UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended June 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	**(IRS Employer**
incorporation or organization)	**Identification No.)**

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

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

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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	**16,678,341**
(Title of Class)	**(Number of shares outstanding at July 31, 2013)**

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At June 30, 2013	(SEE NOTE) At December 31, 2012
ASSETS		
Cash and due from banks	**$ 45,360**	$ 98,399
Interest-earning deposits with other banks	**41,194**	47,713
Investment securities held-to-maturity (fair value $70,029 and $71,327 at June 30, 2013 and December 31, 2012, respectively)	**69,425**	69,845
Investment securities available-for-sale	**416,035**	429,734
Loans held for sale	**3,609**	4,530
Loans and leases held for investment	**1,499,993**	1,481,862
Less: Reserve for loan and lease losses	**(24,718)**	(24,746)
Net loans and leases held for investment	**1,475,275**	1,457,116
Premises and equipment, net	**32,493**	33,222
Goodwill	**57,517**	56,238
Other intangibles, net of accumulated amortization and fair value adjustments of $9,244 and $10,475 at June 30, 2013 and December 31, 2012, respectively	**8,470**	6,456
Bank owned life insurance	**62,326**	61,409
Accrued interest receivable and other assets	**43,897**	40,179
Total assets	**$ 2,255,601**	$ 2,304,841
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 398,906**	$ 368,948
Demand deposits, interest-bearing	**632,563**	638,483
Savings deposits	**542,566**	526,391
Time deposits	**299,016**	331,511
Total deposits	**1,873,051**	1,865,333
Customer repurchase agreements	**45,388**	96,282
Accrued interest payable and other liabilities	**36,955**	37,955
Subordinated notes		375
Junior subordinated debt owed to unconsolidated subsidiary trust	**20,619**	20,619
Total liabilities	**1,976,013**	2,020,564
SHAREHOLDERS EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2013 and December 31, 2012; 18,266,404 shares issued at June 30, 2013 and December 31, 2012; 16,683,009 and 16,770,232 shares outstanding at June 30, 2013 and December 31, 2012, respectively	**91,332**	91,332
Additional paid-in capital	**61,702**	62,101
Retained earnings	**168,233**	164,823

Accumulated other comprehensive loss, net of taxes	**(13,229)**	(6,920)
Treasury stock, at cost; 1,583,395 shares and 1,496,172 shares at June 30, 2013 and December 31, 2012, respectively	**(28,450)**	(27,059)
Total shareholders equity	**279,588**	284,277
Total liabilities and shareholders equity	**$ 2,255,601**	$ 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.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 15,809**	$ 16,413	**$ 31,751**	$ 32,750
Exempt from federal income taxes	**1,130**	1,229	**2,244**	2,422
Total interest and fees on loans and leases	**16,939**	17,642	**33,995**	35,172
Interest and dividends on investment securities:				
Taxable	**1,432**	1,481	**2,804**	3,234
Exempt from federal income taxes	**1,044**	1,097	**2,070**	2,207
Other interest income	**46**	38	**81**	76
Total interest income	**19,461**	20,258	**38,950**	40,689
Interest expense				
Interest on deposits	**1,155**	1,654	**2,395**	3,507
Interest on short-term borrowings	**15**	156	**32**	262
Interest on long-term borrowings	**183**	301	**472**	609
Total interest expense	**1,353**	2,111	**2,899**	4,378
Net interest income	**18,108**	18,147	**36,051**	36,311
Provision for loan and lease losses	**3,446**	1,343	**5,520**	5,443
Net interest income after provision for loan and lease losses	**14,662**	16,804	**30,531**	30,868
Noninterest income				
Trust fee income	**1,779**	1,625	**3,513**	3,250
Service charges on deposit accounts	**1,098**	1,079	**2,184**	2,179
Investment advisory commission and fee income	**1,811**	1,350	**3,512**	2,606
Insurance commission and fee income	**2,598**	2,057	**5,316**	4,324
Other service fee income	**1,827**	1,368	**3,525**	2,890
Bank owned life insurance income	**413**	336	**917**	1,842
Other-than-temporary impairment on equity securities		(6)		(9)
Net gain on sales of investment securities	**1,339**	24	**1,524**	282
Net gain on mortgage banking activities	**1,416**	1,074	**3,112**	2,346
Net loss on dispositions of fixed assets	**(6)**	(10)	**(6)**	(9)
Net gain (loss) on sales and write-downs of other real estate owned	**252**	(1,071)	**252**	(1,102)
Loss on termination of interest rate swap	**(1,866)**		**(1,866)**	
Other	**330**	174	**483**	422
Total noninterest income	**10,991**	8,000	**22,466**	19,021
Noninterest expense				

Salaries and benefits	**9,359**	9,100	**19,219**	19,241
Commissions	**2,388**	1,633	**4,503**	3,055
Net occupancy	**1,408**	1,402	**2,807**	2,796
Equipment	**1,212**	1,111	**2,394**	2,145
Marketing and advertising	**497**	584	**862**	903
Deposit insurance premiums	**400**	429	**792**	873
Restructuring charges			**539**	
Other	**4,022**	4,377	**8,406**	8,499
Total noninterest expense	**19,286**	18,636	**39,522**	37,512
Income before income taxes	**6,367**	6,168	**13,475**	12,377
Income taxes	**1,537**	1,405	**3,247**	2,351
Net income	**$ 4,830**	$ 4,763	**$ 10,228**	$ 10,026
Net income per share:				
Basic	**$ .29**	$ .28	**$ .61**	$ .60
Diluted	**.29**	.28	**.61**	.60
Dividends declared	**.20**	.20	**.40**	.40

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

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2013 Before Tax Amount	2013 Tax Expense (Benefit)	2013 Net of Tax Amount	2012 Before Tax Amount	2012 Tax Expense (Benefit)	2012 Net of Tax Amount
Income	**$ 6,367**	**$ 1,537**	**$ 4,830**	$ 6,168	$ 1,405	$ 4,763
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	**(9,201)**	**(3,221)**	**(5,980)**	1,417	496	921
Less: reclassification adjustment for net gains on sales realized in net income	**(1,339)**	**(468)**	**(871)**	(24)	(9)	(15)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income				6	2	4
Total net unrealized (losses) gains on available-for-sale investment securities	**(10,540)**	**(3,689)**	**(6,851)**	1,399	489	910
Cash flow hedge derivative:						
Net change in fair value of interest rate swap	**(119)**	**(42)**	**(77)**	(563)	(197)	(366)
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	**1,747**	**611**	**1,136**	(563)	(197)	(366)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**349**	**122**	**227**	292	102	190
Less: accretion of prior service cost included in net periodic pension costs	**(63)**	**(21)**	**(42)**	(64)	(22)	(42)
Total defined benefit pension plans	**286**	**101**	**185**	228	80	148
Other comprehensive (loss) income	**(8,507)**	**(2,977)**	**(5,530)**	1,064	372	692
Total comprehensive (loss) income	**$ (2,140)**	**$ (1,440)**	**$ (700)**	$ 7,232	$ 1,777	$ 5,455

(Dollars in thousands)	Six Months Ended June 30, 2013 Before Tax Amount	2013 Tax Expense (Benefit)	2013 Net of Tax Amount	2012 Before Tax Amount	2012 Tax Expense (Benefit)	2012 Net of Tax Amount
Income	**$ 13,475**	**$ 3,247**	**$ 10,228**	$ 12,377	$ 2,351	$ 10,026
Other comprehensive income:						

Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	**(10,605)**	**(3,712)**	**(6,893)**	517	181	336
Less: reclassification adjustment for net gains on sales realized in net income	**(1,524)**	**(533)**	**(991)**	(282)	(99)	(183)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income				9	3	6
Total net unrealized (losses) gains on available-for-sale investment securities	**(12,129)**	**(4,245)**	**(7,884)**	244	85	159
Cash flow hedge derivative:						
Net change in fair value of interest rate swap	**43**	**15**	**28**	(389)	(136)	(253)
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**	(389)	(136)	(253)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**641**	**224**	**417**	589	206	383
Less: accretion of prior service cost included in net periodic pension costs	**(127)**	**(44)**	**(83)**	(128)	(45)	(83)
Total defined benefit pension plans	**514**	**180**	**334**	461	161	300
Other comprehensive (loss) income	**(9,706)**	**(3,397)**	**(6,309)**	316	110	206
Total comprehensive income	**$ 3,769**	**$ (150)**	**$ 3,919**	$ 12,693	$ 2,461	$ 10,232

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

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Six Months Ended June 30, 2013							
Balance at December 31, 2012	16,770,232	$ (6,920)	$ 91,332	$ 62,101	$ 164,823	$ (27,059)	$ 284,277
Net income					10,228		10,228
Other comprehensive loss, net of income tax benefit		(6,309)					(6,309)
Cash dividends declared ($0.40 per share)					(6,693)		(6,693)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	79,139			5	(33)	1,391	1,363
Repurchase of cancelled restricted stock awards	(29,533)			519		(519)	
Stock-based compensation				262			262
Net tax deficiency on stock-based compensation				(11)			(11)
Purchases of treasury stock	(206,870)					(3,529)	(3,529)
Restricted stock awards granted	70,041			(1,174)	(92)	1,266	
Balance at June 30, 2013	16,683,009	$ (13,229)	$ 91,332	$ 61,702	$ 168,233	$ (28,450)	$ 279,588

(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
Six Months Ended June 30, 2012							
Balance at December 31, 2011	16,702,376	$ (6,101)	$ 91,332	$ 58,495	$ 157,566	$ (28,313)	$ 272,979
Net income					10,026		10,026
Other comprehensive income, net of income tax		206					206
Cash dividends declared ($0.40 per share)					(6,706)		(6,706)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	90,339				(65)	1,526	1,461
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	(90,854)					(1,446)	(1,446)
Restricted stock awards granted	71,157			(1,154)	(134)	1,288	
Balance at June 30, 2012	16,759,893	$ (5,895)	$ 91,332	$ 58,404	$ 160,633	$ (27,158)	$ 277,316

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

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	**$ 10,228**	$ 10,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**5,520**	5,443
Depreciation of premises and equipment	**1,470**	1,369
Other-than-temporary impairment on equity securities		9
Net gain on sales of investment securities	**(1,524)**	(282)
Net gain on mortgage banking activities	**(3,112)**	(2,346)
Net loss on dispositions of fixed assets	**6**	9
Net (gain) loss on sales and write-downs of other real estate owned	**(252)**	1,102
Loss on termination of interest rate swap	**1,866**	
Bank owned life insurance income	**(917)**	(1,842)
Stock-based compensation	**262**	774
Other adjustments to reconcile net income to cash provided by operating activities	**1,329**	3,145
Originations of loans held for sale	**(176,114)**	(122,521)
Proceeds from the sale of loans held for sale	**180,931**	125,854
Contributions to pension and other postretirement benefit plans	**(60)**	(59)
(Increase) decrease in accrued interest receivable and other assets	**(3,845)**	400
Decrease in accrued interest payable and other liabilities	**(2,553)**	(2,272)
Net cash provided by operating activities	**13,235**	18,809
Cash flows from investing activities:		
Net cash paid due to acquisitions	**(2,170)**	(3,225)
Net capital expenditures	**(747)**	(1,337)
Proceeds from maturities and calls of securities available-for-sale	**23,467**	81,001
Proceeds from sales of securities available-for-sale	**35,415**	57,162
Purchases of investment securities available-for-sale	**(56,860)**	(106,536)
Net increase in loans and leases	**(25,154)**	(23,854)
Net decrease in interest-earning deposits	**6,519**	8,147
Proceeds from sales of other real estate owned	**2,330**	1,482
Proceeds from bank owned life insurance		2,415
Net cash (used in) provided by investing activities	**(17,200)**	15,255
Cash flows from financing activities:		
Net increase (decrease) in deposits	**7,718**	(5,310)
Net decrease in short-term borrowings	**(50,894)**	(14,606)
Repayment of subordinated debt	**(375)**	(750)
Purchases of treasury stock	**(3,529)**	(1,446)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**1,363**	1,461
Cash dividends paid	**(3,357)**	(6,699)
Net cash used in financing activities	**(49,074)**	(27,350)

Net (decrease) increase in cash and due from banks		**(53,039)**		6,714
Cash and due from banks at beginning of year		**98,399**		39,857
Cash and due from banks at end of period	**$**	**45,360**	$	46,571
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**3,489**	$	4,759
Cash paid for income taxes, net of refunds received		**3,713**		1,282
Non cash transactions:				
Noncash transfer of loans to other real estate owned	**$**	**1,729**	$	
Contingency consideration recorded as goodwill	**$**	**454**	$	842

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation) and its wholly owned subsidiaries; the Corporation s primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the six-month period ended June 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 February 2013, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (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 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.

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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 allocation of the purchase price to goodwill, customer related intangibles and the contingent consideration liability, as of June 30, 2013, are preliminary estimates and are subject to adjustment within the measurement period. 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 June 30, 2013 and December 31, 2012 by contractual maturity within each type:

	At June 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	**$ 12,313**	**$ 118**	**$**	**$ 12,431**	$ 3,026	$ 7	$	$ 3,033
After 1 year to 5 years	**57,112**	**969**	**(483)**	**57,598**	66,819	1,526	(51)	68,294
	69,425	**1,087**	**(483)**	**70,029**	69,845	1,533	(51)	71,327
Total	**$ 69,425**	**$ 1,087**	**$ (483)**	**$ 70,029**	$ 69,845	$ 1,533	$ (51)	$ 71,327
Securities Available-for-Sale								
U.S. treasuries:								
After 5 years to 10 years	**$ 4,963**	**$**	**$ (200)**	**$ 4,763**	$ 4,960	$	$ (22)	$ 4,938
	4,963		**(200)**	**4,763**	4,960		(22)	4,938
U.S. government corporations and agencies:								
Within 1 year	**5,998**	**51**		**6,049**	1,517	9		1,526
After 1 year to 5 years	**153,254**	**490**	**(1,649)**	**152,095**	148,120	1,509	(70)	149,559
After 5 years to 10 years	**15,885**		**(608)**	**15,277**	20,953	109	(5)	21,057

	175,137	**541**	**(2,257)**	**173,421**	170,590	1,627	(75)	172,142
State and political subdivisions:								
Within 1 year	**5,383**	**34**		**5,417**	4,607	75		4,682
After 1 year to 5 years	**3,925**	**40**	**(36)**	**3,929**	4,130	88	(19)	4,199
After 5 years to 10 years	**41,966**	**844**	**(562)**	**42,248**	36,499	1,245	(7)	37,737
Over 10 years	**66,555**	**2,098**	**(313)**	**68,340**	70,495	5,055		75,550
	117,829	**3,016**	**(911)**	**119,934**	115,731	6,463	(26)	122,168
Residential mortgage-backed securities:								
After 5 years to 10 years	**22,236**	**468**	**(73)**	**22,631**	20,140	777		20,917
Over 10 years	**44,750**	**617**	**(75)**	**45,292**	66,962	2,861		69,823
	66,986	**1,085**	**(148)**	**67,923**	87,102	3,638		90,740

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(Dollars in thousands)	At June 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
Collateralized mortgage obligations:								
After 1 year to 5 years	**155**	**3**		**158**	41			41
After 5 years to 10 years					626	7		633
Over 10 years	**10,335**	**74**	**(93)**	**10,316**	25,698	645	(5)	26,338
	10,490	**77**	**(93)**	**10,474**	26,365	652	(5)	27,012
Corporate bonds:								
After 1 year to 5 years	**10,081**	**23**	**(207)**	**9,897**	4,993	21		5,014
After 5 years to 10 years	**22,179**		**(1,068)**	**21,111**				
	32,260	**23**	**(1,275)**	**31,008**	4,993	21		5,014
Money market mutual funds:								
Within 1 year	**5,500**			**5,500**	4,878			4,878
	5,500			**5,500**	4,878			4,878
Equity securities:								
No stated maturity	**2,161**	**867**	**(16)**	**3,012**	2,279	696	(133)	2,842
	2,161	**867**	**(16)**	**3,012**	2,279	696	(133)	2,842
Total	**$ 415,326**	**$ 5,609**	**$ (4,900)**	**$ 416,035**	$ 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 June 30, 2013 and December 31, 2012 do not represent other-than-temporary impairments.

Securities with a carrying value of $305.7 million and $368.2 million at June 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 six months ended June 30, 2013 and 2012:

(Dollars in thousands)	Six Months Ended June 30, 2013	2012
Securities available-for-sale:		
Proceeds from sales	$ 35,415	$ 57,162
Gross realized gains on sales	1,524	1,178
Gross realized losses on sales		896
Tax expense related to net realized gains on sales	533	99

The Corporation realized other-than-temporary impairment charges to noninterest income of $0 thousand and $9 thousand, respectively, on its equity portfolio during the six months ended June 30, 2013 and 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 June 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, 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

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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 has not recognized any other-than-temporary impairment charges on debt securities for the six months ended June 30, 2013 and 2012.

At June 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 amount of securities that were in an unrealized loss position at June 30, 2013 and December 31, 2012:

	At June 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	**$ 4,763**	**$ (200)**	**$**	**$**	**$ 4,763**	**$ (200)**
U.S. government corporations and agencies	**111,718**	**(2,257)**			**111,718**	**(2,257)**
State and political subdivisions	**25,144**	**(911)**			**25,144**	**(911)**
Residential mortgage-backed securities	**25,535**	**(148)**			**25,535**	**(148)**
Collateralized mortgage obligations	**6,602**	**(93)**			**6,602**	**(93)**
Corporate bonds	**45,778**	**(1,758)**			**45,778**	**(1,758)**
Equity securities	**1,064**	**(16)**			**1,064**	**(16)**
Total	**$ 220,604**	**$ (5,383)**	**$**	**$**	**$ 220,604**	**$ (5,383)**

	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 June 30, 2013	At December 31, 2012
Commercial, financial and agricultural	**$ 439,907**	$ 468,421
Real estate-commercial	**580,400**	530,122
Real estate-construction	**84,027**	91,250
Real estate-residential secured for business purpose	**32,329**	35,179
Real estate-residential secured for personal purpose	**144,002**	146,526
Real estate-home equity secured for personal purpose	**84,109**	82,727

Loans to individuals	**43,598**	43,780
Lease financings	**91,621**	83,857
Total loans and leases held for investment, net of deferred income	**$ 1,499,993**	$ 1,481,862
Unearned lease income, included in the above table	**$ (13,437)**	$ (12,355)
Net deferred costs (fees), included in the above table	**$ 2,205**	$ 1,432
Overdraft deposits included in the above table	**$ 161**	$ 128

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

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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 June 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 June 30, 2013							
Commercial, financial and agricultural	**$ 949**	**$ 274**	**$**	**$ 1,223**	**$ 435,538**	**$ 439,907**	**$**
Real estate commercial real estate and construction:							
Commercial real estate	**1,391**			**1,391**	**560,112**	**580,400**	
Construction					**68,453**	**84,027**	
Real estate residential and home equity:							
Residential secured for business purpose	**353**	**37**		**390**	**31,770**	**32,329**	
Residential secured for personal purpose	**2,176**	**155**	**221**	**2,552**	**140,720**	**144,002**	**221**
Home equity secured for personal purpose	**459**	**77**	**74**	**610**	**83,499**	**84,109**	**74**
Loans to individuals	**519**	**276**	**190**	**985**	**42,575**	**43,598**	**190**
Lease financings	**1,010**	**324**	**36**	**1,370**	**89,902**	**91,621**	**36**
Total	**$ 6,857**	**$ 1,143**	**$ 521**	**$ 8,521**	**$ 1,452,569**	**$ 1,499,993**	**$ 521**

* Excludes impaired loans and leases.

(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	$ 416	$ 95	$	$ 511	$ 464,588	$ 468,421	$
Real estate commercial real estate and construction:							
Commercial real estate	1,173			1,173	504,086	530,122	
Construction	306			306	74,959	91,250	
Real estate residential and home equity:							
Residential secured for business purpose	1,663			1,663	33,344	35,179	
Residential secured for personal purpose	1,617	152		1,769	143,953	146,526	
Home equity secured for personal purpose	276	64	54	394	82,333	82,727	54
Loans to individuals	551	115	347	1,013	42,729	43,780	347
Lease financings	1,001	273	40	1,314	82,138	83,857	40

Total	$ 7,003	$ 699	$ 441	$ 8,143	$ 1,428,130	$ 1,481,862	$ 441

* Excludes impaired loans and leases.

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Nonaccrual and Troubled Debt Restructured Loans and Lease Modifications

The following presents, by class of loans and leases, nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) and accruing troubled debt restructured loans and lease modifications at June 30, 2013 and December 31, 2012:

	At June 30, 2013			At December 31, 2012		
(Dollars in thousands)	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Total Impaired Loans and Leases	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Total Impaired Loans and Leases*
Commercial, financial and agricultural	**$ 1,708**	**$ 1,438**	**$ 3,146**	$ 2,842	$ 480	$ 3,322
Real estate commercial real estate and construction:						
Commercial real estate	**8,726**	**10,171**	**18,897**	14,340	10,523	24,863
Construction	**13,531**	**2,043**	**15,574**	13,588	2,397	15,985
Real estate residential and home equity:						
Residential secured for business purpose	**169**		**169**	172		172
Residential secured for personal purpose	**730**		**730**	804		804
Loans to individuals		**38**	**38**		38	38
Lease financings	**343**	**6**	**349**	386	19	405
Total	**$ 25,207**	**$ 13,696**	**$ 38,903**	$ 32,132	$ 13,457	$ 45,589

* Includes non-accrual troubled debt restructured loans and lease modifications of $503 thousand and $579 thousand at June 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 June 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

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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	
	At June 30, 2013	**At December 31, 2012**	**At June 30, 2013**	**At December 31, 2012**	**At June 30, 2013**	**At December 31, 2012**	**At June 30, 2013**	**At December 31, 2012**
Grade:								
1. Cash secured/ 2. Fully secured	**$ 851**	$ 2,263	**$**	$	**$**	$	**$**	$
3. Strong	**6,106**	5,227	**9,502**	9,591	**6,241**	3,907		
4. Satisfactory	**38,401**	40,747	**21,123**	25,837	**1,701**	1,783	**113**	335
5. Acceptable	**243,168**	260,042	**353,806**	321,194	**31,900**	26,331	**23,593**	22,764
6. Pre-watch	**105,622**	106,436	**140,034**	110,476	**27,942**	42,190	**4,412**	8,458
7. Special Mention	**23,053**	31,825	**13,415**	16,187		548	**1,902**	288
8. Substandard	**22,706**	21,881	**42,520**	45,844	**16,243**	16,491	**2,309**	3,334
9. Doubtful				993				
10. Loss								
Total	**$ 439,907**	$ 468,421	**$ 580,400**	$ 530,122	**$ 84,027**	$ 91,250	**$ 32,329**	$ 35,179

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 non-accrual 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.

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

(Dollars in thousands)	Real Estate Residential Secured for Personal Purpose		Real Estate Home Equity Secured for Personal Purpose		Loans to individuals		Lease Financing	
	At June 30, 2013	**At December 31, 2012**	**At June 30, 2013**	**At December 31, 2012**	**At June 30, 2013**	**At December 31, 2012**	**At June 30, 2013**	**At December 31, 2012**
Performing	**$ 143,051**	$ 145,722	**$ 84,035**	$ 82,673	**$ 43,370**	$ 43,395	**$ 91,236**	$ 83,412
Nonperforming	**951**	804	**74**	54	**228**	385	**385**	445
Total	**$ 144,002**	$ 146,526	**$ 84,109**	$ 82,727	**$ 43,598**	$ 43,780	**$ 91,621**	$ 83,857

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.

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.

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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 six months ended June 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 June 30, 2013								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,883**	**$ 8,032**	**$ 570**	**$ 792**	**$ 628**	**$ 1,358**	**$ 1,959**	**$ 25,222**
Charge-offs	**(90)**	**(3,691)**	**(24)**	**(23)**	**(224)**	**(267)**	**N/A**	**(4,319)**
Recoveries	**39**	**42**		**1**	**78**	**209**	**N/A**	**369**
(Recovery of provision) provision	**(437)**	**4,279**	**40**	**314**	**211**	**(88)**	**(873)**	**3,446**
Ending balance	**$ 11,395**	**$ 8,662**	**$ 586**	**$ 1,084**	**$ 693**	**$ 1,212**	**$ 1,086**	**$ 24,718**
Three Months Ended June 30, 2012								
Reserve for loan and lease losses:								
Beginning balance	$ 11,701	$ 13,352	$ 948	$ 732	$ 704	$ 1,160	$ 2,000	$ 30,597
Charge-offs	(1,458)	(133)		(2)	(119)	(310)	N/A	(2,022)
Recoveries	362	44	3	1	26	148	N/A	584
Provision (recovery of provision)	1,416	(947)	(117)	153	108	163	567	1,343
Ending balance	$ 12,021	$ 12,316	$ 834	$ 884	$ 719	$ 1,161	$ 2,567	$ 30,502

(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
Six Months Ended June 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	**(1,161)**	**(4,073)**	**(74)**	**(27)**	**(404)**	**(426)**	**N/A**	**(6,165)**
Recoveries	**87**	**48**	**8**	**3**	**112**	**359**	**N/A**	**617**
Provision (recovery of provision)	**875**	**5,180**	**13**	**128**	**306**	**(47)**	**(935)**	**5,520**
Ending balance	**$ 11,395**	**$ 8,662**	**$ 586**	**$ 1,084**	**$ 693**	**$ 1,212**	**$ 1,086**	**$ 24,718**
Six Months Ended June 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	(3,165)	(1,675)		(2)	(240)	(646)	N/A	(5,728)
Recoveries	415	140	55	3	57	247	N/A	917
Provision (recovery of provision)	3,509	534	(44)	148	172	216	908	5,443
Ending balance	$ 12,021	$ 12,316	$ 834	$ 884	$ 719	$ 1,161	$ 2,567	$ 30,502

N/A Not applicable

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(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 June 30, 2013								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 230**	**$**	**$**	**$**	**$**	**$**	**$ N/A**	**$ 230**
Ending balance: collectively evaluated for impairment	**11,165**	**8,662**	**586**	**1,084**	**693**	**1,212**	**1,086**	**24,488**
Total ending balance	**$ 11,395**	**$ 8,662**	**$ 586**	**$ 1,084**	**$ 693**	**$ 1,212**	**$ 1,086**	**$ 24,718**
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	**$ 3,146**	**$ 34,471**	**$ 169**	**$ 730**	**$ 38**	**$**		**$ 38,554**
Ending balance: collectively evaluated for impairment	**436,761**	**629,956**	**32,160**	**227,381**	**43,560**	**91,621**		**1,461,439**
Total ending balance	**$ 439,907**	**$ 664,427**	**$ 32,329**	**$ 228,111**	**$ 43,598**	**$ 91,621**		**$ 1,499,993**

(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 June 30, 2012								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 432	$	$	$	$	$	$ N/A	$ 432
Ending balance: collectively evaluated for impairment	11,589	12,316	834	884	719	1,161	2,567	30,070
Total ending balance	$ 12,021	$ 12,316	$ 834	$ 884	$ 719	$ 1,161	$ 2,567	$ 30,502
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 5,647	$ 37,545	$ 177	$ 312	$ 49	$		$ 43,730
Ending balance: collectively evaluated for impairment	492,308	559,647	31,920	218,601	43,988	75,255		1,421,719
Total ending balance	$ 497,955	$ 597,192	$ 32,097	$ 218,913	$ 44,037	$ 75,255		$ 1,465,449

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 June 30, 2013 and December 31, 2012:

(Dollars in thousands)	At June 30, 2013 Recorded Investment	At June 30, 2013 Unpaid Principal Balance	At June 30, 2013 Related Allowance	At December 31, 2012 Recorded Investment	At December 31, 2012 Unpaid Principal Balance	At December 31, 2012 Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	**$ 2,504**	**$ 4,082**		$ 2,646	$ 4,504	
Real estate commercial real estate	**18,897**	**28,269**		24,863	30,991	
Real estate construction	**15,574**	**17,594**		15,985	17,959	
Real estate residential secured for business purpose	**169**	**181**		172	184	
Real estate residential secured for personal purpose	**730**	**730**		804	804	
Loans to individuals	**38**	**55**		38	55	
Total impaired loans with no allowance recorded	**$ 37,912**	**$ 50,911**		$ 44,508	$ 54,497	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 642**	**$ 702**	**$ 230**	$ 676	$ 717	$ 208
Total impaired loans with an allowance recorded	**$ 642**	**$ 702**	**$ 230**	$ 676	$ 717	$ 208

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(Dollars in thousands)	At June 30, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	At December 31, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
Total impaired loans:						
Commercial, financial and agricultural	**$ 3,146**	**$ 4,784**	**$ 230**	$ 3,322	$ 5,221	$ 208
Real estate commercial real estate	**18,897**	**28,269**		24,863	30,991	
Real estate construction	**15,574**	**17,594**		15,985	17,959	
Real estate residential secured for business purpose	**169**	**181**		172	184	
Real estate residential secured for personal purpose	**730**	**730**		804	804	
Loans to individuals	**38**	**55**		38	55	
Total impaired loans	**$ 38,554**	**$ 51,613**	**$ 230**	$ 45,184	$ 55,214	$ 208

The following presents by class of loans, the average recorded investment in impaired loans and an analysis of interest on impaired loans:

(Dollars in thousands)	Three Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Three Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 2,469**	**$ 8**	**$ 23**	$ 6,011	$ 31	$ 60
Real estate commercial real estate	**21,434**	**147**	**191**	19,863	44	257
Real estate construction	**15,675**	**28**	**185**	16,639	35	190
Real estate residential secured for business purpose	**169**		**2**	161		2
Real estate residential secured for personal purpose	**751**		**12**	185		3
Real estate home equity secured for personal purpose	**6**					
Loans to individuals	**38**	**1**		49	2	
Total	**$ 40,542**	**$ 184**	**$ 413**	$ 42,908	$ 112	$ 512

* Includes interest income recognized on accruing troubled debt restructured loans of $184 thousand and $109 thousand for the three months ended June 30, 2013 and 2012, respectively.

(Dollars in thousands)	Six Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Six Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 2,731**	**$ 16**	**$ 62**	$ 5,596	$ 33	$ 152
Real estate commercial real estate	**22,732**	**302**	**416**	20,421	87	526
Real estate construction	**15,758**	**56**	**369**	16,250	52	385

Real estate residential secured for business purpose	**178**		**5**	140		3
Real estate residential secured for personal purpose	**773**		**24**	130		4
Real estate home equity secured for personal purpose	**3**			4		
Loans to individuals	**42**	**2**		49	3	
Total	**$ 42,217**	**$ 376**	**$ 876**	$ 42,590	$ 175	$ 1,070

* Includes interest income recognized on accruing troubled debt restructured loans of $370 thousand and $167 thousand for the six months ended June 30, 2013 and 2012, respectively.

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Troubled Debt Restructured Loans

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

(Dollars in thousands)	Three Months Ended June 30, 2013 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Three Months Ended June 30, 2012 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**	**$**	1	$ 135	$ 135	$
Real estate commercial real estate					1	175	175	
Total	**1**	**$ 1,000**	**$ 1,000**	**$**	2	$ 310	$ 310	$
Nonaccrual Troubled Debt Restructured Loans:								
Total		**$**	**$**	**$**		$	$	$

(Dollars in thousands)	Six Months Ended June 30, 2013 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Six Months Ended June 30, 2012 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**	**$**	8	$ 1,672	$ 1,672	$
Real estate commercial real estate					4	1,009	1,009	
Real estate construction					2	1,330	1,330	
Total	**1**	**$ 1,000**	**$ 1,000**	**$**	14	$ 4,011	$ 4,011	$
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 were primarily comprised of loans on which interest is being accrued under the restructured terms, and the loans were current or less than ninety days past due.

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 six months ended June 30, 2013 and 2012:

(Dollars in thousands)	Three Months Ended June 30, 2013									
	Interest Only Term Extension		Temporary Payment Reduction		Temporary Payment Suspension		Maturity Date Extension		Total Concessions Granted	
	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**
Total	**1**	**$ 1,000**		**$**		**$**		**$**	**1**	**$ 1,000**
Nonaccrual Troubled Debt Restructured Loans:										
Total		**$**		**$**		**$**		**$**		**$**

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	Three Months Ended June 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		$		$		$	1	$ 135	1	$ 135
Real estate commercial real estate							1	175	1	175
Total		$		$		$	2	$ 310	2	$ 310
Nonaccrual Troubled Debt Restructured Loans:										
Total		$		$		$		$		$

	Six Months Ended June 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**
Total	**1**	**$ 1,000**		**$**		**$**		**$**	**1**	**$ 1,000**
Nonaccrual Troubled Debt Restructured Loans:										
Total		**$**		**$**		**$**		**$**		**$**

	Six Months Ended June 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		$	1	$ 135	8	$ 1,672
Real estate commercial real estate	2	647	1	187			1	175	4	1,009
Real estate construction	2	1,330							2	1,330
Total	8	$ 3,293	4	$ 408		$	2	$ 310	14	$ 4,011
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

The following presents, by class of loans, information regarding accruing and nonaccrual troubled debt restructured loans, for which there was a payment default during the three and six month periods ended June 30, 2013 and 2012 and within twelve months of the restructuring date:

	Three Months Ended June 30,				Six Months Ended June 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		$		$	3	$ 230		$
Total		$		$	3	$ 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 $6.5 million and $4.2 million at June 30, 2013 and December 31, 2012, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 5.0% to 10.0% at June 30, 2013 and December 31, 2012.

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

(Dollars in thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Beginning of period	**$ 4,723**	$ 3,067	**$ 4,152**	$ 2,739
Servicing rights capitalized	**871**	609	**1,639**	1,036
Amortization of servicing rights	**(381)**	(373)	**(812)**	(684)
Changes in valuation allowance	**14**	(27)	**248**	185
End of period	**$ 5,227**	$ 3,276	**$ 5,227**	$ 3,276
Mortgage loans serviced for others	**$ 705,999**	$ 491,536	**$ 705,999**	$ 491,536

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

(Dollars in thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Valuation allowance, beginning of period	**$ (263)**	$ (581)	**$ (497)**	$ (793)
Additions		(27)		
Reductions	**14**		**248**	185
Direct write-downs				
Valuation allowance, end of period	**$ (249)**	$ (608)	**$ (249)**	$ (608)

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	$ 423
2014	769
2015	654
2016	548
2017	445
Thereafter	2,388

Note 6. Income Taxes

At June 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 June 30, 2013, the Corporation s tax years 2009 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.

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

Components of net periodic benefit cost were as follows:

	Three Months Ended June 30,			
	2013	**2012**	**2013**	**2012**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 155**	$ 155	**$ 25**	$ 20
Interest cost	**426**	432	**27**	29
Expected return on plan assets	**(709)**	(637)		
Amortization of net loss	**343**	287	**6**	5
Accretion of prior service cost	**(59)**	(59)	**(4)**	(5)
Net periodic benefit cost	**$ 156**	$ 178	**$ 54**	$ 49

	Six Months Ended June 30,			
	2013	**2012**	**2013**	**2012**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 311**	$ 313	**$ 46**	$ 41
Interest cost	**857**	863	**56**	59
Expected return on plan assets	**(1,264)**	(1,128)		
Amortization of net loss	**629**	578	**12**	11
Accretion of prior service cost	**(118)**	(118)	**(9)**	(10)
Net periodic benefit cost	**$ 415**	$ 508	**$ 105**	$ 101

The Corporation expects to make a contribution of $2.0 million to its qualified retirement plan during the third quarter of 2013 and may make additional contributions during 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 six months ended June, 2013, the Corporation contributed $20 thousand to its retirement plans and $40 thousand to its other postretirement plans. During the six months ended June 30, 2013, $852 thousand has been paid to participants from the retirement plans and $40 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, adjusted for expectations of long-term asset returns.

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. At June 30, 2013, 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, or 3.33%, and a maturity date of October 7, 2033. The Trust Preferred Securities have 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 are expected to remain 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 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 over the remainder of 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.

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Note 9. Earnings Per Share

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

(Dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Numerator for basic and diluted earnings per share income available to common shareholders	**$ 4,830**	$ 4,763	**$ 10,228**	$ 10,026
Denominator for basic earnings per share weighted-average shares outstanding	**16,696**	16,770	**16,742**	16,760
Effect of dilutive securities employee stock options and awards	**51**	3	**54**	3
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**16,747**	16,773	**16,796**	16,763
Basic earnings per share	**$ 0.29**	$ 0.28	**$ 0.61**	$ 0.60
Diluted earnings per share	**$ 0.29**	$ 0.28	**$ 0.61**	$ 0.60
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	**668**	603	**661**	589

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	**(7,884)**	**1,241**	**334**	**(6,309)**
Balance, June 30, 2013	**$ 460**	**$**	**$ (13,689)**	**$ (13,229)**
Balance, December 31, 2011	$ 7,306	$ (932)	$ (12,475)	$ (6,101)
Net Change	159	(253)	300	206
Balance, June 30, 2012	$ 7,465	$ (1,185)	$ (12,175)	$ (5,895)

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The following table illustrates the amounts reclassified out of each component of accumulated comprehensive (loss) income for the three and six months ended June 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 June 30,		Six Months Ended June 30,		
(Dollars in thousands)	2013	2012	2013	2012	
Net unrealized holding (losses) gains on available-for-sale investment securities					
	$ 1,339	$ 24	**$ 1,524**	$ 282	Net gain on sales of investment securities
		(6)		(9)	Other-than-temporary impairment on equity securities
	1,339	18	**1,524**	273	Total before tax
	(468)	(7)	**(533)**	(96)	Tax expense
	$ 871	$ 11	**$ 991**	$ 177	Net of tax
Cash flow hedge derivative:					
	$ (1,866)	$	**$ (1,866)**	$	Net loss on interest rate swap
	(1,866)		**(1,866)**		Total before tax
	653		**653**		Tax benefit
	$ (1,213)	$	**$ (1,213)**	$	Net of tax
Defined benefit pension plans:					
Amortization of net loss included in net periodic pension costs*	**$ (349)**	$ (292)	**$ (641)**	$ (589)	
Accretion of prior service cost included in net periodic pension costs*	**63**	64	**127**	128	
	(286)	(228)	**(514)**	(461)	Total before tax
	101	80	**180**	161	Tax benefit
	$ (185)	$ (148)	**$ (334)**	$ (300)	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.

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The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at June 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 June 30, 2013					
Interest rate locks with customers	**$ 38,348**		**$**	Other Liabilities	**$ 64**
Forward loan sale commitments	**42,001**	Other Assets	**772**		
Total	**$ 80,349**		**$ 772**		**$ 64**
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 June 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 June 30, 2013					
Interest rate swap cash flow hedge	**$**		**$**	Other Liabilities	**$**
Total	**$**		**$**		**$**
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 six months ended June 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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest rate locks with customers	Net (loss) gain on mortgage banking activities	**$ (1,549)**	$ 725	**$ (1,611)**	$ 947
Forward loan sale commitments	Net gain (loss) on mortgage banking activities	**994**	(483)	**826**	(110)
Total		**$ (555)**	$ 242	**$ (785)**	$ 837

For the three and six months ended June 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 June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Interest rate swap cash flow hedge loss on termination	Net loss on termination of interest rate swap	**$ (1,866)**	$	**$ (1,866)**	$
Interest rate swap cash flow hedge interest payments	Interest expense	**9**	110	**124**	218
Interest rate swap cash flow hedge ineffectiveness	Interest expense				
Net loss		**$ (1,857)**	$ 110	**$ (1,742)**	$ 218

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At June 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 June 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.

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 June 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 June 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.

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

	At June 30, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$ 4,763	$	$	$ 4,763
U.S. government corporations and agencies		173,421		173,421
State and political subdivisions		119,934		119,934
Residential mortgage-backed securities		67,923		67,923
Collateralized mortgage obligations		10,474		10,474
Corporate bonds		31,008		31,008
Money market mutual funds	5,500			5,500
Equity securities	3,012			3,012
Total available-for-sale securities	13,275	402,760		416,035
Forward loan sale commitments		772		772
Total assets	$ 13,275	$ 403,532	$	$ 416,807
Liabilities:				
Interest rate locks with customers	$	$ 64	$	$ 64
Contingent consideration liability			465	465
Total liabilities	$	$ 64	$ 465	$ 529

	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 June 30, 2013 and 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 six months ended June 30, 2013 and 2012:

	Six Months Ended June 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 June 30, 2013**
Javers Group	**$ 903**	**$**	**$**	**$ (903)**	**$**
John T. Fretz Insurance Agency, Inc.		**454**		**11**	**465**
Total contingent consideration liability	**$ 903**	**$ 454**	**$**	**$ (892)**	**$ 465**

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

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

		At June 30, 2013		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Impaired loans held for investment	**$**	**$**	**$ 38,324**	**$ 38,324**
Loans held for sale**		**3,609**		**3,609**
Total	**$**	**$ 3,609**	**$ 38,324**	**$ 41,933**

		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 June 30, 2013, fair value was greater than cost.

** The fair value was lower than cost, therefore written down to fair value at June 30, 2013. At December 31, 2012, 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 June 30, 2013 and December 31, 2012. The disclosed fair values are classified using the fair value hierarchy.

			At June 30, 2013		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Carrying Amount**
Assets:					
Cash and short-term interest-earning assets	**$ 86,554**	**$**	**$**	**$ 86,554**	**$ 86,554**
Held-to-maturity securities		**70,029**		**70,029**	**69,425**
Net loans and leases held for investment			**1,457,116**	**1,457,116**	**1,436,951**
Mortgage servicing rights		**6,476**		**6,476**	**5,227**

Other real estate owned		1,650		1,650	1,650
Total assets	$ 86,554	$ 78,155	$ 1,457,116	$ 1,621,825	$ 1,599,807
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$ 1,574,035	$	$	$ 1,574,035	$ 1,574,035
Time deposits		297,283		297,283	299,016
Total deposits	1,574,035	297,283		1,871,318	1,873,051
Short-term borrowings		43,474		43,474	45,388
Long-term borrowings		20,583		20,583	20,619
Total liabilities	$ 1,574,035	$ 361,340	$	$ 1,935,375	$ 1,939,058
Off-Balance-Sheet:					
Commitments to extend credit	$	$ (1,318)	$	$ (1,318)	$

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	At December 31, 2012				
(Dollars in thousands)	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. At June 30, 2013, loans held for sale had a carrying amount of $3.6 million with a negative valuation allowance $79 thousand. There were no valuation adjustments for loans held for sale at 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 June 30, 2013, impaired loans held for investment had a carrying amount of $38.6 million with a valuation allowance of $230 thousand. At December 31, 2012, impaired loans held for investment had a carrying amount of $45.2 million with a valuation allowance of $208 thousand.

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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 June 30, 2013, mortgage servicing rights had a carrying amount of $5.5 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 six months ended June 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 three months ended March 31, 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.

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

(Dollars in thousands)	Severance
Accrued at January 1, 2013	$
Restructuring charge	437
Payments	(379)

Accrued at June 30, 2013	$	58

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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 similar expressions are intended to identify forwar 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.

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Executive Overview

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

	Three Months Ended June 30,		Change	Six Months Ended June 30,	Change
	2013	2012	Amount		