**961**	**336**	**625**	882	309	573
Less: accretion of prior service cost included in net periodic pension costs	**(191)**	**(66)**	**(125)**	(192)	(67)	(125)
Total defined benefit pension plans	**770**	**270**	**500**	690	242	448
Other comprehensive (loss) income	**(10,434)**	**(3,651)**	**(6,783)**	3,025	1,059	1,966
Total comprehensive income	**$ 10,480**	**$ 996**	**$ 9,484**	$ 23,014	$ 5,252	$ 17,762

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

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Nine Months Ended September 30, 2013							
Balance at December 31, 2012	**16,770,232**	**$ (6,920)**	**$ 91,332**	**$ 62,101**	**$ 164,823**	**$ (27,059)**	**$ 284,277**
Net income					**16,267**		**16,267**
Other comprehensive loss, net of income tax benefit		**(6,783)**					**(6,783)**
Cash dividends declared ($0.60 per share)					**(10,029)**		**(10,029)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**105,263**			**9**	**(32)**	**1,915**	**1,892**
Repurchase of cancelled restricted stock awards	**(29,533)**			**519**		**(519)**	
Stock-based compensation				**616**			**616**
Net tax deficiency on stock-based compensation				**(11)**			**(11)**
Purchases of treasury stock	**(627,406)**					**(11,475)**	**(11,475)**
Restricted stock awards granted	**70,041**			**(1,174)**	**(92)**	**1,266**	
Balance at September 30, 2013	**16,288,597**	**$ (13,703)**	**$ 91,332**	**$ 62,060**	**$ 170,937**	**$ (35,872)**	**$ 274,754**

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Nine Months Ended September 30, 2012							
Balance at December 31, 2011	16,702,376	$ (6,101)	$ 91,332	$ 58,495	$ 157,566	$ (28,313)	$ 272,979
Net income					15,796		15,796
Other comprehensive income, net of income tax		1,966					1,966
Cash dividends declared ($0.60 per share)					(10,058)		(10,058)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	121,012				(64)	2,051	1,987

Repurchase of cancelled restricted stock awards	(13,125)			300	(87)	(213)	
Stock-based compensation				847	33		880
Net tax deficiency on stock-based compensation				(84)			(84)
Purchases of treasury stock	(116,294)					(1,877)	(1,877)
Restricted stock awards granted	71,157			(1,154)	(134)	1,288	
Balance at September 30, 2012	16,765,126	$ (4,135)	$ 91,332	$ 58,404	$ 163,052	$ (27,064)	$ 281,589

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

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net income	**$ 16,267**	$ 15,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**9,614**	7,653
Depreciation of premises and equipment	**2,196**	2,160
Other-than-temporary impairment on equity securities		13
Net gain on sales of investment securities	**(2,950)**	(291)
Net gain on mortgage banking activities	**(4,047)**	(4,517)
Net loss (gain) on dispositions and sales of fixed assets	**6**	(1,312)
Net (gain) loss on sales and write-downs of other real estate owned	**(450)**	1,723
Loss on termination of interest rate swap	**1,866**	
Bank owned life insurance income	**(2,472)**	(2,305)
Stock-based compensation	**616**	923
Other adjustments to reconcile net income to cash provided by operating activities	**944**	5,638
Originations of loans held for sale	**(233,408)**	(215,767)
Proceeds from the sale of loans held for sale	**239,501**	218,280
Contributions to pension and other postretirement benefit plans	**(2,090)**	(8,089)
(Increase) decrease in accrued interest receivable and other assets	**(974)**	801
Increase (decrease) in accrued interest payable and other liabilities	**4,722**	(962)
Net cash provided by operating activities	**29,341**	19,744
Cash flows from investing activities:		
Net cash paid due to acquisitions	**(2,170)**	(3,225)
Net capital expenditures	**(2,777)**	(236)
Proceeds from maturities and calls of securities available-for-sale	**33,503**	107,920
Proceeds from sales of securities available-for-sale	**58,148**	57,162
Purchases of investment securities held-to-maturity		(24,697)
Purchases of investment securities available-for-sale	**(66,959)**	(182,949)
Net increase in loans and leases	**(57,137)**	(36,131)
Net decrease in interest-earning deposits	**14,739**	43,191
Proceeds from sales of other real estate owned	**4,183**	1,482
Proceeds from bank owned life insurance		2,415
Net cash used in investing activities	**(18,470)**	(35,068)

Cash flows from financing activities:				
Net increase in deposits		**24,033**		28,698
Net decrease in short-term borrowings		**(49,549)**		(3,189)
Repayment of subordinated debt		**(375)**		(1,125)
Payment for repurchase of trust preferred securities		**(20,619)**		
Purchases of treasury stock		**(11,475)**		(1,877)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs		**1,892**		1,987
Cash dividends paid		**(6,693)**		(10,050)
Net cash (used in) provided by financing activities		**(62,786)**		14,444
Net decrease in cash and due from banks		**(51,915)**		(880)
Cash and due from banks at beginning of year		**98,399**		39,857
Cash and due from banks at end of period	**$**	**46,484**	$	38,977
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**4,801**	$	6,694
Cash paid for income taxes, net of refunds received		**4,336**		1,437
Non cash transactions:				
Noncash transfer of loans to other real estate owned	**$**	**3,526**	$	
Noncash transfer of loans held for investment to loans held for sale				2,599
Contingent consideration recorded as goodwill	**$**	**454**	$	842

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

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation) and its wholly owned subsidiaries; the Corporation s primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. 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, 2012, which was filed with the SEC on March 4, 2013.

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which requires entities to present an unrecognized tax benefit or a portion of an unrecognized tax benefit for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, in the financial statements as a reduction to a deferred tax asset with some specified exceptions. The ASU was issued to eliminate diversity in practice on this topic. The amendment is effective for fiscal years and interim periods within those years beginning after December 15, 2013, or January 1, 2014 for the Corporation. The adoption of this ASU will not have any impact on the Corporation s financial statements.

In February 2013, the FASB issued an ASU to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The guidance requires entities to present, either on the face of the statement where net income is presented or in a single footnote, significant amounts that are required under U.S. GAAP to be reclassified to net income in their entirety. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to provide a cross-reference to other required U.S. GAAP disclosures. The amendment is effective for reporting periods beginning after December 15, 2012, or January 1, 2013 for the Corporation. The application of the provisions of this standard did not have a material impact on the Corporation s financial statements although it resulted in additional disclosures which are included in Note 10, Accumulated Other Comprehensive (Loss) Income.

In December 2011, the FASB issued an ASU regarding disclosures about offsetting assets and liabilities. The scope of this accounting guidance was further clarified by an ASU issued by the FASB in January 2013. This guidance affects entities that have financial instruments and derivative instruments that are either (1) offset in accordance with U.S. GAAP or (2) subject to an enforceable master netting arrangement or similar agreement. This

Table of Contents

information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments within the scope of this guidance. The guidance is effective for annual reporting periods beginning on or after January 1, 2013. The provisions of this guidance did not have any impact on the Corporation s financial statements.

Note 2. Acquisition

On May 1, 2013, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of John T. Fretz Insurance Agency, Inc., a full-service property and casualty insurance agency providing solutions to both personal and commercial clients. The acquisition expands the Corporation s insurance business and increases its market share in its core market.

The Corporation paid $2.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period ended April 30, 2016 based on the achievement of certain levels of revenue. At the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of $454 thousand in other liabilities. The estimated fair value of the contingent consideration liability was calculated using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The potential cash payments that could result from the contingent consideration arrangement range from $0 thousand to a maximum of $930 thousand cumulative over the next three years. The fair value of the contingent consideration liability will be reviewed on a quarterly basis and any valuation adjustments resulting from a change in the discount rate or estimated future contingent payments based on projected revenue of the acquired business affecting the contingent consideration liability will be recorded through noninterest expense.

As a result of the John T. Fretz Insurance Agency, Inc. acquisition, the Corporation recorded goodwill of $1.3 million (inclusive of the contingent consideration) and customer related intangibles of $1.3 million. The goodwill is expected to be deductible for tax purposes. The customer related intangibles will be amortized over seven years using the sum-of-the-years-digits amortization method. The acquisition was accounted for in accordance with accounting standards for business combinations.

Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at September 30, 2013 and December 31, 2012 by contractual maturity within each type:

	At September 30, 2013				**At December 31, 2012**			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Held-to-Maturity								
Corporate bonds:								
Within 1 year	**$ 12,228**	**$ 86**	**$**	**$ 12,314**	$ 3,026	$ 7	$	$ 3,033
After 1 year to 5 years	**56,986**	**1,040**	**(261)**	**57,765**	66,819	1,526	(51)	68,294
	69,214	**1,126**	**(261)**	**70,079**	69,845	1,533	(51)	71,327

Total	**$ 69,214**	**$ 1,126**	**$ (261)**	**$ 70,079**	$ 69,845	$ 1,533	$ (51)	$ 71,327
Securities Available-for-Sale								
U.S. treasuries:								
After 5 years to 10 years	**$ 4,965**	**$**	**$ (192)**	**$ 4,773**	$ 4,960	$	$ (22)	$ 4,938
	4,965		**(192)**	**4,773**	4,960		(22)	4,938
U.S. government corporations and agencies:								
Within 1 year	**5,999**	**36**		**6,035**	1,517	9		1,526
After 1 year to 5 years	**148,123**	**169**	**(1,157)**	**147,135**	148,120	1,509	(70)	149,559
After 5 years to 10 years	**10,850**		**(471)**	**10,379**	20,953	109	(5)	21,057
	164,972	**205**	**(1,628)**	**163,549**	170,590	1,627	(75)	172,142
State and political subdivisions:								
Within 1 year	**3,825**	**14**		**3,839**	4,607	75		4,682
After 1 year to 5 years	**4,603**	**29**	**(35)**	**4,597**	4,130	88	(19)	4,199
After 5 years to 10 years	**41,545**	**720**	**(530)**	**41,735**	36,499	1,245	(7)	37,737
Over 10 years	**65,746**	**1,788**	**(311)**	**67,223**	70,495	5,055		75,550
	115,719	**2,551**	**(876)**	**117,394**	115,731	6,463	(26)	122,168

Table of Contents

(Dollars in thousands)	At September 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities:								
After 5 years to 10 years	**18,365**	**307**	**(55)**	**18,617**	20,140	777		20,917
Over 10 years	**35,075**	**375**		**35,450**	66,962	2,861		69,823
	53,440	**682**	**(55)**	**54,067**	87,102	3,638		90,740
Collateralized mortgage obligations:								
After 1 year to 5 years	**109**	**1**		**110**	41			41
After 5 years to 10 years					626	7		633
Over 10 years	**9,462**	**111**	**(163)**	**9,410**	25,698	645	(5)	26,338
	9,571	**112**	**(163)**	**9,520**	26,365	652	(5)	27,012
Corporate bonds:								
After 1 year to 5 years	**10,819**	**35**	**(131)**	**10,723**	4,993	21		5,014
After 5 years to 10 years	**22,833**	**8**	**(1,156)**	**21,685**				
	33,652	**43**	**(1,287)**	**32,408**	4,993	21		5,014
Money market mutual funds:								
Within 1 year	**9,639**			**9,639**	4,878			4,878
	9,639			**9,639**	4,878			4,878
Equity securities:								
No stated maturity	**1,678**	**357**	**(26)**	**2,009**	2,279	696	(133)	2,842
	1,678	**357**	**(26)**	**2,009**	2,279	696	(133)	2,842
Total	**$ 393,636**	**$ 3,950**	**$ (4,227)**	**$ 393,359**	$ 416,898	$ 13,097	$ (261)	$ 429,734

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties. Unrealized losses in investment securities at September 30, 2013 and December 31, 2012 do not represent other-than-temporary impairments.

Securities with a carrying value of $330.8 million and $368.2 million at September 30, 2013 and December 31, 2012, respectively, were pledged to secure public deposits and for other purposes as required by law.

The following table presents information related to sales of securities available-for-sale during the nine months ended September 30, 2013 and 2012:

Nine Months Ended September 30,

(Dollars in thousands)	2013	2012
Securities available-for-sale:		
Proceeds from sales	**$ 58,148**	$ 57,162
Gross realized gains on sales	**2,957**	1,187
Gross realized losses on sales	**7**	896
Tax expense related to net realized gains on sales	**1,033**	102

The Corporation realized other-than-temporary impairment charges to noninterest income of $0 thousand and $13 thousand, respectively, on its equity portfolio during the nine months ended September 30, 2013 and 2012. As such, in 2012, the Corporation determined that it was probable that the fair value of certain equity securities would not recover to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other equity securities in an unrealized loss position, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the intent and ability to hold these securities until recovery to the Corporation s cost basis occurs. The Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2013 and December 31, 2012.

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost,

Table of Contents

interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2013 and 2012.

At September 30, 2013 and December 31, 2012, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the fair value of securities that were in an unrealized loss position at September 30, 2013 and December 31, 2012 by the length of time those securities were in a continuous loss position:

	At September 30, 2013					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasuries	**$ 4,773**	**$ (192)**	**$**	**$**	**$ 4,773**	**$ (192)**
U.S. government corporations and agencies	**107,154**	**(1,628)**			**107,154**	**(1,628)**
State and political subdivisions	**26,790**	**(876)**			**26,790**	**(876)**
Residential mortgage-backed securities	**5,093**	**(55)**			**5,093**	**(55)**
Collateralized mortgage obligations	**4,334**	**(163)**			**4,334**	**(163)**
Corporate bonds	**45,866**	**(1,548)**			**45,866**	**(1,548)**
Equity securities	**1,054**	**(26)**			**1,054**	**(26)**
Total	**$ 195,064**	**$ (4,488)**	**$**	**$**	**$ 195,064**	**$ (4,488)**

	At December 31, 2012					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasuries	$ 4,938	$ (22)	$	$	$ 4,938	$ (22)
U.S. government corporations and agencies	36,793	(75)			36,793	(75)
State and political subdivisions	4,574	(14)	480	(12)	5,054	(26)
Collateralized mortgage obligations	5,006	(5)			5,006	(5)
Corporate bonds	10,410	(51)			10,410	(51)
Equity securities	976	(133)			976	(133)
Total	$ 62,697	$ (300)	$ 480	$ (12)	$ 63,177	$ (312)

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At September 30, 2013	At December 31, 2012
Commercial, financial and agricultural	**$ 430,818**	$ 468,421
Real estate-commercial	**606,030**	530,122
Real estate-construction	**74,847**	91,250
Real estate-residential secured for business purpose	**35,673**	35,179
Real estate-residential secured for personal purpose	**143,374**	146,526
Real estate-home equity secured for personal purpose	**90,527**	82,727
Loans to individuals	**42,211**	43,780
Lease financings	**102,761**	83,857
Total loans and leases held for investment, net of deferred income	**$ 1,526,241**	$ 1,481,862
Unearned lease income, included in the above table	**$ (14,192)**	$ (12,355)
Net deferred costs (fees), included in the above table	**$ 2,523**	$ 1,432
Overdraft deposits included in the above table	**$ 156**	$ 128

Overdraft deposits are re-classified as loans and are included in the total loans and leases on the balance sheet.

Table of Contents

Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases greater than 90 days past due which are accruing interest at September 30, 2013 and December 31, 2012:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases Held for Investment	Recorded Investment Greater than 90 Days Past Due and Accruing Interest
At September 30, 2013							
Commercial, financial and agricultural	$ 4,169	$ 972	$ 1,047	$ 6,188	$ 424,630	$ 430,818	$ 300
Real estate commercial real estate and construction:							
Commercial real estate	651	1,364	6,405	8,420	597,610	606,030	641
Construction			8,742	8,742	66,105	74,847	
Real estate residential and home equity:							
Residential secured for business purpose	411	180	226	817	34,856	35,673	
Residential secured for personal purpose	1,122	197	619	1,938	141,436	143,374	619
Home equity secured for personal purpose	341	76	51	468	90,059	90,527	51
Loans to individuals	496	255	299	1,050	41,161	42,211	299
Lease financings	1,592	1,372	271	3,235	99,526	102,761	44
Total	$ 8,782	$ 4,416	$ 17,660	$ 30,858	$ 1,495,383	$ 1,526,241	$ 1,954

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases Held for Investment	Recorded Investment Greater than 90 Days Past Due and Accruing Interest
At December 31, 2012							

Commercial, financial and agricultural	$ 586	$ 313	$ 754	$ 1,653	$ 466,768	$ 468,421	$
Real estate commercial real estate and construction:							
Commercial real estate	8,266		5,894	14,160	515,962	530,122	
Construction	306		13,150	13,456	77,794	91,250	
Real estate residential and home equity:							
Residential secured for business purpose	1,663	69	103	1,835	33,344	35,179	
Residential secured for personal purpose	1,617	152		1,769	144,757	146,526	
Home equity secured for personal purpose	276	64	54	394	82,333	82,727	54
Loans to individuals	551	153	347	1,051	42,729	43,780	347
Lease financings	1,001	273	426	1,700	82,157	83,857	40
Total	$ 14,266	$ 1,024	$ 20,728	$ 36,018	$ 1,445,844	$ 1,481,862	$ 441

11

Table of Contents

Non-Performing Loans and Leases

The following presents, by class of loans and leases, non-performing loans and leases at September 30, 2013 and December 31, 2012:

	At September 30, 2013				At December 31, 2012			
(Dollars in thousands)	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases Greater than 90 Days Past Due and Accruing Interest	Total Non-Performing Loans and Leases	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases Greater than 90 Days Past Due and Accruing Interest	Total Non-Performing Loans and Leases
Commercial, financial and agricultural	**$ 3,778**	**$ 1,406**	**$ 300**	**$ 5,484**	$ 2,842	$ 480	$	$ 3,322
Real estate commercial real estate and construction:								
Commercial real estate	**9,858**	**10,499**	**641**	**20,998**	14,340	10,523		24,863
Construction	**9,165**	**2,164**		**11,329**	13,588	2,397		15,985
Real estate residential and home equity:								
Residential secured for business purpose	**226**			**226**	172			172
Residential secured for personal purpose	**720**		**619**	**1,339**	804			804
Home equity secured for personal purpose			**51**	**51**			54	54
Loans to individuals		**37**	**299**	**336**		38	347	385
Lease financings	**227**		**44**	**271**	386	19	40	445
Total	**$ 23,974**	**$ 14,106**	**$ 1,954**	**$ 40,034**	$ 32,132	$ 13,457	$ 441	$ 46,030

* Includes nonaccrual troubled debt restructured loans and lease modifications of $1.6 million and $579 thousand at September 30, 2013 and December 31, 2012, respectively.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at September 30, 2013 and December 31, 2012.

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

1. Cash Secured No credit risk

2. Fully Secured Negligible credit risk

3. Strong Minimal credit risk

4. Satisfactory Nominal credit risk

5. Acceptable Moderate credit risk

6. Pre-Watch Marginal, but stable credit risk

7. Special Mention Potential weakness

8. Substandard Well-defined weakness

9. Doubtful Collection in-full improbable

10. Loss Considered uncollectible

Table of Contents

Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial	Real Estate Construction	Real Estate Residential Secured for Business Purpose	Total
	At September 30, 2013				
Grade:					
1. Cash secured/ 2. Fully secured	**$ 4,498**	**$ 2,031**	**$ 1,550**	**$**	**$ 8,079**
3. Strong	**5,534**	**9,119**	**4,288**		**18,941**
4. Satisfactory	**33,136**	**17,579**	**1,602**	**107**	**52,424**
5. Acceptable	**246,455**	**376,724**	**33,898**	**25,721**	**682,798**
6. Pre-watch	**98,524**	**121,054**	**21,282**	**5,351**	**246,211**
7. Special Mention	**15,897**	**22,169**		**1,919**	**39,985**
8. Substandard	**26,410**	**57,305**	**12,227**	**2,575**	**98,517**
9. Doubtful	**364**	**49**			**413**
10. Loss					
Total	**$ 430,818**	**$ 606,030**	**$ 74,847**	**$ 35,673**	**$ 1,147,368**

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial	Real Estate Construction	Real Estate Residential Secured for Business Purpose	Total
	At December 31, 2012				
Grade:					
1. Cash secured/ 2. Fully secured	$ 2,263	$	$	$	$ 2,263
3. Strong	5,227	9,591	3,907		18,725
4. Satisfactory	40,747	25,837	1,783	335	68,702
5. Acceptable	260,042	321,194	26,331	22,764	630,331
6. Pre-watch	106,436	110,476	42,190	8,458	267,560
7. Special Mention	31,825	16,187	548	288	48,848
8. Substandard	21,881	45,844	16,491	3,334	87,550
9. Doubtful		993			993
10. Loss					
Total	$ 468,421	$ 530,122	$ 91,250	$ 35,179	$ 1,124,972

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

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

	At September 30, 2013				
(Dollars in thousands)	**Real Estate Residential Secured for Personal Purpose**	**Real Estate Home Equity Secured for Personal Purpose**	**Loans to Individuals**	**Lease Financing**	**Total**
Performing	**$ 142,035**	**$ 90,476**	**$ 41,875**	**$ 102,490**	**$ 376,876**
Nonperforming	**1,339**	**51**	**336**	**271**	**1,997**
Total	**$ 143,374**	**$ 90,527**	**$ 42,211**	**$ 102,761**	**$ 378,873**

	At December 31, 2012				
(Dollars in thousands)	**Real Estate Residential Secured for Personal Purpose**	**Real Estate Home Equity Secured for Personal Purpose**	**Loans to Individuals**	**Lease Financing**	**Total**
Performing	$ 145,722	$ 82,673	$ 43,395	$ 83,412	$ 355,202
Nonperforming	804	54	385	445	1,688
Total	$ 146,526	$ 82,727	$ 43,780	$ 83,857	$ 356,890

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three and nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
Three Months Ended September 30, 2013								
Reserve for loan and lease losses:								
Beginning balance	$ 11,395	$ 8,662	$ 586	$ 1,084	$ 693	$ 1,212	$ 1,086	$ 24,718
Charge-offs	(812)	(2,784)	(38)	(133)	(216)	(211)	N/A	(4,194)
Recoveries	85		1	2	60	69	N/A	217
(Recovery of provision) provision	(152)	2,542	682	249	169	198	406	4,094
Ending balance	$ 10,516	$ 8,420	$ 1,231	$ 1,202	$ 706	$ 1,268	$ 1,492	$ 24,835
Three Months Ended September 30, 2012								
Reserve for loan and lease losses:								

Beginning balance	$ 12,021	$ 12,316	$ 834	$ 884	$ 719	$ 1,161	$ 2,567	$ 30,502
Charge-offs *	(4,143)	(1,318)			(168)	(203)	N/A	(5,832)
Recoveries	33	4	4		43	132	N/A	216
Provision (recovery of provision)	3,344	(763)	(154)	62	12	94	(385)	2,210
Ending balance	$ 11,255	$ 10,239	$ 684	$ 946	$ 606	$ 1,184	$ 2,182	$ 27,096

Table of Contents

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
Nine Months Ended September 30, 2013								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,594**	**$ 7,507**	**$ 639**	**$ 980**	**$ 679**	**$ 1,326**	**$ 2,021**	**$ 24,746**
Charge-offs	**(1,973)**	**(6,857)**	**(112)**	**(160)**	**(620)**	**(637)**	**N/A**	**(10,359)**
Recoveries	**172**	**48**	**9**	**5**	**172**	**428**	**N/A**	**834**
Provision (recovery of provision)	**723**	**7,722**	**695**	**377**	**475**	**151**	**(529)**	**9,614**
Ending balance	**$ 10,516**	**$ 8,420**	**$ 1,231**	**$ 1,202**	**$ 706**	**$ 1,268**	**$ 1,492**	**$ 24,835**
Nine Months Ended September 30, 2012								
Reserve for loan and lease losses:								
Beginning balance	$ 11,262	$ 13,317	$ 823	$ 735	$ 730	$ 1,344	$ 1,659	$ 29,870
Charge-offs *	(7,308)	(2,993)		(2)	(408)	(849)	N/A	(11,560)
Recoveries	448	144	59	3	100	379	N/A	1,133
Provision (recovery of provision)	6,853	(229)	(198)	210	184	310	523	7,653
Ending balance	$ 11,255	$ 10,239	$ 684	$ 946	$ 606	$ 1,184	$ 2,182	$ 27,096

N/A Not applicable

* Includes charge-offs of $1.3 million on commercial real estate loans which were subsequently transferred to loans held for sale at September 2012.

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for	Loans to Individuals	Lease Financings	Unallocated	Total

				Personal Purpose				
At September 30, 2013								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 2,210**	**$ 111**	**$ 775**	**$**	**$**	**$**	**$ N/A**	**$ 3,096**
Ending balance: collectively evaluated for impairment	**8,306**	**8,309**	**456**	**1,202**	**706**	**1,268**	**1,492**	**21,739**
Total ending balance	**$ 10,516**	**$ 8,420**	**$ 1,231**	**$ 1,202**	**$ 706**	**$ 1,268**	**$ 1,492**	**$ 24,835**
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	**$ 14,029**	**$ 50,242**	**$ 1,776**	**$ 720**	**$ 37**	**$**		**$ 66,804**
Ending balance: collectively evaluated for impairment	**416,789**	**630,635**	**33,897**	**233,181**	**42,174**	**102,761**		**1,459,437**
Total ending balance	**$ 430,818**	**$ 680,877**	**$ 35,673**	**$ 233,901**	**$ 42,211**	**$ 102,761**		**$ 1,526,241**

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At September 30, 2012								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 428	$ 262	$	$	$	$	$ N/A	$ 690
Ending balance: collectively evaluated for impairment	10,827	9,977	684	946	606	1,184	2,182	26,406
Total ending balance	$ 11,255	$ 10,239	$ 684	$ 946	$ 606	$ 1,184	$ 2,182	$ 27,096
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 4,232	$ 35,976	$ 175	$ 323	$ 48	$		$ 40,754
Ending balance: collectively evaluated for impairment	471,893	575,012	32,645	230,067	42,578	76,562		1,428,757
Total ending balance	$ 476,125	$ 610,988	$ 32,820	$ 230,390	$ 42,626	$ 76,562		$ 1,469,511

N/A Not applicable

Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at September 30, 2013 and December 31, 2012:

	At September 30, 2013			At December 31, 2012		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance

Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	**$ 8,037**	**$ 9,961**		$ 2,646	$ 4,504	
Real estate commercial real estate	**36,500**	**46,604**		24,863	30,991	
Real estate construction	**12,227**	**14,410**		15,985	17,959	
Real estate residential secured for business purpose	**226**	**238**		172	184	
Real estate residential secured for personal purpose	**720**	**739**		804	804	
Loans to individuals	**37**	**55**		38	55	
Total impaired loans with no allowance recorded	**$ 57,747**	**$ 72,007**		$ 44,508	$ 54,497	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 5,992**	**$ 6,075**	**$ 2,210**	$ 676	$ 717	$ 208
Real estate commercial real estate	**1,515**	**1,515**	**111**			
Real estate residential secured for business purpose	**1,550**	**1,550**	**775**			
Total impaired loans with an allowance recorded	**$ 9,057**	**$ 9,140**	**$ 3,096**	$ 676	$ 717	$ 208
Total impaired loans:						
Commercial, financial and agricultural	**$ 14,029**	**$ 16,036**	**$ 2,210**	$ 3,322	$ 5,221	$ 208
Real estate commercial real estate	**38,015**	**48,119**	**111**	24,863	30,991	
Real estate construction	**12,227**	**14,410**		15,985	17,959	
Real estate residential secured for business purpose	**1,776**	**1,788**	**775**	172	184	
Real estate residential secured for personal purpose	**720**	**739**		804	804	
Loans to individuals	**37**	**55**		38	55	
Total impaired loans	**$ 66,804**	**$ 81,147**	**$ 3,096**	$ 45,184	$ 55,214	$ 208

Impaired loans includes nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. These loans are individually measured to determine the amount of potential impairment. The loans are reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans initial effective interest rates. At September 30, 2013, impaired loans included other accruing impaired loans of $29.0 million. At September 30, 2013, specific reserves of $1.9 million were established for four borrower relationships with principal balances totaling $7.9 million on other accruing impaired loans.

Table of Contents

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

(Dollars in thousands)	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Average Recorded Investment	**Interest Income Recognized***	**Interest Income That Would Have Been Recognized Under Original Terms**	**Average Recorded Investment**	**Interest Income Recognized***	**Interest Income That Would Have Been Recognized Under Original Terms**
Loans held for sale	**$**	**$**	**$**	$ 650	$	$
Loans held for investment:						
Commercial, financial and agricultural	**5,971**	**29**	**70**	5,474	23	71
Real estate commercial real estate	**22,789**	**171**	**150**	20,525	69	257
Real estate construction	**14,544**	**25**	**184**	16,324	33	190
Real estate residential secured for business purpose	**585**	**2**	**2**	176		2
Real estate residential secured for personal purpose	**725**		**11**	320		5
Real estate home equity secured for personal purpose						
Loans to individuals	**37**	**1**		48	1	
Total	**$ 44,651**	**$ 228**	**$ 417**	$ 43,517	$ 126	$ 525

* Includes interest income recognized on a cash basis for nonaccrual loans of $0 thousand for both the three months ended September 30, 2013 and 2012 and interest income recognized on accrual method for accruing impaired loans of $228 thousand and $126 thousand for the three months ended September 30, 2013 and 2012, respectively.

(Dollars in thousands)	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Average Recorded Investment	**Interest Income Recognized***	**Interest Income That Would Have Been Recognized**	**Average Recorded Investment**	**Interest Income Recognized***	**Interest Income That Would Have Been Recognized**

			Under Original Terms			Under Original Terms
Loans held for sale	**$**	**$**	**$**	$ 260	$	$
Loans held for investment:						
Commercial, financial and agricultural	**3,985**	**45**	**132**	5,542	56	223
Real estate commercial real estate	**23,138**	**473**	**566**	20,417	156	783
Real estate construction	**15,291**	**81**	**553**	16,238	85	575
Real estate residential secured for business purpose	**341**	**2**	**7**	150		5
Real estate residential secured for personal purpose	**758**		**35**	188		9
Real estate home equity secured for personal purpose	**2**			3		
Loans to individuals	**41**	**3**		49	4	
Total	**$ 43,556**	**$ 604**	**$ 1,293**	$ 42,847	$ 301	$ 1,595

* Includes interest income recognized on a cash basis for nonaccrual loans of $6 thousand and $8 thousand for the nine months ended September 30, 2013 and 2012, respectively and interest income recognized on accrual method for accruing impaired loans of $598 thousand and $293 thousand for the nine months ended September 30, 2013 and 2012, respectively.

Table of Contents

Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and nonaccrual loans that were restructured:

	Three Months Ended September 30, 2013				**Three Months Ended September 30, 2012**			
(Dollars in thousands)	**Number of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**	**Number of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural		**$**	**$**	**$**	2	$ 1,731	$ 1,731	$
Real estate commercial real estate	**3**	**1,569**	**1,569**		1	1,621	1,621	
Real estate construction	**1**	**459**	**459**					
Total	**4**	**$ 2,028**	**$ 2,028**	**$**	3	$ 3,352	$ 3,352	$
Nonaccrual Troubled Debt Restructured Loans:								
Total		**$**	**$**	**$**		$	$	$

	Nine Months Ended September 30, 2013				**Nine Months Ended September 30, 2012**			
(Dollars in thousands)	**Number of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**	**Number of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	**1**	**$ 1,000**	**$ 1,000**	**$**	10	$ 3,404	$ 3,404	$
Real estate commercial real estate	**3**	**1,569**	**1,569**		5	2,630	2,630	
Real estate construction	**1**	**459**	**459**		2	1,330	1,330	
Total	**5**	**$ 3,028**	**$ 3,028**	**$**	17	$ 7,364	$ 7,364	$

Nonaccrual Troubled Debt Restructured Loans:												
Commercial, financial and agricultural	**$**		**$**		**$**	2	$	448	$	448	$	
Real estate commercial real estate						1		124		124		
Total	**$**		**$**		**$**	3	$	572	$	572	$	

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

Table of Contents

The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013									
	Interest Only Term Extension		Temporary Payment Reduction		Temporary Payment Suspension		Maturity Date Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Accruing Troubled Debt Restructured Loans:										
Real estate commercial real estate		$	1	$ 756		$	2	$ 813	3	$ 1,569
Real estate construction							1	459	1	459
Total		$	1	$ 756		$	3	$ 1,272	4	$ 2,028
Nonaccrual Troubled Debt Restructured Loans:										
Total		$		$		$		$		$

	Three Months Ended September 30, 2012									
	Interest Only Term Extension		Temporary Payment Reduction		Temporary Payment Suspension		Maturity Date Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural		$		$		$	2	$ 1,731	2	$ 1,731
Real estate commercial real estate	1	1,621							1	1,621
Total	1	$ 1,621		$		$	2	$ 1,731	3	$ 3,352
Nonaccrual Troubled Debt Restructured Loans:										
Total		$		$		$		$		$

	Nine Months Ended September 30, 2013									
	Interest Only Term Extension		Temporary Payment Reduction		Temporary Payment Suspension		Maturity Date Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	**1**	**$ 1,000**		**$**		**$**		**$**	**1**	**$ 1,000**
Real estate commercial real estate			**1**	**756**			**2**	**813**	**3**	**1,569**
Real estate construction							**1**	**459**	**1**	**459**
Total	**1**	**$ 1,000**	**1**	**$ 756**		**$**	**3**	**$ 1,272**	**5**	**$ 3,028**
Nonaccrual Troubled Debt Restructured Loans:										
Total		**$**		**$**		**$**		**$**		**$**

	Nine Months Ended September 30, 2012									
	Interest Only Term Extension		Temporary Payment Reduction		Temporary Payment Suspension		Maturity Date Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	4	$ 1,316	3	$ 221		$	3	$ 1,867	10	$ 3,404
Real estate commercial real estate	3	2,267	1	188			1	175	5	2,630
Real estate construction	2	1,330							2	1,330
Total	9	$ 4,913	4	$ 409		$	4	$ 2,042	17	$ 7,364
Nonaccrual Troubled Debt Restructured Loans:										
Commercial, financial and agricultural		$		$	2	$ 448		$	2	$ 448
Real estate commercial real estate					1	124			1	124
Total		$		$	3	$ 572		$	3	$ 572

Table of Contents

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	**1**	**$ 1,000**		$	**4**	**$ 1,230**		$
Total	**1**	**$ 1,000**		$	**4**	**$ 1,230**		$
Nonaccrual Troubled Debt Restructured Loans:								
Total		**$**		$		**$**		$

Note 5. Mortgage Servicing Rights

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method and an accelerated amortization method for loan payoffs. Mortgage servicing rights are subject to impairment testing on a quarterly basis. The aggregate fair value of these rights was $7.0 million and $4.2 million at September 30, 2013 and December 31, 2012, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 5.1% to 10.0% at September 30, 2013 and 5.0% to 10.0% at December 31, 2012.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Beginning of period	**$ 5,227**	$ 3,276	**$ 4,152**	$ 2,739
Servicing rights capitalized	**544**	741	**2,183**	1,777
Amortization of servicing rights	**(287)**	(463)	**(1,099)**	(1,147)
Changes in valuation allowance		(372)	**248**	(187)
End of period	**$ 5,484**	$ 3,182	**$ 5,484**	$ 3,182
Mortgage loans serviced for others	**$ 736,017**	$ 540,735	**$ 736,017**	$ 540,735

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**
Valuation allowance, beginning of period	**$ (249)**	$ (608)	**$ (497)**	$ (793)
Additions		(372)		(187)
Reductions			**248**	
Direct write-downs				
Valuation allowance, end of period	**$ (249)**	$ (980)	**$ (249)**	$ (980)

The estimated amortization expense of mortgage servicing rights for the remainder of 2013 and the succeeding fiscal years is as follows:

Year (Dollars in thousands)	**Amount**
Remainder of 2013	$ 218
2014	801
2015	700
2016	602
2017	510
Thereafter	2,653

Table of Contents

Note 6. Income Taxes

At September 30, 2013 and December 31, 2012, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. At September 30, 2013, the Corporation s tax years 2010 through 2012 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Employees hired on or after December 8, 2009 are not eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. Information on these plans are aggregated and reported under Retirement Plans within this footnote.

The Corporation also provides certain postretirement healthcare and life insurance benefits for retired employees. Information on these benefits is reported under Other Postretirement Benefits within this footnote.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan which was established in 1981 prior to the existence of a 401(k) deferred salary savings plan, employee stock purchase plan and long-term incentive plans and therefore is not actively offered to new participants.

Information with respect to the Retirement Plans and Other Postretirement Benefits follows:

Components of net periodic benefit cost were as follows:

	Three Months Ended September 30,			
	2013	2012	**2013**	2012
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	**$ 155**	$ 156	**$ 23**	$ 21
Interest cost	**427**	431	**30**	29
Expected return on plan assets	**(630)**	(564)		
Amortization of net loss	**314**	287	**6**	6
Accretion of prior service cost	**(58)**	(58)	**(6)**	(6)
Net periodic benefit cost	**$ 208**	$ 252	**$ 53**	$ 50

	Nine Months Ended September 30,			
	2013	2012	**2013**	2012
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	**$ 466**	$ 469	**$ 69**	$ 62

Interest cost	**1,284**	1,294	**86**	88
Expected return on plan assets	**(1,894)**	(1,692)		
Amortization of net loss	**943**	865	**18**	17
Accretion of prior service cost	**(176)**	(176)	**(15)**	(16)
Net periodic benefit cost	**$ 623**	$ 760	**$ 158**	$ 151

The Corporation contributed $2.0 million to its qualified retirement plan during the three and nine months ended September 30, 2013 and may make additional contributions during the remainder of 2013 to maximize tax benefits. The Corporation previously disclosed in its financial statements for the year ended December 31, 2012, that it expected to make contributions of $40 thousand to its non-qualified retirement plans and $82 thousand to its other postretirement benefit plans in 2013. During the nine months ended September 30, 2013, the Corporation contributed $30 thousand to its non-qualified retirement plans and $60 thousand to its other postretirement plans. During the nine months ended September 30, 2013, $1.3 million has been paid to participants from the retirement plans and $60 thousand has been paid to participants from the other postretirement plans. For 2013, the weighted average expected long-term rate of return on plan assets used to determine the net benefit cost was changed to 7.5% from 8.0%. The rate was changed during 2013 based on historical returns and future expectations of long-term asset returns.

Table of Contents

Note 8. Trust Preferred Securities

On May 14, 2013, the Corporation submitted a redemption notice to the trustee to redeem all of the outstanding capital securities issued by Univest Capital Trust I (Trust Preferred Securities), pursuant to the optional redemption provisions provided in the documents governing the Trust Preferred Securities. The Trust Preferred Securities had an aggregate principal balance of $20.0 million with an interest rate of three-month U.S. London Interbank Borrowing Rate (LIBOR) plus 3.05% per annum and a maturity date of October 7, 2033. The Trust Preferred Securities had a liquidation amount of $1,000 per trust preferred security plus accrued and unpaid distributions to the redemption date of July 7, 2013 and a settlement date Monday, July 8, 2013. The redemption also included $619 thousand in common securities issued by Univest Capital Trust I and related to the Trust Preferred Securities. Following the redemption, the Corporation s capital levels remained well in excess of the regulatory minimum for well capitalized status.

This redemption is consistent with the capital plan the Corporation submitted to the Federal Reserve and was funded from the Corporation s existing cash. The Trust Preferred Securities were hedged and the Corporation recognized a loss in May 2013 on the termination of the associated interest rate swap of $1.9 million. The interest rate swap had a maturity date of January 7, 2019. The Corporation expects to save approximately $600 thousand in interest expense during 2013 and approximately $1.1 million annually thereafter over what would have been the remaining term of the Trust Preferred Securities and related interest rate swap.

Note 9. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands, except per share data)	**2013**	**2012**	**2013**	**2012**
Numerator for basic and diluted earnings per share income available to common shareholders	**$ 6,039**	$ 5,770	**$ 16,267**	$ 15,796
Denominator for basic earnings per share weighted-average shares outstanding	**16,658**	16,760	**16,714**	16,760
Effect of dilutive securities employee stock options and awards	**84**	60	**61**	49
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**16,742**	16,820	**16,775**	16,809
Basic earnings per share	**$ 0.36**	$ 0.34	**$ 0.97**	$ 0.94
Diluted earnings per share	**$ 0.36**	$ 0.34	**$ 0.97**	$ 0.94
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	**470**	588	**567**	579

Note 10. Accumulated Other Comprehensive (Loss) Income

The following table shows the components of accumulated other comprehensive (loss) income, net of taxes, for the periods presented:

(Dollars in thousands)	Net Unrealized Gains on Available-for-Sale Investment Securities	Net Change Related to Derivative Used for Cash Flow Hedge	Net Change Related to Defined Benefit Pension Plan	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2012	**$ 8,344**	**$ (1,241)**	**$ (14,023)**	**$ (6,920)**
Net Change	**(8,524)**	**1,241**	**500**	**(6,783)**
Balance, September 30, 2013	**$ (180)**	**$**	**$ (13,523)**	**$ (13,703)**
Balance, December 31, 2011	$ 7,306	$ (932)	$ (12,475)	$ (6,101)
Net Change	1,909	(391)	448	1,966
Balance, September 30, 2012	$ 9,215	$ (1,323)	$ (12,027)	$ (4,135)

Table of Contents

The following table illustrates the amounts reclassified out of each component of accumulated comprehensive (loss) income for the three and nine months ended September 30, 2013 and 2012:

Details about Accumulated Other Comprehensive (Loss) Income Components	**Amount Reclassified from Accumulated Other Comprehensive (Loss) Income**				**Affected Line Item in the Statement of Income**
	Three Months Ended September 30,		**Nine Months Ended September 30,**		
(Dollars in thousands)	**2013**	**2012**	**2013**	**2012**	
Net unrealized holding gains (losses) on available-for-sale investment securities	**$ 1,426**	$ 9	**$ 2,950**	$ 291	Net gain on sales of investment securities
		(4)		(13)	Other-than-temporary impairment on equity securities
	1,426	5	**2,950**	278	Total before tax
	(499)	(1)	**(1,032)**	(97)	Tax expense
	$ 927	$ 4	**$ 1,918**	$ 181	Net of tax
Cash flow hedge derivative:					
	$	$	**$ (1,866)**	$	Net loss on interest rate swap
			(1,866)		Total before tax
			653		Tax benefit
	$	$	**$ (1,213)**	$	Net of tax
Defined benefit pension plans:					
Amortization of net loss included in net periodic pension costs*	**$ (320)**	$ (293)	**$ (961)**	$ (882)	
Accretion of prior service cost included in net periodic pension costs*	**64**	64	**191**	192	
	(256)	(229)	**(770)**	(690)	Total before tax
	90	81	**270**	242	Tax benefit
	$ (166)	$ (148)	**$ (500)**	$ (448)	Net of tax

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

Note 11. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements to modify interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The Corporation s credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in accumulated other comprehensive income until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in earnings. For a qualifying fair value hedge, the gain or loss on the hedging instrument is recognized in earnings, and the change in fair value of the hedge item, to the extent attributable to the hedged risk, adjusts the carrying amount of the hedge item and is recognized in earnings.

Derivative loan commitments represent agreements for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. The Corporation s derivative loan commitments are commitments to sell loans secured by 1-to-4 family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

On December 23, 2008, the Corporation entered into a cash flow hedge with a notional amount of $20.0 million that had the effect of converting the variable rates on Trust Preferred Securities to a fixed rate. Under the terms of the swap agreement, the Corporation paid a fixed rate of 2.65% and received a floating rate based on the three-month LIBOR with a maturity date of January 7, 2019. During May 2013, the Corporation terminated the swap in conjunction with the submission of a redemption notice to the trustee to redeem the Trust Preferred Securities on July 7, 2013, pursuant to the optional redemption provisions provided in the documents governing the Trust Preferred Securities. See Note 8 Trust Preferred Securities for additional information.

Table of Contents

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2013 and December 31, 2012:

(Dollars in thousands)	Notional Amount	Derivative Assets Balance Sheet Classification	Derivative Assets Fair Value	Derivative Liabilities Balance Sheet Classification	Derivative Liabilities Fair Value
At September 30, 2013					
Interest rate locks with customers	**$ 22,340**	Other Assets	**$ 849**		**$**
Forward loan sale commitments	**25,809**			Other Liabilities	**361**
Total	**$ 48,149**		**$ 849**		**$ 361**
At December 31, 2012					
Interest rate locks with customers	$ 51,768	Other Assets	$ 1,547		$
Forward loan sale commitments	56,263			Other Liabilities	54
Total	$ 108,031		$ 1,547		$ 54

The following table presents the notional amounts and fair values of derivatives designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2013 and December 31, 2012:

(Dollars in thousands)	Notional Amount	Derivative Assets Balance Sheet Classification	Derivative Assets Fair Value	Derivative Liabilities Balance Sheet Classification	Derivative Liabilities Fair Value
At September 30, 2013					
Interest rate swap cash flow hedge	$		$		$
Total	$		$		$
At December 31, 2012					
Interest rate swap cash flow hedge	$ 20,000		$	Other Liabilities	$ 1,909
Total	$ 20,000		$		$ 1,909

For the three and nine months ended September 30, 2013 and 2012, the amounts included in the consolidated statements of income for derivatives not designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Statement of Income Classification	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012

Interest rate locks with customers	Net gain (loss) on mortgage banking activities	**$ 913**	$ 1,394	**$ (698)**	$ 2,341
Forward loan sale commitments	Net loss on mortgage banking activities	**(1,133)**	(617)	**(307)**	(727)
Total		**$ (220)**	$ 777	**$ (1,005)**	$ 1,614

For the three and nine months ended September 30, 2013 and 2012, the amounts included in the consolidated statements of income for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Statement of Income Classification	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest rate swap cash flow hedge loss on termination	Net loss on termination of interest rate swap	**$**	$	**$ (1,866)**	$
Interest rate swap cash flow hedge interest payments	Interest expense		112	**124**	331
Interest rate swap cash flow hedge ineffectiveness	Interest expense				
Net loss		**$**	$ (112)	**$ (1,990)**	$ (331)

25

At September 30, 2013 and December 31, 2012, the amounts included in accumulated other comprehensive (loss) income for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Accumulated other comprehensive (loss) income	At September 30, 2013		At December 31, 2012	
Interest rate swap cash flow hedge	Fair value, net of taxes	$		$	(1,241)
Total		$		$	(1,241)

Note 12. Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Corporation determines the fair value of its financial instruments based on the fair value hierarchy. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation s assumptions that the market participants would use in pricing the asset or liability based on the best information available in the circumstances, including assumptions about risk. Three levels of inputs are used to measure fair value. A financial instrument s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. Transfers between levels are recognized at the end of the reporting period.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation can access at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities utilizing Level 3 inputs include: financial instruments whose value is determined using pricing models, discounted cash-flow methodologies, or similar techniques, as well as instruments for which the fair value calculation requires significant management judgment or estimation.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid U.S. Treasury securities, most equity securities and money market mutual funds. Mutual funds are registered investment companies which are valued at net asset value of shares on a market exchange at the close of business at period end. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. Government sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, corporate and municipal bonds and certain equity securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy.

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.

Table of Contents

On a quarterly basis, the Corporation reviews changes, as submitted by the pricing service, in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Corporation has its security portfolio priced by a second pricing service to determine consistency with another market evaluator, except for municipal bonds which are priced by another service provider on a sample basis. If, on the Corporation s review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Corporation may submit an inquiry to its current pricing service regarding the data used to make the valuation of a particular security. If the Corporation determines it has market information that would support a different valuation than its current pricing service s evaluation it can submit a challenge for a change to that security s valuation. There were no material differences in valuations noted at September 30, 2013.

Derivative Financial Instruments

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Derivative financial instruments are classified within Level 2 of the valuation hierarchy.

Contingent Consideration Liability

The Corporation estimates the fair value of the contingent consideration liability by using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The estimated fair value of the contingent consideration liability is reviewed on a quarterly basis and any valuation adjustments resulting from a change in the discount rate or change of estimated future contingent payments based on projected revenue of the acquired business affecting the contingent consideration liability will be recorded through non-interest expense. Due to the significant unobservable input related to the projected revenue, the contingent consideration liability is classified within Level 3 of the valuation hierarchy. An increase in the projected revenue may result in a higher fair value of the contingent consideration liability. Alternatively, a decrease in the projected revenue may result in a lower estimated fair value of the contingent consideration liability.

For the Javers Group acquisition, the Corporation recorded a reduction to the contingent liability during the second quarter of 2013 which resulted in a reduction of other noninterest expense of $959 thousand. While the acquisition remains accretive, the adjustment reflects that revenue levels necessary for an earn-out payment in the first year post-acquisition were not met and that revenue growth levels necessary to qualify for subsequent years earn-out payments to be made are less than remote. Therefore, as of September 30, 2013, the fair value of this contingent consideration liability is $0. The Javers original contingent consideration arrangement ranged from $0 to a maximum of $1.7 million cumulative over the three-year period ending June 30, 2015.

For the John T. Fretz Insurance Agency, Inc. acquisition, the potential future cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $930 thousand cumulative over the three-year period ending April 30, 2016.

Table of Contents

The following table presents the assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012, classified using the fair value hierarchy:

	At September 30, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$ 4,773	$	$	$ 4,773
U.S. government corporations and agencies		163,549		163,549
State and political subdivisions		117,394		117,394
Residential mortgage-backed securities		54,067		54,067
Collateralized mortgage obligations		9,520		9,520
Corporate bonds		32,408		32,408
Money market mutual funds	9,639			9,639
Equity securities	2,009			2,009
Total available-for-sale securities	16,421	376,938		393,359
Interest rate locks with customers		849		849
Total assets	$ 16,421	$ 377,787	$	$ 394,208
Liabilities:				
Forward loan sale commitments	$	$ 361	$	$ 361
Contingent consideration liability			483	483
Total liabilities	$	$ 361	$ 483	$ 844

	At December 31, 2012			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$ 4,938	$	$	$ 4,938
U.S. government corporations and agencies		172,142		172,142
State and political subdivisions		122,168		122,168
Residential mortgage-backed securities		90,740		90,740
Collateralized mortgage obligations		27,012		27,012
Corporate bonds		5,014		5,014
Money market mutual funds	4,878			4,878
Equity securities	2.842			2,842

Total available-for-sale securities	12,658	417,076		429,734
Interest rate locks with customers		1,547		1,547
Total assets	$ 12,658	$ 418,623	$	$ 431,281
Liabilities:				
Interest rate swap	$	$ 1,909	$	$ 1,909
Forward loan sale commitments		54		54
Contingent consideration liability			903	903
Total liabilities	$	$ 1,963	$ 903	$ 2,866

At September 30, 2013 and December 31, 2012, the Corporation had no assets measured at fair value on a recurring basis utilizing Level 3 inputs.

The following table presents the change in the balance of the contingent consideration liability related to acquisitions for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30, 2013				
(Dollars in thousands)	**Balance at December 31, 2012**	**Contingent Consideration from New Acquisition**	**Payment of Contingent Consideration**	**Adjustment of Contingent Consideration**	**Balance at September 30, 2013**
Javers Group	**$ 903**	**$**	**$**	**$ (903)**	**$**
John T. Fretz Insurance Agency, Inc.		**454**		**29**	**483**
Total contingent consideration liability	**$ 903**	**$ 454**	**$**	**$ (874)**	**$ 483**

(Dollars in thousands)	Nine Months Ended September 30, 2012 Balance at December 31, 2011	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at September 30, 2012
Javers Group	$	$ 842	$	$ 34	$ 876
Total contingent consideration liability	$	$ 842	$	$ 34	$ 876

The following table represents assets measured at fair value on a non-recurring basis at September 30, 2013 and December 31, 2012:

	At September 30, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	**$**	**$**	**$ 63,708**	**$ 63,708**
Total	**$**	**$**	**$ 63,708**	**$ 63,708**

	At December 31, 2012			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	$	$	$ 44,976	$ 44,976
Mortgage servicing rights*		4,152		4,152
Other real estate owned*		1,607		1,607
Total	$	$ 5,759	$ 44,976	$ 50,735

* The fair value was lower than cost, therefore written down to fair value at December 31, 2012. At September 30, 2013, fair value was greater than cost.

The following table presents assets and liabilities and off-balance sheet items not measured at fair value on a recurring or non-recurring basis in the Corporation s consolidated balance sheets but for which the fair value is required to be disclosed at September 30, 2013 and December 31, 2012. The disclosed fair values are classified using the fair value hierarchy.

	At September 30, 2013				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					

Cash and short-term interest-earning assets	$ 79,458	$	$	$ 79,458	$ 79,458
Held-to-maturity securities		70,079		70,079	69,214
Loans held for sale		3,574		3,574	3,489
Net loans and leases held for investment			1,457,592	1,457,592	1,437,698
Mortgage servicing rights		7,029		7,029	5,484
Other real estate owned		1,650		1,650	1,650
Total assets	$ 79,458	$ 82,332	$ 1,457,592	$ 1,619,382	$ 1,596,993
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$ 1,599,264	$	$	$ 1,599,264	$ 1,599,264
Time deposits		288,271		288,271	289,782
Total deposits	1,599,264	288,271		1,887,535	1,889,046
Short-term borrowings		44,841		44,841	46,733
Total liabilities	$ 1,599,264	$ 333,112	$	$ 1,932,376	$ 1,935,779
Off-Balance-Sheet:					
Commitments to extend credit	$	$ (1,342)	$	$ (1,342)	$

Table of Contents

(Dollars in thousands)	At December 31, 2012 Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$ 146,112	$	$	$ 146,112	$ 146,112
Held-to-maturity securities		71,327		71,327	69,845
Loans held for sale		4,653		4,653	4,530
Net loans and leases held for investment			1,433,990	1,433,990	1,412,140
Total assets	$ 146,112	$ 75,980	$ 1,433,990	$ 1,656,082	$ 1,632,627
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$ 1,533,822	$	$	$ 1,533,822	$ 1,533,822
Time deposits		334,164		334,164	331,511
Total deposits	1,533,822	334,164		1,867,986	1,865,333
Short-term borrowings		94,066		94,066	96,282
Long-term borrowings		20,965		20,965	20,994
Total liabilities	$ 1,533,822	$ 449,195	$	$ 1,983,017	$ 1,982,609
Off-Balance-Sheet:					
Commitments to extend credit	$	$ (1,286)	$	$ (1,286)	$

The following valuation methods and assumptions were used by the Corporation in estimating its fair value for financial instruments measured at fair value on a non-recurring basis and financial instruments not measured at fair value on a recurring or non-recurring basis in the Corporation s consolidated balance sheets but for which the fair value is required to be disclosed:

Cash and short-term interest-earning assets: The carrying amounts reported in the balance sheets for cash and due from banks, interest-earning deposits with other banks, and other short-term investments approximates those assets fair values. Cash and short-term interest-earning assets are classified within Level 1 in the fair value hierarchy.

Held-to-maturity securities: Fair values for the held-to-maturity investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics and are classified in Level 2 in the fair value hierarchy.

Loans held for sale: The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. There were no valuation adjustments for loans held for sale at September 30, 2013 and December 31, 2012.

Loans and leases held for investment: The fair values for loans are estimated using discounted cash flow analyses, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers and include components for credit risk, operating expense and embedded prepayment options. An overall valuation adjustment is made for specific credit risks in addition to general portfolio risk and is significant to the valuation. As permitted, the fair value of the loans and leases are not based on the exit price concept as discussed in the first paragraph of this note. Loans and leases are classified within Level 3 in the fair value hierarchy.

Impaired loans held for investment: Impaired loans held for investment include those collateral-dependent loans for which the practical expedient was applied, resulting in a fair-value adjustment to the loan. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans less cost to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At September 30, 2013, impaired loans held for investment had a carrying amount of $66.8 million with a valuation allowance of $3.1 million. At December 31, 2012, impaired loans held for investment had a carrying amount of $45.2 million with a valuation allowance of $208 thousand.

Table of Contents

Mortgage servicing rights: The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 2 of the valuation hierarchy. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. At September 30, 2013, mortgage servicing rights had a carrying amount of $5.7 million with a valuation allowance of $249 thousand. At December 31, 2012, mortgage servicing rights had a carrying amount of $4.6 million with a valuation allowance of $497 thousand.

Goodwill and other identifiable intangible assets: Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other identifiable intangible assets. In conjunction with the reduction in the contingent consideration liability for Javers during the nine months ended September 30, 2013, an evaluation of goodwill and other identifiable intangible assets was performed with no indicated impairment.

Other real estate owned: The fair value of other real estate owned is estimated based upon its appraised value less costs to sell. The real estate is stated at an amount equal to the loan balance prior to foreclosure, plus costs incurred for improvements to the property but no more than the fair value of the property, less estimated costs to sell. New appraisals are generally obtained on an annual basis. Other real estate owned is classified within Level 2 of the valuation hierarchy.

Deposit liabilities: The fair values for demand and savings accounts, with no stated maturities, is the amount payable on demand at the reporting date (carrying value) and are classified within Level 1 in the fair value hierarchy. The fair values for time deposits with fixed maturities are estimated by discounting the final maturity using interest rates currently offered for deposits with similar remaining maturities. Time deposits are classified within Level 2 in the fair value hierarchy.

Short-term borrowings: The fair value of customer repurchase agreements are estimated using current market rates for similar borrowings and are classified within Level 2 in the fair value hierarchy. Short-term FHLB advances are estimated using a discounted cash flow analysis based on current market rates for similar borrowings, and include components for operating expense and embedded prepayment options that are observable. Short-term FHLB advances are classified within Level 2 in the fair value hierarchy.

Long-term borrowings: The fair values of the Corporation s long-term borrowings are estimated using a discounted cash flow analysis based on current market rates for similar borrowings, and include components for credit risk, operating expense, and embedded prepayment options that are observable. Long-term borrowings are classified within Level 2 in the fair value hierarchy.

Off-balance-sheet instruments: Fair values for the Corporation s off-balance-sheet instruments are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing and are classified within Level 2 in the fair value hierarchy.

Note 13. Restructuring Charges

During the first quarter of 2013, the Corporation implemented a company-wide restructuring plan which reduced staffing levels by 3.4% and included the announced closure and consolidation of its Silverdale financial service center, effective May 3, 2013, into the Hilltown and Perkasie locations. As a result, the Corporation recorded $539 thousand in restructuring charges during the first quarter of 2013, which consisted of $437 thousand in severance and $102 thousand in fixed asset retirement expenses. These charges are included in restructuring charges, a component of non-interest expense, within the consolidated statement of income**.** The restructuring involved strategic changes to ensure the Corporation is effectively managing costs, improving efficiencies and evolving the business to meet the need of all its stakeholders.

Table of Contents

A roll-forward of the accrued restructuring expense is as follows:

(Dollars in thousands)	Severance
Accrued at January 1, 2013	$
Restructuring charge	437
Payments	(432)
Adjustment of restructuring charge	(5)
Accrued at September 30, 2013	$

Note 14. Share Repurchase Plans

During 2007, the Corporation s Board of Directors approved a share repurchase program for the repurchase of up to 643,782 shares of common stock. During the three and nine months ended September 30, 2013, the Corporation repurchased 395,000 shares at a cost of $7.4 million and 540,285 shares at a cost of $9.9 million, respectively. At September 30, 2013, this share repurchase plan was substantially completed and is closed. Total shares outstanding at September 30, 2013 were 16,288,597.

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.

Under the new plan:

the aggregate number of shares purchased will not exceed 800,000 shares of the Corporation s common stock;

the Corporation will repurchase shares of its common stock from time to time through open market purchases, tender offers, privately negotiated purchases or other means;

the share repurchase program does not obligate the Corporation to acquire any particular amount of common stock; and

the program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

Table of Contents

Item 2. 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 applicable. Certain amounts have been reclassified to conform to the current-year presentation.)

Forward-Looking Statements

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 expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including those set forth below:

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 at 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.

Critical Accounting Policies

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, 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. For more information on these critical accounting policies, please refer to the Corporation s 2012 Annual Report on Form 10-K.

General

Univest Corporation of Pennsylvania, (the Corporation), is a Bank Holding Company. It owns all of the capital stock of Univest Bank and Trust Co. (the Bank). The Corporation s former subsidiary, Univest Delaware, Inc., was dissolved in the second quarter of 2013.

The Bank is engaged in the general commercial 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, and Univest Investments, Inc., a full-service broker-dealer and investment advisory firm. The Bank is also the parent company of Univest Capital, Inc., an equipment financing business, and TCG Investment Advisory, a registered investment advisor 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.

Table of Contents

Executive Overview

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

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Change Amount	Change Percent	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Change Amount	Change Percent
Net income	**$ 6,039**	$ 5,770	$ 269	5%	**$ 16,267**	$ 15,796	$ 471	3%
Net income per share:								
Basic	**$ 0.36**	$ 0.34	$ 0.02	6	**$ 0.97**	$ 0.94	$ 0.03	3
Diluted	**0.36**	0.34	0.02	6	**0.97**	0.94	0.03	3
Return on average assets	**1.07%**	1.04%	3BP	3	**0.97%**	0.96%	1 BP	1
Return on average equity	**8.55%**	8.19%	36BP	4	**7.67%**	7.60%	7 BP	1

Net interest income on a tax-equivalent basis for the three months ended September 30, 2013 increased $318 thousand, or 2% compared to the same period in 2012. The third quarter 2013 net interest margin on a tax-equivalent basis was 3.84%, consistent with the third quarter of 2012. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2013 was consistent compared to the same period in 2012. The tax equivalent net interest margin for the nine months ended September 2013 was 3.84% compared to 3.92% for the same period in the prior year.

The provision for loan and lease losses increased by $1.9 million and $2.0 million for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012.

Non-interest income increased $2.3 million, or 22% and $5.8 million, or 19% during the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. Non-interest expense increased $930 thousand, or 5% and $2.9 million, or 5% for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012.

Gross loans and leases grew $44.4 million or 3% from December 31, 2012 and deposits increased $23.7 million from December 31, 2012.

Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications decreased to $24.0 million at September 30, 2013 from $32.1 million at December 31, 2012 and $30.5 million at September 30, 2012. Nonaccrual loans and leases as a percentage of total loans and leases (held for investment and non-accrual loans held for sale) was 1.57% at September 30, 2013 compared to 2.17% at December 31, 2012 and 2.07% at September 30, 2012. Net loan and lease charge-offs declined by $1.6 million and $902 thousand for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012.

On May 1, 2013, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of John T. Fretz Insurance Agency, Inc., a full-service property and casualty insurance agency providing solutions to both personal and commercial clients. The Corporation paid $2.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period ending April 30, 2016 based on the achievement of certain levels of revenue. At the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of $454 thousand in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $930 thousand cumulative over the next three years. As a result of the John T. Fretz Insurance Agency, Inc. acquisition, the Corporation recorded goodwill of $1.3 million (inclusive of contingent consideration) and customer related intangibles of $1.3 million.

During the third quarter of 2013, the Corporation repurchased 395,000 shares of common stock at a cost of $7.4 million under its 2007 Board approved share repurchase program. At September 30, 2013, this share repurchase plan was substantially completed. Total shares outstanding at September 30, 2013 were 16,288,597. On October 23, 2013, the Corporation s Board of Directors approved a new share repurchase program for the repurchase of up to 800,000 shares, or approximately 5% of the shares outstanding.

Table of Contents

Details of the changes in the various components of net income and the balance sheet are further discussed in the sections that follow.

The Corporation earns its revenues primarily from the margins and fees it generates from the lending and depository services it provides 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 by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. 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 more asset sensitive position; despite increases in the first nine months of 2013, interest rates remain at historically low levels, however, the Corporation anticipates further increases in interest rates over the longer term, which it expects would benefit its net interest margin.

The Corporation seeks to establish itself as the financial provider of choice in the markets it serves. It plans to achieve this goal by offering a broad range of high quality financial products and services and by increasing market awareness of its brand and the benefits that can be derived from its products. The Corporation operates in an attractive market for financial services but also is in intense competition with domestic and international banking organizations and other insurance and investment providers for the financial services business. The Corporation has taken initiatives to achieve its business objectives by acquiring banks and other financial service providers in strategic markets, through marketing, public relations and advertising, by establishing standards of service excellence for its customers, and by using technology to ensure that the needs of its customers are understood and satisfied.

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. 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 three and nine months ended September 30, 2013 and 2012. 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 difference between the weighted average tax-equivalent yield on interest-earning assets and 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. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Three months ended September 30, 2013 versus 2012

Net interest income on a tax-equivalent basis for the three months ended September 30, 2013 increased $318 thousand, or 2% compared to the same period in 2012. The tax-equivalent net interest margin for the three months ended September 30, 2013 was 3.84%, consistent with the same period in 2012. While the tax-equivalent yield on average interest-earning assets declined 16 basis points for the three months ended September 30, 2013 compared to the same period in the prior year, the rate on interest-bearing liabilities was down 20 basis points compared to the same period. The decline in rate on interest-bearing liabilities was attributable to the Corporation s decision to redeem its trust preferred securities and terminate the related interest rate swap and an overall decline in rates paid on time and interest bearing deposits.

Nine months ended September 30, 2013 versus 2012

Net interest income on a tax-equivalent basis for the nine months ended September 30, 2013 was consistent with the same period in 2012. The tax-equivalent net interest margin for the nine months ended September 30, 2013 decreased 8 basis points to 3.84% from 3.92% for the nine months ended September 30, 2012. The decline in the year-to-date net interest margin from the comparable period in the prior year was primarily due to the re-investment

Table of Contents

of maturing and called investment securities into lower yielding investments. In addition, lower rates on commercial and residential real estate loans due to re-pricing and the competitive environment contributed to the decline. Favorable re-pricing of savings accounts, customer repurchase agreements and certificates of deposit, along with maturities of higher yielding certificates of deposit, partially offset the decline in the year-to-date net interest margin.

Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

	Three Months Ended September 30,					
	2013			2012		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 30,842**	**$ 25**	**0.32%**	$ 52,214	$ 45	0.34%
U.S. government obligations	**175,753**	**484**	**1.09**	156,885	508	1.29
Obligations of states and political subdivisions	**117,166**	**1,589**	**5.38**	121,612	1,696	5.55
Other debt and equity securities	**186,523**	**907**	**1.93**	196,026	846	1.72
Total interest-earning deposits and investments	**510,284**	**3,005**	**2.34**	526,737	3,095	2.34
Commercial, financial and agricultural loans	**395,251**	**4,062**	**4.08**	452,531	4,895	4.30
Real estate commercial and construction loans	**590,967**	**7,071**	**4.75**	525,143	6,804	5.15
Real estate residential loans	**261,586**	**2,463**	**3.74**	256,297	2,616	4.06
Loans to individuals	**42,483**	**587**	**5.48**	42,991	602	5.57
Municipal loans and leases	**147,505**	**1,875**	**5.04**	129,651	1,748	5.36
Lease financings	**69,058**	**1,610**	**9.25**	59,284	1,415	9.50
Gross loans and leases	**1,506,850**	**17,668**	**4.65**	1,465,897	18,080	4.91
Total interest-earning assets	**2,017,134**	**20,673**	**4.07**	1,992,634	21,175	4.23
Cash and due from banks	**39,988**			50,875		
Reserve for loan and lease losses	**(25,404)**			(31,365)		
Premises and equipment, net	**33,157**			34,002		
Other assets	**168,249**			168,137		
Total assets	**$ 2,233,124**			$ 2,214,283		
Liabilities:						
Interest-bearing checking deposits	**$ 323,165**	**46**	**0.06**	$ 230,462	40	0.07
Money market savings	**306,937**	**73**	**0.09**	331,425	121	0.15
Regular savings	**545,134**	**80**	**0.06**	514,205	187	0.14

Time deposits	**294,844**	**920**	**1.24**	348,675	1,276	1.46
Total time and interest-bearing deposits	**1,470,080**	**1,119**	**0.30**	1,424,767	1,624	0.45
Short-term borrowings	**44,516**	**8**	**0.07**	104,110	33	0.13
Subordinated notes and capital securities	**1,569**	**11**	**2.78**	21,732	301	5.51
Total borrowings	**46,085**	**19**	**0.16**	125,842	334	1.06
Total interest-bearing liabilities	**1,516,165**	**1,138**	**0.30**	1,550,609	1,958	0.50
Demand deposits, non-interest bearing	**405,498**			346,687		
Accrued expenses and other liabilities	**31,216**			36,815		
Total liabilities	**1,952,879**			1,934,111		
Shareholders Equity:						
Common stock	**91,332**			91,332		
Additional paid-in capital	**64,866**			61,327		
Retained earnings and other equity	**124,047**			127,513		
Total shareholders equity	**280,245**			280,172		
Total liabilities and shareholders equity	**$ 2,233,124**			$ 2,214,283		
Net interest income		**$ 19,535**			$ 19,217	
Net interest spread			**3.77**			3.73
Effect of net interest-free funding sources			**0.07**			0.11
Net interest margin			**3.84%**			3.84%
Ratio of average interest-earning assets to average interest-bearing liabilities	**133.04%**			128.51%		

	Nine Months Ended September 30,					
	2013			2012		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 37,730**	**$ 106**	**0.38%**	$ 55,358	$ 121	0.29%
U.S. government obligations	**176,095**	**1,449**	**1.10**	148,422	1,519	1.37
Obligations of states and political subdivisions	**120,435**	**4,774**	**5.30**	119,634	5,092	5.69
Other debt and equity securities	**193,949**	**2,746**	**1.89**	192,833	3,069	2.13
Total interest-earning deposits and investments	**528,209**	**9,075**	**2.30**	516,247	9,801	2.54
Commercial, financial and agricultural loans	**412,233**	**13,093**	**4.25**	445,301	14,423	4.33
Real estate commercial and construction loans	**570,209**	**20,575**	**4.82**	529,778	20,741	5.23
Real estate residential loans	**257,170**	**7,354**	**3.82**	251,035	7,818	4.16
Loans to individuals	**42,519**	**1,784**	**5.61**	43,803	1,856	5.66
Municipal loans and leases	**139,827**	**5,334**	**5.10**	133,557	5,450	5.45
Lease financings	**67,860**	**4,738**	**9.33**	57,708	4,244	9.82
Gross loans and leases	**1,489,818**	**52,878**	**4.75**	1,461,182	54,532	4.99
Total interest-earning assets	**2,018,027**	**61,953**	**4.10**	1,977,429	64,333	4.35
Cash and due from banks	**47,242**			41,152		
Reserve for loan and lease losses	**(25,627)**			(31,706)		
Premises and equipment, net	**32,938**			34,231		
Other assets	**166,334**			168,485		
Total assets	**$ 2,238,914**			$ 2,189,591		
Liabilities:						
Interest-bearing checking deposits	**$ 277,673**	**119**	**0.06**	$ 227,775	138	0.08
Money market savings	**318,406**	**231**	**0.10**	317,390	391	0.16
Regular savings	**538,764**	**234**	**0.06**	505,451	634	0.17
Time deposits	**307,134**	**2,930**	**1.28**	371,056	3,968	1.43
Total time and interest-bearing deposits	**1,441,977**	**3,514**	**0.33**	1,421,672	5,131	0.48
Short-term borrowings	**82,318**	**40**	**0.06**	110,177	295	0.36
Long-term debt				146	4	3.66
Subordinated notes and capital securities	**14,319**	**483**	**4.51**	22,108	906	5.47

Total borrowings	**96,637**	**523**	**0.72**	132,431	1,205	1.22
Total interest-bearing liabilities	**1,538,614**	**4,037**	**0.35**	1,554,103	6,336	0.54
Demand deposits, non-interest bearing	**383,514**			319,176		
Accrued expenses and other liabilities	**33,374**			38,682		
Total liabilities	**1,955,502**			1,911,961		
Shareholders Equity:						
Common stock	**91,332**			91,332		
Additional paid-in capital	**64,756**			61,352		
Retained earnings and other equity	**127,324**			124,946		
Total shareholders equity	**283,412**			277,630		
Total liabilities and shareholders equity	**$ 2,238,914**			$ 2,189,591		
Net interest income		**$ 57,916**			$ 57,997	
Net interest spread			**3.75**			3.81
Effect of net interest-free funding sources			**0.09**			0.11
Net interest margin			**3.84%**			3.92%
Ratio of average interest-earning assets to average interest-bearing liabilities	**131.16%**			127.24%		

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 three and nine months ended September 30, 2013 and 2012 have been calculated using the Corporation s federal applicable rate of 35%.

Table of Contents

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 periods indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

	Three Months Ended September 30, 2013 Versus 2012			Nine Months Ended September 30, 2013 Versus 2012		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$ (17)	$ (3)	$ (20)	$ (45)	$ 30	$ (15)
U.S. government obligations	58	(82)	(24)	258	(328)	(70)
Obligations of states and political subdivisions	(58)	(49)	(107)	34	(352)	(318)
Other debt and equity securities	(41)	102	61	18	(341)	(323)
Interest on deposits and investments	(58)	(32)	(90)	265	(991)	(726)
Commercial, financial and agricultural loans	(594)	(239)	(833)	(1,065)	(265)	(1,330)
Real estate commercial and construction loans	818	(551)	267	1,522	(1,688)	(166)
Real estate residential loans	54	(207)	(153)	187	(651)	(464)
Loans to individuals	(6)	(9)	(15)	(56)	(16)	(72)
Municipal loans and leases	234	(107)	127	247	(363)	(116)
Lease financings	232	(37)	195	715	(221)	494
Interest and fees on loans and leases	738	(1,150)	(412)	1,550	(3,204)	(1,654)
Total interest income	680	(1,182)	(502)	1,815	(4,195)	(2,380)
Interest expense:						
Interest-bearing checking deposits	13	(7)	6	23	(42)	(19)
Money market savings	(7)	(41)	(48)	1	(161)	(160)
Regular savings	10	(117)	(107)	40	(440)	(400)
Time deposits	(180)	(176)	(356)	(645)	(393)	(1,038)
Interest on time and interest-bearing deposits	(164)	(341)	(505)	(581)	(1,036)	(1,617)
Short-term borrowings	(14)	(11)	(25)	(59)	(196)	(255)
Long-term debt				(4)		(4)
Subordinated notes and capital securities	(189)	(101)	(290)	(282)	(141)	(423)
Interest on borrowings	(203)	(112)	(315)	(345)	(337)	(682)
Total interest expense	(367)	(453)	(820)	(926)	(1,373)	(2,299)

Net interest income	$ 1,047	$ (729)	$ 318	$ 2,741	$ (2,822)	$ (81)

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 three and nine months ended September 30, 2013 and 2012 have been calculated using the Corporation s federal applicable rate of 35%.

Interest Income

Three and nine months ended September 30, 2013 versus 2012

Interest income on a tax-equivalent basis for the three months ended September 30, 2013 decreased $502 thousand, or 2% from the same period in 2012. Interest income on a tax-equivalent basis for the nine months ended September 30, 2013 decreased $2.4 million, or 4% from the same period in 2012. These decreases were primarily due to lower rates on commercial and residential real estate loans due to re-pricing and the competitive environment, along with lower commercial business loan volume. The average rate earned on loans decreased 26 basis points and 24 basis points for the three and nine months ended September 30, 2013, respectively, from the comparable periods in 2012. In addition, the re-investment of maturing and called investment securities into lower yielding investments contributed to the year-to-date decline in interest income. The average rate earned on investment securities and deposits at other banks decreased 24 basis points for the nine months ended September 30, 2013 from the comparable period in 2012. These unfavorable variances were partially offset by growth in lease financings and commercial real estate loans.

Table of Contents

Interest Expense

Three and nine months ended September 30, 2013 versus 2012

Interest expense for the three months ended September 30, 2013 decreased $820 thousand, or 42% from the comparable period in 2012. Interest expense for the nine months ended September 30, 2013 decreased $2.3 million, or 36% from the comparable period in 2012. These decreases were mainly due to a decrease in the Corporation s average cost of deposits of 15 basis points for both the three months and nine months ended September 30, 2013. This was largely attributable to an overall decline in rates paid on time and interest bearing deposits along with maturities of higher yielding certificates of deposits. In addition, the average rate paid on borrowings declined by 90 basis points and 50 basis points for the three and nine months ended September 30, 2013, respectively. This decline primarily resulted from the Corporation s decision to redeem its trust preferred securities and terminate the related interest rate swap. For the nine months ended September 30, 2013, the Corporation experienced increases in average interest-bearing checking of $49.9 million and regular savings of $33.3 million partially offset by a decrease in average time deposits of $63.9 million. The lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings and interest-bearing checking accounts.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans are also reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans initial effective interest rates. Any of the above criteria may cause the reserve to fluctuate. The provision for the three months ended September 30, 2013 and 2012 was $4.1 million and $2.2 million, respectively. The provision for the nine months ended September 30, 2013 and 2012 was $9.6 million and $7.7 million, respectively. The increase in the provision for both the three and nine months ended September 30, 2013 was primarily attributable to the intra-dependency of collateral and updated assessments of residential building lots securing loans to a common borrower.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities, net gains (losses) on mortgage banking activities, net gains (losses) on sales and write-downs of other real estate owned, loss on termination of interest rate swap 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 (Mastermoney fees), non-customer debit card fees, 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 (loss) 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 non-interest income includes other miscellaneous income.

The following table presents noninterest income for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Change Amount	Change Percent	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Change Amount	Change Percent
Trust fee income	**$ 1,736**	$ 1,625	$ 111	7%	**$ 5,249**	$ 4,875	$ 374	8%
Service charges on deposit accounts	**1,149**	1,122	27	2	**3,333**	3,301	32	1
Investment advisory commission and fee income	**1,536**	1,350	186	14	**5,048**	3,956	1,092	28
Insurance commission and fee income	**2,513**	2,129	384	18	**7,829**	6,453	1,376	21
Other service fee income	**1,929**	1,053	876	83	**5,454**	3,943	1,511	38
Bank owned life insurance income	**1,555**	463	1,092	N/M	**2,472**	2,305	167	7
Other-than-temporary impairment on equity securities		(4)	4	N/M		(13)	13	N/M
Net gain on sales of securities	**1,426**	9	1,417	N/M	**2,950**	291	2,659	N/M
Net gain on mortgage banking activities	**935**	2,171	(1,236)	(57)	**4,047**	4,517	(470)	(10)
Net gain (loss) on sales and dispositions of fixed assets		1,321	(1,321)	N/M	**(6)**	1,312	(1,318)	N/M
Net gain (loss) on sales and write-downs of other real estate owned	**198**	(621)	819	N/M	**450**	(1,723)	2,173	N/M
Loss on termination of interest rate swap					**(1,866)**		(1,866)	N/M
Other	**225**	243	(18)	(7)	**708**	665	43	6
Total noninterest income	**$ 13,202**	$ 10,861	$ 2,341	22	**$ 35,668**	$ 29,882	$ 5,786	19

Three and nine months ended September 30, 2013 versus 2012

Non-interest income for the three months ended September 30, 2013 was $13.2 million, an increase of $2.3 million, or 22% from the comparable period in the prior year. Non-interest income for the nine months ended September 30, 2013 was $35.7 million, an increase of $5.8 million or 19% from the comparable period in the prior year. Insurance commission and fee income increased $384 thousand for the three months and $1.4 million for the nine months ended September 30, 2013, primarily a result of the acquisitions of the John T. Fretz Insurance Agency, Inc. on May 1, 2013 and Javers Group on May 31, 2012. Investment advisory commission and fee income increased $186 thousand for the three months and $1.1 million for the nine months ended September 30, 2013 as assets under supervision increased 16% from September 30, 2012. Mortgage servicing income (included in other service fee income) increased $696 thousand for the three months and $868 thousand for the nine months ended September 30, 2013 mainly due to a 36% increase in loans serviced for others from September 2012, along with favorable changes in fair value adjustments on servicing rights. The net gain on sales of securities increased $1.4 million for the three months and $2.7 million for the nine months ended September, 30 2013. The net gain on sales of other real estate owned was $198 thousand for the three months and $450 thousand for the nine months ended September 30, 2013. This compares favorably to a net loss on sales and write-downs of $621 thousand and $1.7 million, respectively, for the comparable periods in the prior year. Excess proceeds from bank owned life insurance death benefits of $1.1 million were recognized during the three months ended September 30, 2013. On a year-to-date basis, $1.1 million in excess proceeds from bank owned life insurance death benefits were recognized in 2013 compared to $989 thousand for the same period in the prior year.

These favorable increases were partially offset by a $1.9 million loss on the termination of an interest rate swap during the second quarter of 2013, which was used as a hedge of trust preferred securities. In addition, the net gain on mortgage banking activities decreased $1.2 million and $470 thousand for the three and nine months ended September 30, 2013 respectively. The increase in interest rates during the second quarter of 2013 contributed to a significant decline in refinance activity, reduced demand for new home purchases and lowered gain on sale margins. Mortgage banking originations declined 39% in the third quarter of 2013 from the second quarter of 2013 and the third quarter of 2012.

Noninterest Expense

The operating costs of the Corporation are known as non-interest expense, and include, but are not limited to, salaries and benefits, commissions, equipment and occupancy expenses. Expense control is very important to the management of the Corporation, and every effort is made to contain and minimize the growth of operating expenses, and to provide technological innovation whenever practical, as operations change or expand.

Table of Contents

The following table presents noninterest expense for the periods indicated:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2013**	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**	**Percent**
Salaries and benefits	**$ 9,761**	$ 8,944	$ 817	9%	**$ 28,980**	$ 28,185	$ 795	3%
Commissions	**2,026**	1,884	142	8	**6,529**	4,939	1,590	32
Net occupancy	**1,472**	1,445	27	2	**4,279**	4,241	38	1
Equipment	**1,225**	1,152	73	6	**3,619**	3,297	322	10
Marketing and advertising	**570**	340	230	68	**1,432**	1,243	189	15
Deposit insurance premiums	**381**	406	(25)	(6)	**1,173**	1,279	(106)	(8)
Restructuring charges	**(5)**		(5)	N/M	**534**		534	N/M
Other	**4,558**	4,887	(329)	(7)	**12,964**	13,386	(422)	(3)
Total noninterest expense	**$ 19,988**	$ 19,058	$ 930	5	**$ 59,510**	$ 56,570	$ 2,940	5

Three months ended September 30, 2013 versus 2012

Non-interest expense for the three months ended September 30, 2013 was $20.0 million, an increase of $930 thousand or 5% from the comparable period in the prior year. Salaries and benefits expenses increased $817 thousand primarily attributable to the Fretz acquisition and performance-based salary and incentive increases. Commission expense increased $142 thousand mainly due to increased production activity and revenues generated in the Corporation s equipment finance, investment and insurance businesses partially offset by a decline in mortgage banking commissions.

Nine months ended September 30, 2013 versus 2012

Non-interest expense for the nine months ended September 30, 2013 was $59.5 million, an increase of $2.9 million or 5% from the comparable period in the prior year. Salaries and benefits expense increased $795 thousand primarily attributable to the Fretz and Javers acquisitions and performance-based salary and incentive increases. Commission expense increased $1.6 million mainly due to increased production activity and revenues generated in the Corporation s equipment finance, investment and insurance businesses. Additionally, non-interest expense increased due to restructuring charges of $539 thousand recognized during the first three months of 2013.

Tax Provision

The provision for income taxes for the three months ended September 30, 2013 and 2012 was $1.4 million and $1.8 million, at effective rates of 19% and 24%, respectively. The provision for income taxes for the nine months ended September 30, 2013 and 2012 was $4.6 million and $4.2 million, at effective rates of 22% and 21%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The lower effective rate for the three months ended September 30, 2013 is due to a higher amount of tax exempt income in 2013 primarily due to excess proceeds from bank-owned life insurance death benefits.

Table of Contents

Financial Condition

Assets

Total assets decreased $51.8 million from December 31, 2012 primarily due to a decrease in cash and interest-earning deposits, and a decrease in investment securities, partially offset by an increase in loans and leases. The following table presents the assets at the dates indicated:

(Dollars in thousands)	At September 30, 2013	At December 31, 2012	Change Amount	Change Percent
Cash and interest-earning deposits	**$ 79,458**	$ 146,112	$ (66,654)	(46)%
Investment securities	**462,573**	499,579	(37,006)	(7)
Loans held for sale	**3,489**	4,530	(1,041)	(23)
Loans and leases held for investment	**1,526,241**	1,481,862	44,379	3
Reserve for loan and lease losses	**(24,835)**	(24,746)	(89)	
Premises and equipment, net	**33,797**	33,222	575	2
Goodwill and other intangibles, net	**65,992**	62,694	3,298	5
Bank owned life insurance	**60,144**	61,409	(1,265)	(2)
Accrued interest receivable and other assets	**46,137**	40,179	5,958	15
Total assets	**$ 2,252,996**	$ 2,304,841	$ (51,845)	(2)

Cash and Interest-earning Deposits

Cash and interest-earning deposits at September 30, 2013 decreased $66.7 million from December 31, 2012 primarily due to the growth in loans and leases and the decline in long-term borrowings resulting from the Corporation s redemption of trust preferred securities.

Investment Securities

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

Total investments at September 30, 2013 decreased $37.0 million from December 31, 2012. Sales of $58.1 million, maturities and pay-downs of $31.4 million, calls of $2.1 million and a decline in the net unrealized gain on available-for-sale investment securities of $13.1 million, were partially offset by purchases of $67.0 million. The decline in net unrealized gain on available-for-sale investment securities was primarily due to declines in fair value resulting from the increase in interest rates during the second quarter of 2013.

Loans and Leases

Gross loans and leases held for investment at September 30, 2013 grew by $44.4 million or 3% from December 31, 2012. Commercial-related real estate loans increased $60.0 million and lease financings increased $18.9 million partially offset by a decrease in commercial business loans of $37.6 million. While the longer-term economic outlook remains positive, short-term uncertainty over the direction of fiscal and monetary policy is restraining overall credit demand and the utilization of available credit lines by both businesses and consumers.

Asset Quality

Performance of the entire loan and lease portfolio is reviewed on a regular basis by Bank management and lending officers. A number of factors regarding the borrower, such as overall financial strength, collateral values and repayment ability, are considered in deciding what actions should be taken when determining the collectability of interest for accrual purposes.

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

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

At September 30, 2013, the recorded investment in loans that were considered to be impaired was $66.8 million. The related reserve for loan losses was $3.1 million. At December 31, 2012, the recorded investment in loans that were considered to be impaired was $45.2 million. The related reserve for loan losses was $208 thousand. Impaired loans includes nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits. For the nine months ended September 30, 2013 and 2012, interest income that would have been recognized under the original terms for impaired loans was $1.3 million and $1.6 million, respectively. Interest income recognized for the nine months ended September 30, 2013 and 2012 was $604 thousand and $301 thousand, respectively.

The impaired loan balances consisted mainly of commercial real estate, construction and commercial business loans. At September 30, 2013, impaired loans included other accruing impaired loans of $29.0 million. At September 30, 2013, specific reserves of $1.9 million were established for four borrower relationships with principal balances totaling $7.9 million on other accruing impaired loans. In addition, year-to-date impaired loan activity included $10.2 million of loans which were restructured or placed on nonaccrual status, partially offset by the foreclosure of commercial loans totaling $3.5 million, net loan charge-offs on nonaccrual loans of $8.4 million and payments of $5.4 million. Impaired loans at September 30, 2013 included one large shared national credit to a theatre with an outstanding balance of $5.8 million. During the third quarter of 2012, this credit was returned to accruing troubled debt restructured status as the borrower made six consecutive principal and interest payments. At September 30, 2013, the credit was secured with sufficient estimated collateral and therefore, there was no specific reserve on this credit. The theatre continues to be open and operating. In addition, impaired loans at September 30, 2013 included one large credit which went on nonaccrual during the third quarter of 2009 and is comprised of four separate facilities to a local commercial real estate developer/home builder, aggregating to $9.6 million. During the third quarter of 2013, one of the facilities was sold and proceeds of $2.3 million were applied to the loan. This credit incurred $2.0 million in charge-offs during the third quarter of 2013 primarily attributable to the intra-dependency of collateral and updated assessments of residential building lots securing the loans. There is no specific allowance on this credit, after the noted charge-offs, as the credit was secured with sufficient estimated collateral. The borrower does not have the resources to develop these properties; therefore, the properties must be sold.

Other real estate owned increased slightly to $1.7 million at September 30, 2013, compared to $1.6 million at December 31, 2012. The year-to-date increase was primarily due to the addition of commercial properties for $3.8 million, offset by the sale of three locations with an associated carrying balance of $3.7 million for a gain of $450 thousand.

Table 3 Nonaccrual and Past Due Loans and Leases; Troubled Debt Restructured Loans and Lease Modifications; Other Real Estate Owned; and Related Ratios

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

(Dollars in thousands)	At September 30, 2013	At December 31, 2012	At September 30, 2012
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:			
Loans held for sale	**$**	$	$ 2,599
Loans held for investment:			
Commercial, financial and agricultural	**3,778**	2,842	3,966
Real estate commercial	**9,858**	14,340	9,318
Real estate construction	**9,165**	13,588	13,614
Real estate residential	**946**	976	498
Lease financings	**227**	386	530
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	**23,974**	32,132	30,525
Accruing troubled debt restructured loans and lease modifications	**14,106**	13,457	13,383
Accruing loans and leases 90 days or more past due:			
Commercial, financial and agricultural	**300**		321
Real estate commercial	**641**		
Real estate residential	**670**	54	58
Loans to individuals	**299**	347	289
Lease financings	**44**	40	22
Total accruing loans and leases, 90 days or more past due	**1,954**	441	690
Total non-performing loans and leases	**40,034**	46,030	44,598
Other real estate owned	**1,650**	1,607	3,301
Total nonperforming assets	**$ 41,684**	$ 47,637	$ 47,899
Nonaccrual loans and leases (including nonaccrual troubled debt	**1.57%**	2.17%	2.07%

restructured loans and lease modifications) / loans and leases held for investment and nonaccrual loans held for sale			
Nonperforming loans and leases / loans and leases held for investment and nonaccrual loans held for sale	**2.62%**	3.11%	3.03%
Nonperforming assets / total assets	**1.85%**	2.07%	2.15%
Allowance for loan and lease losses / loans and leases held for investment	**1.63%**	1.67%	1.84%
Allowance for loan and lease losses / nonaccrual loans and leases	**103.59%**	77.01%	97.03%
Allowance for loan and lease losses / nonperforming loans and leases	**62.03%**	53.76%	64.52%
Allowance for loan and lease losses	**$ 24,835**	$ 24,746	$ 27,096
* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table	**$ 1,618**	$ 579	$ 228

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

(Dollars in thousands)	**At September 30, 2013**	**At December 31, 2012**	**At September 30, 2012**
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	**$ 23,974**	$ 32,132	$ 27,926
Nonaccrual loans and leases with partial charge-offs	**10,232**	8,834	8,508
Life-to-date partial charge-offs on nonaccrual loans and leases	**8,475**	4,361	7,142
Charge-off rate of nonaccrual loans and leases with partial charge-offs	**45.3%**	33.1%	45.6%
Specific reserves on impaired loans	**$ 3,096**	$ 208	$ 690

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is appropriate at September 30, 2013 to absorb probable losses in the loan and lease portfolio. Management s methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Impaired loans, including nonaccrual loans and leases, troubled debt restructured loans and other accruing impaired loans are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience, loss factors are determined giving consideration to the areas noted in the preceding paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve. Loss factors are updated quarterly and are comprised of losses aggregated over eight quarters. Management also reviews the activity within the reserve to determine what actions, if any, should be taken to address differences between estimated and actual losses. Any of the above factors may cause the provision to fluctuate.

The reserve for loan and lease losses is based on management s evaluation of the loan and lease portfolio under current economic conditions and such other factors, which deserve recognition in estimating loan and lease losses. This evaluation is inherently subjective, as it requires estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Additions to the reserve arise from the provision for loan and lease losses charged to operations or from the recovery of amounts previously charged off. Loan and lease charge-offs reduce the reserve. Loans and leases are charged off when there has been permanent impairment or when in the opinion of management the full amount of the loan or lease, in the case of non-collateral dependent borrowings, will not be realized. Certain impaired loans are reported at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent, or for certain loans, at the present value of expected future cash flows using the loan s initial effective interest rate.

The reserve for loan and lease losses consists of an allocated reserve and unallocated reserve categories. The allocated reserve is comprised of reserves established on specific loans and leases, and class reserves based on historical loan and lease loss experience, current trends, and management assessments. The unallocated reserve is based on both general economic conditions and other risk factors in the Corporation s individual markets and portfolios.

The specific reserve element is based on a regular analysis of impaired commercial and real estate loans. For these loans, the specific reserve established is based on an analysis of related collateral value, cash flow considerations and, if applicable, guarantor capacity.

The class reserve element is determined by an internal loan and lease grading process in conjunction with associated allowance factors. The Corporation revises the class allowance factors whenever necessary, but no less than quarterly, in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. The reserve for these off-balance sheet credits was $321 thousand and $119 thousand at September 30, 2013 and December 31, 2012, respectively.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets was $539 thousand and $652 thousand for the three months ended September 30, 2013 and 2012, respectively and $1.8 million and $1.7 million for the nine months ended September 30, 2013 and 2012, respectively. The Corporation also has goodwill with a net carrying amount of $57.5 million at September 30, 2013 and $56.2 million at December 31, 2012, which is deemed to be an indefinite intangible asset and is not amortized.

Table of Contents

The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation also completes an impairment test for other identifiable intangible assets on an annual basis or more often if events and circumstances indicate there may be impairment. The Corporation completes an annual impairment test for other intangible assets, or more often, if events and circumstances indicate a possible impairment. There was no goodwill impairment and no material impairment to identifiable intangibles during the nine months ended September 30, 2013 and 2012. In conjunction with the reduction in the contingent consideration liability for Javers during the six months ended June 30, 2013, an evaluation of goodwill and other identifiable intangible assets was performed with no indicated impairment. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Other Assets

At September 30, 2013 and December 31, 2012, the Bank held $3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $2.8 million and $4.1 million at September 30, 2013 and December 31, 2012, respectively. Additionally, the FHLB might require its members to increase its capital stock requirement. Effective February 28, 2011, the FHLB entered into a Joint Capital Enhancement Agreement with the other 11 Federal Home Loan Banks (collectively, the FHLBanks). The agreement calls for a plan for each FHLBank to build additional retained earnings and enhance capital. On August 5, and August 8, 2011, the Standard & Poor s Rating Services downgraded the credit ratings of the U.S government and federal agencies, including the FHLB, respectively, from AAA to AA+, with a negative outlook. On June 10, 2013, Standard & Poor s upgraded its credit outlook for the United States government from negative to stable . These changes in the credit ratings of the U.S. government and the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on its operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation s investment in the FHLB stock. However, based on current information from the FHLB, management believes that if there is any impairment in the FHLB stock, it is temporary. Therefore, at September 30, 2013, the FHLB stock is recorded at cost.

Liabilities

Total liabilities decreased $42.3 million since December 31, 2012 primarily due to a decrease in short-term and long-term borrowings, partially offset by an increase in deposits. The following table presents the liabilities at the dates indicated:

			Change	
(Dollars in thousands)	**At September 30, 2013**	**At December 31, 2012**	**Amount**	**Percent**
Deposits	**$ 1,889,046**	$ 1,865,333	$ 23,713	1%
Short-term borrowings	**46,733**	96,282	(49,549)	(51)
Subordinated notes and capital securities		20,994	(20,994)	N/M
Accrued expenses and other liabilities	**42,463**	37,955	4,508	12
Total liabilities	**$ 1,978,242**	$ 2,020,564	$ (42,322)	(2)

Deposits

Total deposits increased $23.7 million from December 31, 2012, mainly due to a product change for existing business and municipal customers which resulted in approximately $68.1 million of customer repurchase agreements, classified as borrowings, being transferred to interest-bearing demand deposits during the second quarter of 2013. This transfer was partially offset by a decrease in time deposits of $41.7 million.

Borrowings

Short-term borrowings at September 30, 2013, consisted of customer repurchase agreements on an overnight basis; the decrease of $49.5 million from December 31, 2012 was due to the migration of customer accounts to interest bearing deposits as previously discussed. During the second quarter of 2013, the Corporation submitted a redemption notice to the trustee resulting in the redemption of all of the trust preferred securities, with an aggregate principal balance of $20.0 million, issued by Univest Capital Trust I. The Corporation redeemed the trust preferred securities effective July 7, 2013 with settlement on July 8, 2013. The redemption also included $619 thousand in common securities issued by Univest Capital Trust I and related to the Trust Preferred Securities.

Table of Contents

Shareholders Equity

Total shareholders equity at September 30, 2013 decreased $9.5 million since December 31, 2012, primarily due to an increase in treasury stock and an increase in accumulated other comprehensive loss partially offset by an increase in retained earnings.

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

(Dollars in thousands)	At September 30, 2013	At December 31, 2012	Change Amount	Change Percent
Common stock	**$ 91,332**	$ 91,332	$	%
Additional paid-in capital	**62,060**	62,101	(41)	
Retained earnings	**170,937**	164,823	6,114	4
Accumulated other comprehensive loss	**(13,703)**	(6,920)	(6,783)	(98)
Treasury stock	**(35,872)**	(27,059)	(8,813)	(33)
Total shareholders equity	**$ 274,754**	$ 284,277	$ (9,523)	(3)

Retained earnings at September 30, 2013 were impacted by the nine months of net income of $16.3 million partially offset by cash dividends declared of $10.0 million. Accumulated other comprehensive loss increased primarily due to declines in the fair value of available-for-sale investment securities, resulting from the increase in interest rates during the second quarter of 2013. Treasury stock increased primarily due to the purchase of 540,285 treasury shares, totaling $9.9 million under its 2007 Board approved share repurchase program partially offset by the issuance of restricted stock.

Capital Adequacy

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s and the Bank s financial statements. Capital adequacy guidelines, and additionally for the Bank the prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

Table of Contents

Table 4 Regulatory Capital

(Dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well-Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well-Capitalized Under Prompt Corrective Action Provisions Ratio
At September 30, 2013:						
Total Capital (to Risk-Weighted Assets):						
Corporation	**$ 253,783**	**13.73%**	**$ 147,918**	**8.00%**	**$ 184,898**	**10.00%**
Bank	**235,648**	**12.91**	**146,012**	**8.00**	**182,515**	**10.00**
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	**230,494**	**12.47**	**73,959**	**4.00**	**110,939**	**6.00**
Bank	**212,802**	**11.66**	**73,006**	**4.00**	**109,509**	**6.00**
Tier 1 Capital (to Average Assets):						
Corporation	**230,494**	**10.63**	**86,715**	**4.00**	**108,394**	**5.00**
Bank	**212,802**	**9.88**	**86,121**	**4.00**	**107,651**	**5.00**
At December 31, 2012:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 274,504	15.62%	$ 140,631	8.00%	$ 175,788	10.00%
Bank	246,861	14.22	138,841	8.00	173,552	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	252,240	14.35	70,315	4.00	105,473	6.00
Bank	225,126	12.97	69,421	4.00	104,131	6.00
Tier 1 Capital (to Average Assets):						
Corporation	252,240	11.47	87,934	4.00	109,918	5.00
Bank	225,126	10.31	87,310	4.00	109,137	5.00

On May 14, 2013, the Corporation submitted a redemption notice to the trustee to redeem all of the outstanding capital securities issued by Univest Capital Trust I, with a redemption date of July 7, 2013. This is the primary reason that the Corporation s regulatory capital ratios declined when comparing September 30, 2013 to December 31, 2012. Additionally, during the second quarter of 2013, the Bank s subsidiary, Delview, Inc., called its preferred stock of $15.0 million, which qualified as Tier 1 Capital at the Bank as Qualifying Noncontrolling (Minority) Interests in Consolidated Subsidiaries. This is the primary reason that the Bank s regulatory capital ratios declined when comparing September 30, 2013 to December 31, 2012.

At September 30, 2013 and December 31, 2012, management believes that the Corporation and the Bank continued to meet all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 Capital and Total Capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and Total Capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. At September 30, 2013, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category.

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 are 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 certain components of accumulated other comprehensive income as permitted under the current general risk-based capital rules, and not reflect unrealized gains and losses on available-for-sale securities in common equity Tier 1 calculations. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Corporation and the Bank will continue to analyze these new rules and their effects on the business, operations and capital levels of the Corporation and the Bank.

Asset/Liability Management

The primary functions of Asset/Liability Management are to assure adequate earnings, capital and liquidity while maintaining an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet cash flow requirements of customers and corporate needs. Interest-rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of net interest income through periods of changing rates.

The Corporation uses both interest-sensitivity gap analysis and simulation modeling to quantify its exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year horizon. The simulation uses existing portfolio rate and re-pricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayments on residential mortgages, and the discretionary pricing of non-maturity assets and liabilities.

The following table demonstrates the expected effect that a parallel interest rate shift would have on the Corporation s net interest income over the next twelve months. This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next twelve months. The changes to net interest income are shown in the below table at September 30, 2013.

Table 5 Summary of Interest Rate Simulation

	Estimated Change in Net Interest Income Over Next 12 Months	
(Dollars in thousands)	**Amount**	**Percent**
Rate shock Change in interest rates		
+300 basis points	$ 11,083	15.4%
+200 basis points	7,042	9.8
+100 basis points	3,193	4.4
-100 basis points*	(4,139)	(5.7)

* Because certain current short-term interest rates are at or below 1.0%, the 100 basis point downward shock assumes that corresponding interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis points downward shock.

The interest rate simulation demonstrates that the Corporation is asset sensitive; indicating that an increase in interest rates will have a positive impact on net interest income over the next 12 months while a decrease in interest rates will negatively impact net interest income.

Liquidity

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

Sources of Funds

Core deposits and customer repurchase agreements have historically been the most significant funding sources for the Corporation. These deposits and repurchase agreements are generated from a base of consumer, business and public customers primarily located in Bucks and Montgomery counties, Pennsylvania. The Corporation faces increased competition for these deposits from a large array of financial market participants, including banks, savings institutions, mutual funds, security dealers and others.

Table of Contents

The Corporation supplements its core funding with money market funds it holds for the benefit of various trust accounts. These funds are fully collateralized by the Bank s investment portfolio and bear interest at current money market mutual fund rates. This funding source is subject to changes in the asset allocations of the trust accounts.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $468.2 million. At September 30, 2013 and December 31, 2012, there were no outstanding borrowings with the FHLB. At September 30, 2013 and December 31, 2012, the Bank had outstanding short-term letters of credit with the FHLB totaling $5.0 million and $32.0 million, respectively, which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB s internal credit rating of the Bank, and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Bank, maintains federal fund lines with several correspondent banks totaling $82.0 million at September 30, 2013 and December 31, 2012. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At September 30, 2013 and December 31, 2012, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Short-term borrowings consisting of customer repurchase agreements constitute the next largest payment obligation. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its branch network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market.

Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Footnote 1, Summary of Significant Accounting Policies of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes in the Corporation s market risk or market strategy occurred during the current period. A detailed discussion of market risk is provided in the Registrant s Annual Report on Form 10-K for the period ended December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be so disclosed by an issuer is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation s management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures. Based on that evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2013.

Changes in Internal Control over Financial Reporting

There were no changes in the Corporation s internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Management is not aware of any litigation that would have 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 1A. Risk Factors

There have been no material changes in risk factors from those disclosed under Item 1A, Risk Factors. in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on repurchases by the Corporation of its common stock during the three months ended September 30, 2013 under its 2007 Board approved program.

ISSUER PURCHASES OF EQUITY SECURITIES

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
July 1 31, 2013		$		396,644

August 1 31, 2013				396,644
September 1 30, 2013	395,000	18.79	395,000	1,644
Total	395,000	$ 18.79	395,000	

1. Transactions are reported as of trade dates.

2. The number of shares approved for repurchase under the Corporation s 2007 Board approved share repurchase program was 643,782. The repurchased shares limit was net of normal treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and equity compensation plans. The 2007 Board approved program is deemed to be satisfied and closed.

3. 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. 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.

Item 3. Defaults Upon Senior Securities

None.

Table of Contents

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

a. Exhibits

Exhibit 3.1	Amended and Restated Articles of Incorporation are incorporated by reference to Appendix A of Form DEF14A, filed with the Securities and Exchange Commission (the SEC) on March 9, 2006.
Exhibit 3.2	Amended By-Laws dated September 26, 2007 are incorporated by reference to Exhibit 3.2 of Form 8-K, filed with the SEC on September 27, 2007.
Exhibit 4.1	Univest Corporation of Pennsylvania 2013 Long-Term Incentive Plan is incorporated by reference to Appendix A of Form DEF14A, filed with the SEC on March 15, 2013.
Exhibit 4.2	Shareholder Rights Agreement dated September 30, 2011 is incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the SEC on October 6, 2011.
Exhibit 31.1	Certification of William S. Aichele, Chairman and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Michael S. Keim, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of William S. Aichele, Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Michael S. Keim, Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

52

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Univest Corporation of Pennsylvania
	(Registrant)
Date: November 8, 2013	/s/ William S. Aichele William S. Aichele, Chairman and Chief Executive Officer (Principal Executive Officer)
Date: November 8, 2013	/s/ Michael S. Keim Michael S. Keim, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)