

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)

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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. 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). 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

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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
(Title of Class)

16,678,341
(Number of shares outstanding at July 31, 2013)

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****UNIVEST CORPORATION OF PENNSYLVANIA****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)	(UNAUDITED) At 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

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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.

Table of Contents**UNIVEST CORPORATION OF PENNSYLVANIA****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	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

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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.

Table of Contents**UNIVEST CORPORATION OF PENNSYLVANIA****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

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

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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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(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)

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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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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:

(Dollars in thousands)	At June 30, 2013				At December 31, 2012			
	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

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	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				At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	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

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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:

(Dollars in thousands)	At June 30, 2013					
	Less than Twelve Months		Twelve Months or Longer		Total	
	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)

(Dollars in thousands)	At December 31, 2012					
	Less than Twelve Months		Twelve Months or Longer		Total	
	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

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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.

Table of Contents**Age Analysis of Past Due Loans and Leases**

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases greater than 90 days past due which are accruing interest at 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 Real estate commercial real estate and construction:	\$ 949	\$ 274	\$	\$ 1,223	\$ 435,538	\$ 439,907	\$
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 Real estate commercial real estate and construction:	\$ 416	\$ 95	\$	\$ 511	\$ 464,588	\$ 468,421	\$
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

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Total	\$ 7,003	\$ 699	\$ 441	\$ 8,143	\$ 1,428,130	\$ 1,481,862	\$ 441
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* Excludes impaired loans and leases.

Table of Contents**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		
	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*
(Dollars in thousands)						
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

Table of Contents**Commercial Credit Exposure Credit Risk by Internally Assigned Grades**

(Dollars in thousands)	Commercial, Financial and Agricultural				Real Estate Commercial		Real Estate Residential Secured for Business Purpose	
	At		At		At		At	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	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		At		At		At	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	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.

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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

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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.

Table of Contents**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:

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

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

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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 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 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

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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			At December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	\$ 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			At December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	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			Three Months Ended June 30, 2012		
	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
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			Six Months Ended June 30, 2012		
	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
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

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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.

Table of Contents**Troubled Debt Restructured Loans**

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

	Three Months Ended June 30, 2013				Three Months Ended June 30, 2012			
	Pre- Restructuring Number of Loans	Post- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Related Allowance	Pre- Restructuring Number of Loans	Post- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Related Allowance
(Dollars in thousands)								
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		\$	\$	\$		\$	\$	\$

	Six Months Ended June 30, 2013				Six Months Ended June 30, 2012			
	Pre- Restructuring Number of Loans	Post- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Related Allowance	Pre- Restructuring Number of Loans	Post- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Related Allowance
(Dollars in thousands)								
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:

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Three Months Ended June 30, 2013

	Interest Only Term		Temporary Payment		Temporary Payment		Maturity Date		Total Concessions	
	Extension		Reduction		Suspension		Extension		Granted	
	No.		No.		No.		No.		No.	
	of	Amount	of	Amount	of	Amount	of	Amount	of	Amount
	Loans		Loans		Loans		Loans		Loans	

(Dollars in thousands)

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		Temporary Payment		Temporary Payment		Maturity Date		Total Concessions	
	Extension No. of Loans	Amount	Reduction No. of Loans	Amount	Suspension No. of Loans	Amount	Extension No. of Loans	Amount	Granted No. of Loans	Amount
(Dollars in thousands)										
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		\$		\$		\$		\$		\$
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	Six Months Ended June 30, 2013									
	Interest Only Term		Temporary Payment		Temporary Payment		Maturity Date		Total Concessions	
	Extension No. of Loans	Amount	Reduction No. of Loans	Amount	Suspension No. of Loans	Amount	Extension No. of Loans	Amount	Granted No. of Loans	Amount
(Dollars in thousands)										
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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	Six Months Ended June 30, 2012									
	Interest Only Term		Temporary Payment		Temporary Payment		Maturity Date		Total Concessions	
	Extension No. of Loans	Amount	Reduction No. of Loans	Amount	Suspension No. of Loans	Amount	Extension No. of Loans	Amount	Granted No. of Loans	Amount
(Dollars in thousands)										
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

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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,		Six Months Ended June 30,	
	2013	2012	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,		Six Months Ended June 30,	
	2013	2012	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

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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:

(Dollars in thousands)	Three Months Ended June 30,			
	2013	2012	2013	2012
	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

(Dollars in thousands)	Six Months Ended June 30,			
	2013	2012	2013	2012
	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.

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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.

Table of Contents**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,		Six Months Ended June 30,	
	2013	2012	2013	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

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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	Fair Value	Derivative Liabilities Balance Sheet Classification	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	Fair Value	Derivative Liabilities Balance Sheet Classification	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,		Six Months Ended June 30,	
		2013	2012	2013	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

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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,		Six Months Ended June 30,	
		2013	2012	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 not have 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.

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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:

(Dollars in thousands)	At June 30, 2013			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
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

(Dollars in thousands)	At December 31, 2012			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
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

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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:

(Dollars in thousands)	Balance at December 31, 2012	Six Months Ended June 30, 2013			Balance at June 30, 2013
		Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	
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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(Dollars in thousands)	Six Months Ended June 30, 2012				Balance at June 30, 2012
	Balance at December 31, 2011	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	
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:

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

(Dollars in thousands)	At December 31, 2012			Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
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.

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

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

Off-Balance-Sheet:

Commitments to extend credit \$ (1,286) \$ (1,286) \$

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

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

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

Loans held for sale: The fair value of the Corporation's loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation's loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. 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 Perkasio 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)

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

Operating, legal and regulatory risks

Economic, political and competitive forces impacting various lines of business

The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful

Volatility in interest rates

Other risks and uncertainties, including those occurring in the U.S. and world financial systems

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These forward-looking statements speak only at the date of the report. The Corporation expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Corporation's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Policies

Management, in order to prepare the Corporation's financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that affect the amounts reported in the Corporation's financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies. For more information on these critical accounting policies, please refer to the Corporation's 2012 Annual Report on Form 10-K.

General

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

The Bank is engaged in the general commercial banking business and provides a full range of banking and trust services to its customers. The Bank is the parent company of Delview, Inc., which is the parent company of Univest Insurance, Inc., an independent insurance agency, and Univest Investments, Inc., a full-service broker-dealer and investment advisory firm. The Bank is also the parent company of Univest Capital, Inc., an equipment financing business, and TCG Investment Advisory, a registered investment advisor which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals,

municipalities and businesses throughout its markets of operation.

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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	Percent	2013	2012	Amount	Percent
Net income	\$ 4,830	\$ 4,763	\$ 67	1%	\$ 10,228	\$ 10,026	\$ 202	2%
Net income per share:								
Basic	\$ 0.29	\$ 0.28	\$ 0.01	4	\$ 0.61	\$ 0.60	\$ 0.01	2
Diluted	0.29	0.28	0.01	4	0.61	0.60	0.01	2
Return on average assets	0.86%	0.88%	(2) BP	(2)	0.92%	0.93%	(1) BP	(1)
Return on average equity	6.81%	6.90%	(9) BP	(1)	7.24%	7.30%	(6) BP	(1)

(Dollars in thousands, except per share data)

Net interest income on a tax-equivalent basis for the three months ended June 30, 2013 decreased \$107 thousand, or 1% compared to the same period in 2012. The second quarter 2013 net interest margin on a tax-equivalent basis was 3.84%, a decrease of 13 basis points from 3.97% for the second quarter of 2012. Net interest income on a tax-equivalent basis for the six months ended June 30, 2013 was down \$399 thousand or 1% compared to the same period in 2012. The tax equivalent net interest margin for the first six months of 2013 was 3.83% compared to 3.96% for the first six months of 2012.

The provision for loan and lease losses increased by \$2.1 million and \$77 thousand for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012.

Non-interest income increased \$3.0 million, or 37% and \$3.4 million, or 18% during the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. Non-interest expense increased \$650 thousand, or 3% and \$2.0 million, or 5% for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012.

Gross loans and leases grew \$18.1 million from December 31, 2012 and deposits increased \$7.7 million from December 31, 2012.

Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications decreased to \$25.2 million at June 30, 2013 compared to \$32.1 million at December 31, 2012 and \$36.8 million at June 30, 2012. Nonaccrual loans and leases as a percentage of total loans and leases held for investment were 1.68% at June 30, 2013 compared to 2.17% at December 31, 2012 and 2.51% at June 30, 2012. Net loan and lease charge-offs increased to \$4.0 million for the three months ended June 30, 2013 compared to \$1.4 million for the same period in the prior year. Net charge-offs for the six months ended June 30, 2013 increased to \$5.5 million compared to \$4.8 million for the same period in the prior year. Charge-offs occurred primarily in the commercial, financial and agricultural and commercial real estate categories.

On May 1, 2013, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of John T. Fretz Insurance Agency, Inc., a full-service property and casualty insurance agency providing solutions to both personal and commercial clients. The Corporation paid \$2.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period 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 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. As a result of the John T. Fretz Insurance Agency, Inc. acquisition, the Corporation recorded goodwill of \$1.3 million (inclusive of contingent consideration) and customer related intangibles of \$1.3 million.

During the second quarter of 2013, the Corporation repurchased 84 thousand shares of common stock at a cost of \$1.4 million under the board approved stock repurchase program. Shares available for future repurchases under the plan totaled 397 thousand at June 30, 2013. Total shares outstanding at June 30, 2013 were 16,683,009.

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

The Corporation earns its revenues primarily from the margins and fees it generates from the lending and depository services it provides as well as fee-based income from trust, insurance, mortgage banking and investment services to customers. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation is in a more asset sensitive position; despite increases during the second quarter of 2013, interest rates remain at historically low levels, however, the Corporation anticipates further increases in interest rates over the longer term, which it expects would benefit its net interest margin.

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

Results of Operations**Net Interest Income**

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation's revenue. Table 1 presents a summary of the Corporation's average balances, the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders' equity on a tax-equivalent basis for the three and six months ended June 30, 2013 and 2012. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders' equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Net interest income on a tax-equivalent basis for the three months ended June 30, 2013 decreased \$107 thousand, or 1% compared to the same period in 2012. The tax-equivalent net interest margin for the three months ended June 30, 2013 decreased 13 basis points to 3.84% from 3.97% for the three months ended June 30, 2012. Net interest income on a tax-equivalent basis for the six months ended June 30, 2013 decreased \$399 thousand, or 1% compared to the same period in 2012. The tax-equivalent net interest margin for the six months ended June 30, 2013 decreased 13 basis points to 3.83% from 3.96% for the six months ended June 30, 2012. The declines in net interest income and net interest margin from the comparable periods in the prior year were primarily due to the re-investment of maturing and called investment securities into lower yielding investments as a result of the lower interest rate environment and lower rates on commercial and residential real estate loans due to re-pricing and the competitive environment. The declines in net interest income and net interest margin were partially offset by favorable re-pricing of savings accounts, customer repurchase agreements and certificates of deposit along with maturities of higher yielding certificates of deposit.

Table of Contents**Table 1 Average Balances and Interest Rates Tax-Equivalent Basis**

(Dollars in thousands)	Three Months Ended June 30,					
	Average Balance	2013 Income/ Expense	Average Rate	Average Balance	2012 Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	\$ 41,903	\$ 46	0.44%	\$ 54,443	\$ 38	0.28%
U.S. government obligations	178,110	488	1.10	141,142	492	1.40
Obligations of states and political subdivisions	122,503	1,606	5.26	120,350	1,688	5.64
Other debt and equity securities	194,541	944	1.95	188,990	989	2.10
Total interest-earning deposits and investments	537,057	3,084	2.30	504,925	3,207	2.55
Commercial, financial and agricultural loans	403,490	4,355	4.33	442,385	4,786	4.35
Real estate commercial and construction loans	574,288	6,846	4.78	530,163	6,949	5.27
Real estate residential loans	252,443	2,436	3.87	249,456	2,597	4.19
Loans to individuals	42,295	601	5.70	43,931	624	5.71
Municipal loans and leases	137,382	1,743	5.09	137,165	1,881	5.52
Lease financings	68,411	1,571	9.21	57,175	1,457	10.25
Gross loans and leases	1,478,309	17,552	4.76	1,460,275	18,294	5.04
Total interest-earning assets	2,015,366	20,636	4.11	1,965,200	21,501	4.40
Cash and due from banks	61,669			37,518		
Reserve for loan and lease losses	(26,229)			(31,849)		
Premises and equipment, net	32,611			34,395		
Other assets	167,881			168,434		
Total assets	\$ 2,251,298			\$ 2,173,698		
Liabilities:						
Interest-bearing checking deposits	\$ 264,897	37	0.06	\$ 232,471	41	0.07
Money market savings	322,808	78	0.10	309,712	122	0.16
Regular savings	537,410	78	0.06	503,481	183	0.15
Time deposits	302,896	962	1.27	364,306	1,308	1.44
Total time and interest-bearing deposits	1,428,011	1,155	0.32	1,409,970	1,654	0.47
Short-term borrowings	100,632	15	0.06	108,233	156	0.58
Subordinated notes and capital securities	20,619	183	3.56	22,111	301	5.48
Total borrowings	121,251	198	0.65	130,344	457	1.41
Total interest-bearing liabilities	1,549,262	1,353	0.35	1,540,314	2,111	0.55
Demand deposits, non-interest bearing	384,089			316,471		
Accrued expenses and other liabilities	33,456			39,292		
Total liabilities	1,966,807			1,896,077		

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Shareholders Equity:		
Common stock	91,332	91,332
Additional paid-in capital	64,680	61,328
Retained earnings and other equity	128,479	124,961
Total shareholders equity	284,491	277,621
Total liabilities and shareholders equity	\$ 2,251,298	\$ 2,173,698
Net interest income	\$ 19,283	\$ 19,390
Net interest spread	3.76	3.85
Effect of net interest-free funding sources	0.08	0.12
Net interest margin	3.84%	3.97%
Ratio of average interest-earning assets to average interest-bearing liabilities	130.09%	127.58%

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(Dollars in thousands)	Six Months Ended June 30,					
	Average Balance	2013 Income/ Expense	Average Rate	Average Balance	2012 Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	\$ 41,231	\$ 81	0.40%	\$ 56,948	\$ 76	0.27%
U.S. government obligations	176,269	965	1.10	144,144	1,011	1.41
Obligations of states and political subdivisions	122,097	3,185	5.26	118,634	3,396	5.76
Other debt and equity securities	197,722	1,839	1.88	191,219	2,223	2.34
Total interest-earning deposits and investments	537,319	6,070	2.28	510,945	6,706	2.64
Commercial, financial and agricultural loans	420,865	9,031	4.33	441,646	9,528	4.34
Real estate commercial and construction loans	559,657	13,504	4.87	532,121	13,937	5.27
Real estate residential loans	254,926	4,891	3.87	248,375	5,202	4.21
Loans to individuals	42,537	1,197	5.67	44,214	1,254	5.70
Municipal loans and leases	135,924	3,459	5.13	135,530	3,702	5.49
Lease financings	67,251	3,128	9.38	56,911	2,829	10.00
Gross loans and leases	1,481,160	35,210	4.79	1,458,797	36,452	5.03
Total interest-earning assets	2,018,479	41,280	4.12	1,969,742	43,158	4.41
Cash and due from banks	50,929			36,237		
Reserve for loan and lease losses	(25,740)			(31,878)		
Premises and equipment, net	32,827			34,347		
Other assets	165,777			168,671		
Total assets	\$ 2,242,272			\$ 2,177,119		
Liabilities:						
Interest-bearing checking deposits	\$ 254,550	73	0.06	\$ 226,416	98	0.09
Money market savings	324,235	158	0.10	310,295	270	0.17
Regular savings	536,063	154	0.06	501,026	447	0.18
Time deposits	313,381	2,010	1.29	382,370	2,692	1.42
Total time and interest-bearing deposits	1,428,229	2,395	0.34	1,420,107	3,507	0.50
Short-term borrowings	101,533	32	0.06	113,244	262	0.47
Long-term debt				220	4	3.66
Subordinated notes and capital securities	20,799	472	4.58	22,298	605	5.46
Total borrowings	122,332	504	0.83	135,762	871	1.29
Total interest-bearing liabilities	1,550,561	2,899	0.38	1,555,869	4,378	0.57
Demand deposits, non-interest bearing	372,936			305,269		
Accrued expenses and other liabilities	33,754			39,635		
Total liabilities	1,957,251			1,900,773		
Shareholders Equity:						
Common stock	91,332			91,332		
Additional paid-in capital	64,700			61,365		
Retained earnings and other equity	128,989			123,649		

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Total shareholders' equity	285,021	276,346
Total liabilities and shareholders' equity	\$ 2,242,272	\$ 2,177,119
Net interest income	\$ 38,381	\$ 38,780
Net interest spread	3.74	3.84
Effect of net interest-free funding sources	0.09	0.12
Net interest margin	3.83%	3.96%
Ratio of average interest-earning assets to average interest-bearing liabilities	130.18%	126.60%

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.

Tax-equivalent amounts for the three and six months ended June 30, 2013 and 2012 have been calculated using the Corporation's federal applicable rate of 35%.

Table of Contents**Table 2 Analysis of Changes in Net Interest Income**

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the periods indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

(Dollars in thousands)	Three Months Ended June 30, 2013 Versus 2012			Six Months Ended June 30, 2013 Versus 2012		
	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	\$ (10)	\$ 18	\$ 8	\$ (25)	\$ 30	\$ 5
U.S. government obligations	114	(118)	(4)	200	(246)	(46)
Obligations of states and political subdivisions	30	(112)	(82)	95	(306)	(211)
Other debt and equity securities	28	(73)	(45)	72	(456)	(384)
Interest on deposits and investments	162	(285)	(123)	342	(978)	(636)
Commercial, financial and agricultural loans	(410)	(21)	(431)	(474)	(23)	(497)
Real estate commercial and construction loans	562	(665)	(103)	682	(1,115)	(433)
Real estate residential loans	32	(193)	(161)	130	(441)	(311)
Loans to individuals	(22)	(1)	(23)	(50)	(7)	(57)
Municipal loans and leases	3	(141)	(138)	11	(254)	(243)
Lease financings	271	(157)	114	484	(185)	299
Interest and fees on loans and leases	436	(1,178)	(742)	783	(2,025)	(1,242)
Total interest income	598	(1,463)	(865)	1,125	(3,003)	(1,878)
Interest expense:						
Interest-bearing checking deposits	4	(8)	(4)	12	(37)	(25)
Money market savings	5	(49)	(44)	10	(122)	(112)
Regular savings	12	(117)	(105)	29	(322)	(293)
Time deposits	(204)	(142)	(346)	(452)	(230)	(682)
Interest on time and interest-bearing deposits	(183)	(316)	(499)	(401)	(711)	(1,112)
Short-term borrowings	(10)	(131)	(141)	(24)	(206)	(230)
Long-term debt				(4)		(4)
Subordinated notes and capital securities	(19)	(99)	(118)	(39)	(94)	(133)
Interest on borrowings	(29)	(230)	(259)	(67)	(300)	(367)
Total interest expense	(212)	(546)	(758)	(468)	(1,011)	(1,479)
Net interest income	\$ 810	\$ (917)	\$ (107)	\$ 1,593	\$ (1,992)	\$ (399)

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

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Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.

Tax-equivalent amounts for the three and six months ended June 30, 2013 and 2012 have been calculated using the Corporation's federal applicable rate of 35%.

Interest Income

Three and six months ended June 30, 2013 versus 2012

Interest income on a tax-equivalent basis for the three months ended June 30, 2013 decreased \$865 thousand, or 4% from the same period in 2012. Interest income on a tax-equivalent basis for the six months ended June 30, 2013 decreased \$1.9 million, or 4% from the same period in 2012. These decreases were primarily due to the re-investment of maturing and called investment securities into lower yielding investments as a result of the lower interest rate environment and lower rates on commercial and residential real estate loans due to re-pricing and the competitive environment. The average rate earned on investment securities and deposits at other banks decreased 25 basis points and 36 basis points for the three and six months ended June 30, 2013, respectively, from the comparable periods in 2012. The average rate earned on loans decreased 28 basis points and 24 basis points for the three and six months ended June 30, 2013, respectively, from the comparable periods in 2012. These unfavorable variances were partially offset by growth in lease financings and commercial real estate loans.

Table of Contents**Interest Expense**

Three and six months ended June 30, 2013 versus 2012

Interest expense for the three months ended June 30, 2013 decreased \$758 thousand, or 36% from the comparable period in 2012. Interest expense for the six months ended June 30, 2013 decreased \$1.5 million, or 34% from the comparable period in 2012. These decreases were mainly due to a decrease in the Corporation's average cost of deposits of 15 basis points for the three months and 16 basis points for the six months ended June 30, 2013. This was largely attributable to re-pricing of savings accounts and time deposits along with maturities of higher yielding certificates of deposits. In addition, the average rate paid on customer repurchase agreements declined by 52 basis points and 41 basis points for the three and six months ended June 30, 2013, respectively. For the six months ended June 30, 2013, the Corporation experienced increases in average interest-bearing checking of \$28.1 million, money market savings of \$13.9 million and regular savings of \$35.0 million partially offset by a decrease in average time deposits of \$69.0 million. The Corporation's focus on growing low cost core deposits by attaining new customers and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings and interest-bearing checking accounts.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans are also reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans' initial effective interest rates. Any of the above criteria may cause the reserve to fluctuate. The provision for the three months ended June 30, 2013 and 2012 was \$3.4 million and \$1.3 million, respectively. The increase in the provision was primarily due to a decline in collateral value for one commercial real estate borrower. The provision for the six months ended June 30, 2013 and 2012 was \$5.5 million and \$5.4 million, respectively.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities, net gains (losses) on mortgage banking activities, net gains (losses) on sales and write-downs of other real estate owned, loss on termination of interest rate swap and other miscellaneous types of income. Other service fee income primarily consists of fees from credit card companies for a portion of merchant charges paid to the credit card companies for the Bank's customer debit card usage (Mastermoney fees), non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Bank owned life insurance income represents changes in the cash surrender value of bank-owned life insurance policies, which is affected by the market value of the underlying assets, and also includes any excess proceeds from death benefit claims. The net gain (loss) on mortgage banking activities consists of gains (losses) on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan sale commitments. Other non-interest income includes other miscellaneous income.

The following table presents noninterest income for the periods indicated:

(Dollars in thousands)	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2013	2012	Amount	Percent	2013	2012	Amount	Percent
Trust fee income	\$ 1,779	\$ 1,625	\$ 154	9%	\$ 3,513	\$ 3,250	\$ 263	8%
Service charges on deposit accounts	1,098	1,079	19	2	2,184	2,179	5	
Investment advisory commission and fee income	1,811	1,350	461	34	3,512	2,606	906	35
Insurance commission and fee income	2,598	2,057	541	26	5,316	4,324	992	23
Other service fee income	1,827	1,368	459	34	3,525	2,890	635	22
Bank owned life insurance income	413	336	77	23	917	1,842	(925)	(50)
Other-than-temporary impairment on equity securities		(6)	6	N/M		(9)	9	N/M
Net gain on sales of securities	1,339	24	1,315	N/M	1,524	282	1,242	N/M
Net gain on mortgage banking activities	1,416	1,074	342	32	3,112	2,346	766	33
Net loss on dispositions of fixed assets	(6)	(10)	4	40	(6)	(9)	3	33

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Net gain (loss) on sales and write-downs of other real estate owned	252	(1,071)	1,323	N/M	252	(1,102)	1,354	N/M
Loss on termination of interest rate swap	(1,866)		(1,866)	N/M	(1,866)		(1,866)	N/M
Other	330	174	156	90	483	422	61	14
Total noninterest income	\$ 10,991	\$ 8,000	\$ 2,991	37	\$ 22,466	\$ 19,021	\$ 3,445	18

Table of Contents*Three and six months ended June 30, 2013 versus 2012*

Non-interest income for the three months ended June 30, 2013 was \$11.0 million, an increase of \$3.0 million, or 37% from the comparable period in the prior year. Non-interest income for the six months ended June 30, 2013 was \$22.5 million, an increase of \$3.4 million or 18% from the comparable period in the prior year. Insurance commission and fee income increased \$541 thousand for the three months and \$992 thousand for the six months ended June 30, 2013, primarily a result of the acquisitions of the John T. Fretz Insurance Agency, Inc. on May 1, 2013 and Javers Group on May 31, 2012. Investment advisory commission and fee income increased \$461 thousand for the three months and \$906 thousand for the six months ended June 30, 2013, primarily due to a 17% increase in assets under supervision at June 30, 2013 from December 31, 2012. The net gain on sales of other real estate owned was \$252 thousand for the three and six months ended June 30, 2013, compared to a net loss on sales and write-downs of \$1.1 million for the comparable periods in the prior year.

The housing market continues to show signs of improvement and the Corporation has experienced an increase in lending for home purchases; however, the increase in interest rates during the quarter has led to a decline in refinance activity. This shift has contributed to a slower pace of growth in the mortgage banking activity from the prior year.

During the second quarter of 2013, the Corporation submitted a redemption notice to the trustee resulting in the redemption of all of the Trust Preferred Securities, with an aggregate principal balance of \$20.0 million, issued by Univest Capital Trust I and recognized a \$1.9 million loss on termination of an interest rate swap, which was used as a hedge of the variable rate interest payments on the Trust Preferred Securities. The Corporation redeemed the Trust Preferred Securities effective July 7, 2013 with settlement on July 8, 2013. 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. Separately, the Corporation sold \$23.9 million in investment securities at a gain of \$1.3 million during the second quarter of 2013.

Noninterest Expense

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

The following table presents noninterest expense for the periods indicated:

(Dollars in thousands)	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2013	2012	Amount	Percent	2013	2012	Amount	Percent
Salaries and benefits	\$ 9,359	\$ 9,100	\$ 259	3%	\$ 19,219	\$ 19,241	\$ (22)	%
Commissions	2,388	1,633	755	46	4,503	3,055	1,448	47
Net occupancy	1,408	1,402	6		2,807	2,796	11	
Equipment	1,212	1,111	101	9	2,394	2,145	249	12
Marketing and advertising	497	584	(87)	(15)	862	903	(41)	(5)
Deposit insurance premiums	400	429	(29)	(7)	792	873	(81)	(9)
Restructuring charges					539		539	N/M
Other	4,022	4,377	(355)	(8)	8,406	8,499	(93)	(1)
Total noninterest expense	\$ 19,286	\$ 18,636	\$ 650	3	\$ 39,522	\$ 37,512	\$ 2,010	5

Three months ended June 30, 2013 versus 2012

Non-interest expense for the three months ended June 30, 2013 was \$19.3 million, an increase of \$650 thousand or 3% from the comparable period in the prior year. Salaries and benefits expenses increased \$259 thousand primarily attributable to additional staff added through the Javers and Fretz acquisitions. Commission expense increased \$755 thousand for the three months ended June 30, 2013, compared to the same period in the prior year, mainly due to increased production activity and revenues generated in the Corporation's mortgage banking, equipment finance, investment and insurance businesses. Other non-interest expense included a reduction in the contingent consideration liability related to the Javers acquisition which resulted in a reduction of expense of \$959 thousand. While the acquisition remains accretive, the adjustment reflects

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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.

Table of Contents*Six months ended June 30, 2013 versus 2012*

Non-interest expense for the six months ended June 30, 2013 was \$39.5 million, an increase of \$2.0 million or 5% from the comparable period in the prior year. Commission expense increased \$1.4 million mainly due to increased production activity and revenues generated in the Corporation's mortgage banking, equipment finance, investment and insurance businesses. Additionally, non-interest expense increased due to restructuring charges of \$539 thousand recognized during the first three months of 2013 and higher equipment and legal expenses. As previously discussed, other non-interest expense included a reduction in the contingent consideration liability related to the Javers acquisition which resulted in a reduction of expense of \$959 thousand.

Tax Provision

The provision for income taxes for the three months ended June 30, 2013 and 2012 was \$1.5 million and \$1.4 million, at effective rates of 24% and 23%, respectively. The provision for income taxes for the six months ended June 30, 2013 and 2012 was \$3.2 million and \$2.4 million, at effective rates of 24% and 19%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The higher effective rate for 2013 is due to a lower amount of tax exempt income in 2013 primarily due to bank-owned life insurance death benefits in 2012 as well as overall tax exempt income representing a smaller proportion of pre-tax income in 2013 versus 2012.

Financial Condition*Assets*

Total assets decreased \$49.2 million from December 31, 2012 primarily due to a decrease in cash and interest-earning deposits, and a decrease in investment securities, partially offset by an increase in loans and leases. The following table presents the assets at the dates indicated:

(Dollars in thousands)	At June 30, 2013	At December 31, 2012	Change	
			Amount	Percent
Cash and interest-earning deposits	\$ 86,554	\$ 146,112	\$ (59,558)	(41)%
Investment securities	485,460	499,579	(14,119)	(3)
Loans held for sale	3,609	4,530	(921)	(20)
Loans and leases held for investment	1,499,993	1,481,862	18,131	1
Reserve for loan and lease losses	(24,718)	(24,746)	28	
Premises and equipment, net	32,493	33,222	(729)	(2)
Goodwill and other intangibles, net	65,987	62,694	3,293	5
Bank owned life insurance	62,326	61,409	917	1
Accrued interest receivable and other assets	43,897	40,179	3,718	9
Total assets	\$ 2,255,601	\$ 2,304,841	\$ (49,240)	(2)

Cash and Interest-earning Deposits

Cash and interest-earning deposits at June 30, 2013 decreased \$59.6 million from December 31, 2012 primarily due to a seasonal decline in public fund deposits.

Investment Securities

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

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Total investments at June 30, 2013 decreased \$14.1 million from December 31, 2012. Sales of \$35.4 million, maturities and pay-downs of \$22.2 million, calls of \$1.3 million and a decline in the net unrealized gain on available-for-sale investment securities of \$12.1 million, were partially offset by purchases of \$56.9 million. The decline in net unrealized gain on available-for-sale investment securities was primarily due to declines in fair value resulting from the increase in interest rates during the second quarter of 2013.

Loans and Leases

Gross loans and leases held for investment at June 30, 2013 grew by \$18.1 million from December 31, 2012. Commercial real estate loans increased \$40.2 million and lease financings increased \$7.8 million partially offset by a decrease in commercial business loans of \$28.5 million. Despite some positive economic indicators boosting confidence, overall credit demand and utilization of lines by businesses and consumers remained light.

Asset Quality

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

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

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

At June 30, 2013, the recorded investment in loans that were considered to be impaired was \$38.6 million, all of which were on a nonaccrual basis or accruing troubled debt restructured. The related reserve for loan losses was \$230 thousand. At December 31, 2012, the recorded investment in loans that were considered to be impaired was \$45.2 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan losses was \$208 thousand. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management's judgments about the ultimate outcome of these credits. The impaired loan balances consisted mainly of commercial real estate and construction loans. Impaired loans decreased \$6.6 million during 2013 mainly due to the foreclosure of commercial loans for two borrower relationships totaling \$1.7 million and a net loan charge-off for another commercial real estate borrower of \$3.6 million. Impaired loans at June 30, 2013 included one large shared national credit to a theatre with an outstanding balance of \$5.9 million. During the third quarter of 2012, this credit was returned to accruing troubled debt restructured status as the borrower made six consecutive principal and interest payments. At June 30, 2013, the credit was secured with sufficient estimated collateral and therefore, there was no specific reserve on this credit. The theatre continues to be open and operating. In addition, impaired loans at June 30, 2013 included one large credit which went on non-accrual during the third quarter of 2009 and is comprised of four separate facilities to a local commercial real estate developer/home builder, aggregating to \$13.9 million. There is no specific allowance on this credit as the credit was secured with sufficient estimated collateral. The borrower does not have the resources to develop these properties; therefore, the properties must be sold. For the six months ended June 30, 2013 and 2012, interest income that would have been recognized under the original terms for impaired loans was \$876 thousand and \$1.1 million, respectively. Interest income recognized for the six months ended June 30, 2013 and 2012 was \$376 thousand and \$175 thousand, respectively.

Other real estate owned increased slightly to \$1.7 million at June 30, 2013, compared to \$1.6 million at December 31, 2012. The year-to-date increase was primarily due to the addition of commercial properties for \$2.0 million, offset by the sale of two locations with an associated carrying balance of \$2.1 million for a gain of \$252 thousand.

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

(Dollars in thousands)	At June 30, 2013	At December 31, 2012	At June 30, 2012
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:			
Commercial, financial and agricultural	\$ 1,708	\$ 2,842	\$ 3,948
Real estate - commercial	8,726	14,340	17,861
Real estate - construction	13,531	13,588	13,887
Real estate - residential	899	976	489
Lease financings	343	386	577
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	25,207	32,132	36,762
Accruing troubled debt restructured loans and lease modifications, not included above	13,696	13,457	7,591
Total impaired loans and leases	38,903	45,589	44,353
Accruing loans and leases 90 days or more past due:			
Commercial, financial and agricultural			20
Real estate - residential	295	54	58
Loans to individuals	190	347	237
Lease financings	36	40	69
Total accruing loans and leases, 90 days or more past due	521	441	384
Total non-performing loans and leases	39,424	46,030	44,737
Other real estate owned	1,650	1,607	3,922
Total nonperforming assets	\$ 41,074	\$ 47,637	\$ 48,659
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment	1.68%	2.17%	2.51%
Nonperforming loans and leases / loans and leases held for investment	2.63%	3.11%	3.05%
Nonperforming assets / total assets	1.82%	2.07%	2.22%
Allowance for loan and lease losses / loans and leases held for investment	1.65%	1.67%	2.08%
Allowance for loan and lease losses / nonaccrual loans and leases	98.06%	77.01%	82.97%
Allowance for loan and lease losses / nonperforming loans and leases	62.70%	53.76%	68.18%
Allowance for loan and lease losses	\$ 24,718	\$ 24,746	\$ 30,502

* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table

	At June 30, 2013	At December 31, 2012	At June 30, 2012
	\$ 503	\$ 579	\$ 8,312

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

(Dollars in thousands)	At June 30, 2013	At December 31, 2012	At June 30, 2012
	\$ 25,207	\$ 32,132	\$ 36,762

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Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications			
Nonaccrual loans and leases with partial charge-offs	11,058	8,834	10,376
Life-to-date partial charge-offs on nonaccrual loans and leases	7,250	4,361	11,467
Charge-off rate of nonaccrual loans and leases with partial charge-offs	39.6%	33.1%	52.5%
Specific reserves on impaired loans	\$ 230	\$ 208	\$ 432

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Reserve for Loan and Lease Losses

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

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

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

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

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

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

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. The reserve for these off-balance sheet credits was \$333 thousand and \$119 thousand at June 30, 2013 and December 31, 2012, respectively.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets was \$611 thousand and \$580 thousand for the three months ended June 30, 2013 and 2012, respectively and \$1.2 million and \$1.1 million for the six months ended June 30, 2013 and 2012, respectively. The Corporation also has goodwill with a net carrying amount of \$57.5 million at June 30, 2013 and \$56.2 million at December 31, 2012, which is deemed to be an indefinite intangible asset and is not amortized.

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

Other Assets

At June 30, 2013 and December 31, 2012, the Bank held \$3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of \$2.7 million and \$4.1 million at June 30, 2013 and December 31, 2012, respectively. Additionally, the FHLB might require its members to increase its capital stock requirement. Effective February 28, 2011, the FHLB entered into a Joint Capital Enhancement Agreement with the other 11 Federal Home Loan Banks (collectively, the FHLBanks). The agreement calls for a plan for each FHLBANK to build additional retained earnings and enhance capital. On August 5, and August 8, 2011, the Standard & Poor's Rating Services downgraded the credit ratings of the U.S government and federal agencies, including the FHLB, respectively, from AAA to AA+, with a negative outlook. On June 10, 2013, Standard & Poor's upgraded its credit outlook for the United States government from negative to stable. These changes in the credit ratings of the U.S. government and the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on its operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation's investment in the FHLB stock. However, based on current information from the FHLB, management believes that if there is any impairment in the FHLB stock it is temporary. Therefore, at June 30, 2013, the FHLB stock is recorded at cost.

Liabilities

Total liabilities decreased \$44.6 million since December 31, 2012 primarily due to a decrease in short-term borrowings, partially offset by an increase in deposits. The following table presents the liabilities at the dates indicated:

(Dollars in thousands)	At June 30, 2013	At December 31, 2012	Change	
			Amount	Percent
Deposits	\$ 1,873,051	\$ 1,865,333	\$ 7,718	%
Short-term borrowings	45,388	96,282	(50,894)	(53)
Subordinated notes and capital securities	20,619	20,994	(375)	(2)
Accrued expenses and other liabilities	36,955	37,955	(1,000)	(3)
Total liabilities	\$ 1,976,013	\$ 2,020,564	\$ (44,551)	(2)

Deposits

Total deposits increased \$7.7 million from December 31, 2012, mainly due to a product change for existing business and municipal customers which resulted in approximately \$68.1 million of customer repurchase agreements, classified as borrowings, being transferred to interest-bearing demand deposits. This transfer was partially offset by a seasonal decrease in public fund deposits of \$58.6 million primarily due to municipalities.

Borrowings

Short-term borrowings at June 30, 2013, consisted of customer repurchase agreements on an overnight basis; the decrease of \$50.9 million from December 31, 2012 was due to the migration of customer accounts to interest bearing deposits as previously discussed. Subordinated notes and capital securities at June 30, 2013, included \$20.6 million of junior subordinated debt relating to trust preferred securities, including the capital component. As previously discussed, during the second quarter of 2013, the Corporation submitted a redemption notice to the trustee resulting in the redemption of all of the trust preferred securities, with an aggregate principal balance of \$20.0 million, issued by Univest Capital Trust I. The Corporation redeemed the trust preferred securities effective July 7, 2013 with settlement on July 8, 2013. The redemption also included \$619

thousand in common securities issued by Uninvest Capital Trust I and related to the Trust Preferred Securities.

Table of Contents**Shareholders' Equity**

Total shareholders' equity at June 30, 2013 decreased \$4.7 million since December 31, 2012, primarily due to an increase in accumulated other comprehensive loss partially offset by increase in retained earnings.

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

(Dollars in thousands)	At June 30, 2013	At December 31, 2012	Change	
			Amount	Percent
Common stock	\$ 91,332	\$ 91,332	\$	%
Additional paid-in capital	61,702	62,101	(399)	(1)
Retained earnings	168,233	164,823	3,410	2
Accumulated other comprehensive loss	(13,229)	(6,920)	(6,309)	(91)
Treasury stock	(28,450)	(27,059)	(1,391)	(5)
Total shareholders' equity	\$ 279,588	\$ 284,277	\$ (4,689)	(2)

Retained earnings at June 30, 2013 were impacted by the six months of net income of \$10.2 million partially offset by cash dividends declared of \$6.7 million. Accumulated other comprehensive loss increased primarily due to declines in the fair value of available-for-sale investment securities, resulting from the increase in interest rates during the second quarter of 2013.

Capital Adequacy

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

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

Table 4 Regulatory Capital

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At June 30, 2013:						
Total Capital (to Risk-Weighted Assets):						
Corporation	\$ 254,788	13.95%	\$ 146,166	8.00%	\$ 182,708	10.00%
Bank	235,975	13.09	144,188	8.00	180,235	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	231,534	12.67	73,083	4.00	109,625	6.00
Bank	213,411	11.84	72,094	4.00	108,141	6.00
Tier 1 Capital (to Average Assets):						
Corporation	231,534	10.61	87,306	4.00	109,132	5.00
Bank	213,411	9.85	86,682	4.00	108,353	5.00

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At December 31, 2012:

Total Capital (to Risk-Weighted Assets):

Corporation	\$ 274,504	15.62%	\$ 140,631	8.00%	\$ 175,788	10.00%
Bank	246,861	14.22	138,841	8.00	173,552	10.00

Tier 1 Capital (to Risk-Weighted Assets):

Corporation	252,240	14.35	70,315	4.00	105,473	6.00
Bank	225,126	12.97	69,421	4.00	104,131	6.00

Tier 1 Capital (to Average Assets):

Corporation	252,240	11.47	87,934	4.00	109,918	5.00
Bank	225,126	10.31	87,310	4.00	109,137	5.00

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On May 14, 2013, the Corporation submitted a redemption notice to the trustee to redeem all of the outstanding capital securities issued by Univest Capital Trust I, with a redemption date of July 7, 2013. Due to the change in maturity, the Trust Preferred Securities no longer qualify as Tier 1 Capital; this is the primary reason that the Corporation's regulatory capital ratios declined when comparing June 30, 2013 to December 31, 2012. Additionally, during the second quarter of 2013, the Bank's subsidiary, Delview, Inc., called its preferred stock of \$15.0 million, which qualified as Tier 1 Capital at the Bank as Qualifying Noncontrolling (Minority) Interests in Consolidated Subsidiaries. This is the primary reason that the Bank's regulatory capital ratios declined when comparing June 30, 2013 to December 31, 2012.

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

On July 2, 2013, the Federal Reserve Board finalized its rule implementing the Basel III regulatory capital framework and related Dodd-Frank Act changes. The new rules require institutions to have more capital and a higher quality of capital by increasing the minimum regulatory capital ratios, narrowing the definition of capital and requiring capital buffers. Basel III includes a common equity Tier 1 ratio of 4.5% of risk-weighted assets, raises the minimum Tier 1 capital ratio from 4% to 6% of risk-weighted assets and sets a conservation buffer of 2.5% of risk-weighted assets. The new rules are effective for the Corporation and the Bank beginning January 1, 2015. Management is continuing to review the impact of the rules and currently expects that the capital position of the Corporation and Bank will be adequate to meet the revised regulatory capital requirements.

Asset/Liability Management

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

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

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

Table of Contents**Table 5 Summary of Interest Rate Simulation**

(Dollars in thousands)	Estimated Change in Net Interest Income Over Next 12 Months	
	Amount	Percent
Rate shock		
Change in interest rates		
+300 basis points	\$ 11,874	16.7%
+200 basis points	7,476	10.5
+100 basis points	3,245	4.6
-100 basis points*	(4,508)	(6.3)

* Because certain current short-term interest rates are at or below 1.0%, the 100 basis point downward shock assumes that corresponding interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis points downward shock. The interest rate simulation demonstrates that the Corporation is asset sensitive; indicating that an increase in interest rates will have a positive impact on net interest income over the next 12 months while a decrease in interest rates will negatively impact net interest income.

Liquidity

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

Sources of Funds

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

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

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately \$414.3 million. At June 30, 2013 and December 31, 2012, there were no outstanding borrowings with the FHLB. At December 31, 2012, the Bank had outstanding short-term letters of credit with the FHLB totaling \$32.0 million which were utilized to collateralize seasonal public funds deposits; there were no outstanding short-term letters of credit at June 30, 2013. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB's internal credit rating of the Bank, and the amount of funds received may be reduced by additional required purchases of FHLB stock.

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

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

Cash Requirements

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The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over

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

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Management is not aware of any litigation that would have a material adverse effect on the consolidated balance sheet or statement of income of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation. In addition, there are no material proceedings pending or known to be threatened or contemplated against the Corporation or the Bank by government authorities.

Item 1A. Risk Factors

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

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information on repurchases by the Corporation of its common stock during the three months ended June 30, 2013.

Period	ISSUER PURCHASES OF EQUITY SECURITIES			
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 30, 2013	70,034	\$ 16.91	70,034	410,851
May 1 31, 2013	14,207	17.42	14,207	396,644
June 1 30, 2013				396,644
Total	84,241	\$ 17.00	84,241	

1. Transactions are reported as of trade dates.
2. The number of shares approved for repurchase under the Corporation's stock repurchase program is 643,782. The Corporation's current stock repurchase program was approved by its Board of Directors and announced on August 22, 2007. The repurchased shares limit is net of normal Treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and equity compensation plans.
3. The Corporation's current stock repurchase program does not have an expiration date.
4. No stock repurchase plan or program of the Corporation expired during the period covered by the table.
5. The Corporation has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further purchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- a. Exhibits
 - Exhibit 3.1 Amended and Restated Articles of Incorporation are incorporated by reference to Appendix A of Form DEF14A, filed with the Securities and Exchange Commission (the SEC) on March 9, 2006.
 - Exhibit 3.2 Amended By-Laws dated September 26, 2007 are incorporated by reference to Exhibit 3.2 of Form 8-K, filed with the SEC on September 27, 2007.

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- Exhibit 4.1 Shareholder Rights Agreement dated September 30, 2011 is incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the SEC on October 6, 2011.
- Exhibit 31.1 Certification of William S. Aichele, Chairman and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Michael S. Keim, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification of William S. Aichele, Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

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Exhibit 32.2	Certification of Michael S. Keim, Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

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

Univest Corporation of Pennsylvania
(Registrant)

Date: August 8, 2013

/s/ William S. Aichele
William S. Aichele, Chairman and
Chief Executive Officer (Principal Executive Officer)

Date: August 8, 2013

/s/ Michael S. Keim
Michael S. Keim, Executive Vice President

and Chief Financial Officer
(Principal Financial and Accounting Officer)