UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
May 09, 2014
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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 March 31, 2014.**

or

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

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

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

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

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

Not applicable

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

Common Stock, $5 par value	**16,242,580**
(Title of Class)	**(Number of shares outstanding at April 30, 2014)**

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	(UNAUDITED) At March 31, 2014	At December 31, 2013
ASSETS		
Cash and due from banks	**$ 44,454**	$ 32,646
Interest-earning deposits with other banks	**27,673**	36,523
Investment securities held-to-maturity (fair value $66,683 and $66,853 at March 31, 2014 and December 31, 2013, respectively)	**65,796**	66,003
Investment securities available-for-sale	**315,928**	336,281
Loans held for sale	**1,856**	2,267
Loans and leases held for investment	**1,560,446**	1,541,484
Less: Reserve for loan and lease losses	**(24,567)**	(24,494)
Net loans and leases held for investment	**1,535,879**	1,516,990
Premises and equipment, net	**34,078**	34,129
Goodwill	**64,326**	57,517
Other intangibles, net of accumulated amortization and fair value adjustments of $10,977 and $10,300 at March 31, 2014 and December 31, 2013, respectively	**11,955**	8,178
Bank owned life insurance	**61,015**	60,637
Accrued interest receivable and other assets	**38,234**	40,388
Total assets	**$ 2,201,194**	$ 2,191,559
LIABILITIES		
Noninterest-bearing deposits	**$ 426,430**	$ 411,714
Interest-bearing deposits:		
Demand deposits	**597,234**	625,845
Savings deposits	**548,760**	536,150
Time deposits	**267,336**	270,789
Total deposits	**1,839,760**	1,844,498
Customer repurchase agreements	**41,486**	37,256
Accrued interest payable and other liabilities	**36,652**	29,299

Total liabilities		**1,917,898**		1,911,053
SHAREHOLDERS EQUITY				
Common stock, $5 par value: 48,000,000 shares authorized at March 31, 2014 and December 31, 2013; 18,266,404 shares issued at March 31, 2014 and December 31, 2013; 16,249,152 and 16,287,812 shares outstanding at March 31, 2014 and December 31, 2013, respectively		**91,332**		91,332
Additional paid-in capital		**61,708**		62,417
Retained earnings		**175,080**		172,602
Accumulated other comprehensive loss, net of tax benefit		**(8,202)**		(9,955)
Treasury stock, at cost; 2,017,252 and 1,978,592 shares at March 31, 2014 and December 31, 2013, respectively		**(36,622)**		(35,890)
Total shareholders equity		**283,296**		280,506
Total liabilities and shareholders equity	**$**	**2,201,194**	$	2,191,559

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

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended March 31, 2014	2013
Interest income		
Interest and fees on loans and leases:		
Taxable	**$ 15,560**	$ 15,942
Exempt from federal income taxes	**1,375**	1,114
Total interest and fees on loans and leases	**16,935**	17,056
Interest and dividends on investment securities:		
Taxable	**1,051**	1,372
Exempt from federal income taxes	**946**	1,026
Other interest income	**14**	35
Total interest income	**18,946**	19,489
Interest expense		
Interest on deposits	**992**	1,240
Interest on short-term borrowings	**6**	17
Interest on long-term borrowings		289
Total interest expense	**998**	1,546
Net interest income	**17,948**	17,943
Provision for loan and lease losses	**1,475**	2,074
Net interest income after provision for loan and lease losses	**16,473**	15,869
Noninterest income		
Trust fee income	**1,899**	1,734
Service charges on deposit accounts	**1,014**	1,086
Investment advisory commission and fee income	**3,049**	1,896
Insurance commission and fee income	**3,332**	2,523
Other service fee income	**1,807**	1,698
Bank owned life insurance income	**378**	504
Net gain on sales of investment securities	**142**	185
Net gain on mortgage banking activities	**349**	1,696
Other	**171**	153

Total noninterest income	**12,141**	11,475
Noninterest expense		
Salaries and benefits	**10,671**	9,860
Commissions	**1,590**	2,115
Net occupancy	**1,754**	1,399
Equipment	**1,334**	1,182
Professional fees	**852**	767
Marketing and advertising	**361**	365
Deposit insurance premiums	**379**	392
Intangible expenses	**760**	209
Restructuring charges		539
Other	**3,182**	3,408
Total noninterest expense	**20,883**	20,236
Income before income taxes	**7,731**	7,108
Income taxes	**2,005**	1,710
Net income	**$ 5,726**	$ 5,398
Net income per share:		
Basic	**$ .35**	$ .32
Diluted	**.35**	.32
Dividends declared	**.20**	.20

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

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,					
	2014			2013		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Income	**$ 7,731**	**$ 2,005**	**$ 5,726**	$ 7,108	$ 1,710	$ 5,398
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	**2,750**	**963**	**1,787**	(1,404)	(491)	(913)
Less: reclassification adjustment for net gains on sales realized in net income	**(142)**	**(50)**	**(92)**	(185)	(65)	(120)
Total net unrealized gains (losses) on available-for-sale investment securities	**2,608**	**913**	**1,695**	(1,589)	(556)	(1,033)
Cash flow hedge derivative:						
Net change in fair value of interest rate swap				162	57	105
Total cash flow hedge derivative				162	57	105
Defined benefit pension plans:						
Less: amortization of net actuarial loss included in net periodic pension costs	**164**	**57**	**107**	292	102	190
Less: accretion of prior service cost included in net periodic pension costs	**(75)**	**(26)**	**(49)**	(64)	(23)	(41)
Total defined benefit pension plans	**89**	**31**	**58**	228	79	149
Other comprehensive income (loss)	**2,697**	**944**	**1,753**	(1,199)	(420)	(779)
Total comprehensive income	**$ 10,428**	**$ 2,949**	**$ 7,479**	$ 5,909	$ 1,290	$ 4,619

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

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Three Months Ended March 31, 2014							
Balance at December 31, 2013	16,287,812	$ (9,955)	$ 91,332	$ 62,417	$ 172,602	$ (35,890)	$ 280,506
Net income					5,726		5,726
Other comprehensive income, net of income tax		1,753					1,753
Cash dividends declared ($0.20 per share)					(3,248)		(3,248)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	44,696			15		861	876
Repurchase of cancelled restricted stock awards	(13,625)			235		(235)	
Stock-based compensation				390			390
Purchases of treasury stock	(144,035)					(2,707)	(2,707)
Restricted stock awards granted	74,304			(1,349)		1,349	
Balance at March 31, 2014	16,249,152	$ (8,202)	$ 91,332	$ 61,708	$ 175,080	$ (36,622)	$ 283,296

(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
Three Months Ended March 31, 2013							

Balance at December 31, 2012	16,770,232	$ (6,920)	$ 91,332	$ 62,101	$ 164,823	$ (27,059)	$ 284,277
Net income					5,398		5,398
Other comprehensive loss, net of income tax benefit		(779)					(779)
Cash dividends declared ($0.20 per share)					(3,358)		(3,358)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	48,907				(32)	869	837
Repurchase of cancelled restricted stock awards	(29,533)			519		(519)	
Stock-based compensation				77			77
Net tax deficiency on stock-based compensation				(11)			(11)
Purchases of treasury stock	(96,952)					(1,657)	(1,657)
Restricted stock awards granted	70,041			(1,174)	(92)	1,266	
Balance at March 31, 2013	16,762,695	$ (7,699)	$ 91,332	$ 61,512	$ 166,739	$ (27,100)	$ 284,784

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)	Three Months Ended March 31, 2014	2013
Cash flows from operating activities:		
Net income	**$ 5,726**	$ 5,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**1,475**	2,074
Depreciation of premises and equipment	**734**	738
Net gain on sales of investment securities	**(142)**	(185)
Net gain on mortgage banking activities	**(349)**	(1,696)
Bank owned life insurance income	**(378)**	(504)
Stock-based compensation	**390**	77
Intangibles expense	**760**	209
Other adjustments to reconcile net income to cash provided by operating activities	**559**	(85)
Originations of loans held for sale	**(17,347)**	(82,585)
Proceeds from the sale of loans held for sale	**18,022**	85,435
Contributions to pension and other postretirement benefit plans	**(56)**	(30)
Decrease (increase) in accrued interest receivable and other assets	**1,761**	(3,851)
Increase (decrease) in accrued interest payable and other liabilities	**1,495**	(2,580)
Net cash provided by operating activities	**12,650**	2,415
Cash flows from investing activities:		
Net cash paid due to acquisitions	**(5,393)**	
Net capital expenditures	**(662)**	(101)
Proceeds from maturities and calls of securities available-for-sale	**23,731**	13,106
Proceeds from sales of securities available-for-sale	**18,609**	10,215
Purchases of investment securities available-for-sale	**(19,517)**	(34,679)
Net increase in loans and leases	**(20,364)**	(8,582)
Net decrease in interest-earning deposits	**8,850**	4,464
Net cash provided by (used in) investing activities	**5,254**	(15,577)
Cash flows from financing activities:		
Net decrease in deposits	**(4,738)**	(50,723)
Net increase in short-term borrowings	**3,729**	7,994
Repayment of subordinated debt		(375)
Purchases of treasury stock	**(2,707)**	(1,657)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**876**	837
Cash dividends paid	**(3,256)**	

Net cash used in financing activities		**(6,096)**		(43,924)
Net increase (decrease) in cash and due from banks		**11,808**		(57,086)
Cash and due from banks at beginning of year		**32,646**		98,399
Cash and due from banks at end of period	**$**	**44,454**	$	41,313
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**1,251**	$	2,043
Cash paid for income taxes, net of refunds received		**36**		76
Non cash transactions:				
Noncash transfer of loans to other real estate owned	**$**		$	1,729
Contingent consideration recorded as goodwill		**5,469**		

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 three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. 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, 2013, which was filed with the SEC on March 4, 2014.

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 January 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) regarding reclassification of residential real estate collateralized consumer mortgage loans upon foreclosure. The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The ASU was issued to eliminate diversity in practice on this topic. The amendment is effective for fiscal years and interim periods within those years beginning after December 15, 2014, or January 1, 2015 for the Corporation. The Corporation does not anticipate the adoption of this guidance will have a material impact on its financial statements but will result in expanded disclosures effective March 31, 2015.

Note 2. Acquisition

On January 27, 2014, the Corporation completed the acquisition of Girard Partners, a registered investment advisory firm with more than $500 million in assets under management. The Corporation increased its assets under management to over $3.0 billion at the acquisition date and expanded its advisory capabilities.

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The Corporation paid $5.4 million in cash at closing with additional contingent consideration to be paid in annual installments over the five-year period ending December 31, 2018 based on the achievement of certain levels of EBITDA (earnings before interest, taxes, depreciation and amortization). As of the effective date of the acquisition, January 1, 2014, the Corporation recorded the estimated fair value of the contingent consideration of $5.5 million in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $14.5 million cumulative over the next five years. As a result of the Girard Partners acquisition, the Corporation recorded goodwill of $6.8 million (inclusive of the contingent consideration) and customer related intangibles of $4.3 million. The goodwill is expected to be deductible for tax purposes. The customer related intangibles are being amortized over nine years using the sum-of-the-years-digits amortization method.

Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at March 31, 2014 and December 31, 2013, by contractual maturity within each type:

	At March 31, 2014				**At December 31, 2013**			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Held-to-Maturity								
Corporate bonds:								
Within 1 year	**$ 15,138**	**$ 155**	**$**	**$ 15,293**	$ 11,148	$ 122	$	$ 11,270
After 1 year to 5 years	**50,658**	**838**	**(106)**	**51,390**	54,855	992	(264)	55,583
	65,796	**993**	**(106)**	**66,683**	66,003	1,114	(264)	66,853
Total	**$ 65,796**	**$ 993**	**$ (106)**	**$ 66,683**	$ 66,003	$ 1,114	$ (264)	$ 66,853
Securities Available-for-Sale								
U.S. treasuries:								
After 5 years to 10 years	**$ 4,968**	**$**	**$ (221)**	**$ 4,747**	$ 4,966	$	$ (258)	$ 4,708
	4,968		**(221)**	**4,747**	4,966		(258)	4,708
U.S. government corporations and agencies:								
Within 1 year	**1,000**	**1**		**1,001**	5,999	16		6,015
After 1 year to 5 years	**112,733**	**59**	**(887)**	**111,905**	112,989	114	(1,226)	111,877
After 5 years to 10 years	**10,782**		**(302)**	**10,480**	10,816		(560)	10,256
	124,515	**60**	**(1,189)**	**123,386**	129,804	130	(1,786)	128,148

State and political subdivisions:								
Within 1 year	**1,565**	**5**		**1,570**	1,564	13		1,577
After 1 year to 5 years	**9,023**	**14**	**(28)**	**9,009**	5,305	14	(29)	5,290
After 5 years to 10 years	**44,879**	**996**	**(436)**	**45,439**	41,974	710	(698)	41,986
Over 10 years	**50,277**	**1,718**	**(116)**	**51,879**	57,899	1,227	(322)	58,804
	105,744	**2,733**	**(580)**	**107,897**	106,742	1,964	(1,049)	107,657
Residential mortgage-backed securities:								
After 5 years to 10 years	**9,992**		**(176)**	**9,816**	10,008	5	(53)	9,960
Over 10 years	**11,768**	**29**	**(15)**	**11,782**	25,721	20	(221)	25,520
	21,760	**29**	**(191)**	**21,598**	35,729	25	(274)	35,480
Collateralized mortgage obligations:								
After 1 year to 5 years	**41**			**41**	73			73
Over 10 years	**7,080**	**51**	**(202)**	**6,929**	7,341	40	(253)	7,128
	7,121	**51**	**(202)**	**6,970**	7,414	40	(253)	7,201
Corporate bonds:								
After 1 year to 5 years	**20,999**	**66**	**(303)**	**20,762**	18,838	52	(411)	18,479
After 5 years to 10 years	**16,210**	**3**	**(635)**	**15,578**	16,474	4	(1,117)	15,361
	37,209	**69**	**(938)**	**36,340**	35,312	56	(1,528)	33,840
Money market mutual funds:								
No stated maturity	**12,589**			**12,589**	16,900			16,900
	12,589			**12,589**	16,900			16,900
Equity securities:								
No stated maturity	**1,679**	**722**		**2,401**	1,679	668		2,347
	1,679	**722**		**2,401**	1,679	668		2,347
Total	**$ 315,585**	**$ 3,664**	**$ (3,321)**	**$ 315,928**	$ 338,546	$ 2,883	$ (5,148)	$ 336,281

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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 March 31, 2014 and December 31, 2013 do not represent other-than-temporary impairments.

Securities with a carrying value of $247.5 million and $271.1 million at March 31, 2014 and December 31, 2013, 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 three months ended March 31, 2014 and 2013:

(Dollars in thousands)	Three Months Ended March 31, 2014	2013
Securities available-for-sale:		
Proceeds from sales	**$ 18,609**	$ 10,215
Gross realized gains on sales	**142**	185
Gross realized losses on sales		
Tax expense related to net realized gains on sales	**50**	65

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 to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the three months ended March 31, 2014 and 2013.

At March 31, 2014 and December 31, 2013, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the fair value of securities that were in an unrealized loss position at March 31, 2014 and December 31, 2013 by the length of time those securities were in a continuous loss position:

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2014						
U.S. treasuries	**$ 4,747**	**$ (221)**	**$**	**$**	**$ 4,747**	**$ (221)**
U.S. government corporations and agencies	**102,261**	**(1,189)**			**102,261**	**(1,189)**
State and political subdivisions	**25,049**	**(580)**			**25,049**	**(580)**
Residential mortgage-backed securities	**20,439**	**(191)**			**20,439**	**(191)**
Collateralized mortgage obligations	**4,014**	**(202)**			**4,014**	**(202)**

Corporate bonds	**46,237**	**(1,044)**			**46,237**	**(1,044)**
Total	**$ 202,747**	**$ (3,427)**	**$**	**$**	**$ 202,747**	**$ (3,427)**
At December 31, 2013						
U.S. treasuries	$ 4,708	$ (258)	$	$	$ 4,708	$ (258)
U.S. government corporations and agencies	101,813	(1,786)			101,813	(1,786)
State and political subdivisions	30,233	(1,049)			30,233	(1,049)
Residential mortgage-backed securities	29,444	(274)			29,444	(274)
Collateralized mortgage obligations	4,091	(253)			4,091	(253)
Corporate bonds	46,499	(1,792)			46,499	(1,792)
Total	$ 216,788	$ (5,412)	$	$	$ 216,788	$ (5,412)

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Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At March 31, 2014	At December 31, 2013
Commercial, financial and agricultural	**$ 448,727**	$ 422,816
Real estate-commercial	**613,229**	600,353
Real estate-construction	**70,870**	90,493
Real estate-residential secured for business purpose	**36,996**	37,319
Real estate-residential secured for personal purpose	**152,136**	149,164
Real estate-home equity secured for personal purpose	**94,239**	95,345
Loans to individuals	**36,821**	40,000
Lease financings	**107,428**	105,994
Total loans and leases held for investment, net of deferred income	**$ 1,560,446**	$ 1,541,484
Unearned lease income, included in the above table	**$ (14,121)**	$ (14,439)
Net deferred costs, included in the above table	**2,885**	2,744
Overdraft deposits included in the above table	**51**	62

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

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 90 days or more past due which are accruing interest at March 31, 2014 and December 31, 2013:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current	Total Loans and Leases Held for Investment	Recorded Investment 90 Days or more Past Due and Accruing Interest
At March 31, 2014							
Commercial, financial and agricultural	**$ 1,397**	**$ 13**	**$ 473**	**$ 1,883**	**$ 446,844**	**$ 448,727**	**$ 15**

Real estate commercial real estate and construction:							
Commercial real estate	**1,661**	**560**	**1,558**	**3,779**	**609,450**	**613,229**	
Construction			**8,337**	**8,337**	**62,533**	**70,870**	
Real estate residential and home equity:							
Residential secured for business purpose	**331**		**161**	**492**	**36,504**	**36,996**	
Residential secured for personal purpose	**1,139**	**55**	**736**	**1,930**	**150,206**	**152,136**	**312**
Home equity secured for personal purpose	**461**	**26**	**77**	**564**	**93,675**	**94,239**	
Loans to individuals	**556**	**225**	**206**	**987**	**35,834**	**36,821**	**206**
Lease financings	**2,086**	**319**	**327**	**2,732**	**104,696**	**107,428**	**48**
Total	**$ 7,631**	**$ 1,198**	**$ 11,875**	**$ 20,704**	**$ 1,539,742**	**$ 1,560,446**	**$ 581**
At December 31, 2013							
Commercial, financial and agricultural	$ 386	$ 922	$ 2,904	$ 4,212	$ 418,604	$ 422,816	$ 12
Real estate commercial real estate and construction:							
Commercial real estate	148	262	4,932	5,342	595,011	600,353	
Construction			8,742	8,742	81,751	90,493	
Real estate residential and home equity:							
Residential secured for business purpose	87	276	161	524	36,795	37,319	
Residential secured for personal purpose	1,370		617	1,987	147,177	149,164	
Home equity secured for personal purpose	278	97	100	475	94,870	95,345	23
Loans to individuals	445	193	319	957	39,043	40,000	319
Lease financings	2,182	455	389	3,026	102,968	105,994	59
Total	$ 4,896	$ 2,205	$ 18,164	$ 25,265	$ 1,516,219	$ 1,541,484	$ 413

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Non-Performing Loans and Leases

The following presents, by class of loans and leases, non-performing loans and leases at March 31, 2014 and December 31, 2013:

	At March 31, 2014				**At December 31, 2013**			
(Dollars in thousands)	**Nonaccrual Loans and Leases***	**Accruing Troubled Debt Restructured Loans and Lease Modifications**	**Loans and Leases 90 Days or more Past Due and Accruing Interest**	**Total Non-Performing Loans and Leases**	**Nonaccrual Loans and Leases***	**Accruing Troubled Debt Restructured Loans and Lease Modifications**	**Loans and Leases 90 Days or more Past Due and Accruing Interest**	**Total Non-Performing Loans and Leases**
Commercial, financial and agricultural	**$ 3,155**	**$ 1,241**	**$ 15**	**$ 4,411**	$ 4,253	$ 1,329	$ 12	$ 5,594
Real estate commercial real estate and construction:								
Commercial real estate	**4,590**	**3,298**		**7,888**	8,091	4,271		12,362
Construction	**9,153**	**2,497**		**11,650**	9,159	2,307		11,466
Real estate residential and home equity:								
Residential secured for business purpose	**1,079**			**1,079**	224			224
Residential secured for personal purpose	**952**		**312**	**1,264**	1,101			1,101
Home equity secured for personal purpose	**77**			**77**	77		23	100
Loans to individuals	**2**		**206**	**208**		36	319	355
Lease financings	**279**		**48**	**327**	330		59	389
Total	**$ 19,287**	**$ 7,036**	**$ 581**	**$ 26,904**	$ 23,235	$ 7,943	$ 413	$ 31,591

* Includes nonaccrual troubled debt restructured loans and lease modifications of $2.3 million and $1.6 million at March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013.

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

1. Cash Secured No credit risk

2. Fully Secured Negligible credit risk

3. Strong Minimal credit risk

4. Satisfactory Nominal credit risk

5. Acceptable Moderate credit risk

6. Pre-Watch Marginal, but stable credit risk

7. Special Mention Potential weakness

8. Substandard Well-defined weakness

9. Doubtful Collection in-full improbable

10. Loss Considered uncollectible

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial	Real Estate Construction	Real Estate Residential Secured for Business Purpose	Total
At March 31, 2014					
Grade:					
1. Cash secured/ 2. Fully secured	**$ 4,655**	**$**	**$ 1,871**	**$**	**$ 6,526**
3. Strong	**7,884**	**11,320**	**3,249**		**22,453**
4. Satisfactory	**24,807**	**16,729**	**8,246**	**254**	**50,036**
5. Acceptable	**274,131**	**394,281**	**40,468**	**26,546**	**735,426**
6. Pre-watch	**94,338**	**116,882**	**4,393**	**4,652**	**220,265**
7. Special Mention	**12,248**	**15,353**	**1,808**	**2,307**	**31,716**
8. Substandard	**30,664**	**58,664**	**10,835**	**3,237**	**103,400**
9. Doubtful					
10.Loss					
Total	**$ 448,727**	**$ 613,229**	**$ 70,870**	**$ 36,996**	**$ 1,169,822**
At December 31, 2013					
Grade:					
1. Cash secured/ 2. Fully secured	$ 4,763	$ 2,014	$ 1,682	$	$ 8,459
3. Strong	6,051	8,515	4,300		18,866
4. Satisfactory	34,650	17,758	1,500	261	54,169
5. Acceptable	251,203	384,061	54,464	26,694	716,422
6. Pre-watch	84,201	113,181	16,084	5,884	219,350
7. Special Mention	10,095	19,445		1,841	31,381
8. Substandard	31,508	55,331	12,463	2,639	101,941
9. Doubtful	345	48			393
10.Loss					
Total	$ 422,816	$ 600,353	$ 90,493	$ 37,319	$ 1,150,981

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

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

(Dollars in thousands)	Real Estate Residential Secured for Personal Purpose	Real Estate Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financing	Total
At March 31, 2014					
Performing	**$ 150,872**	**$ 94,162**	**$ 36,613**	**$ 107,101**	**$ 388,748**
Nonperforming	**1,264**	**77**	**208**	**327**	**1,876**
Total	**$ 152,136**	**$ 94,239**	**$ 36,821**	**$ 107,428**	**$ 390,624**
At December 31, 2013					
Performing	$ 148,063	$ 95,245	$ 39,645	$ 105,605	$ 388,558
Nonperforming	1,101	100	355	389	1,945
Total	$ 149,164	$ 95,345	$ 40,000	$ 105,994	$ 390,503

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

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

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

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

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

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

The Corporation focuses on both assessing the borrower s capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower s assets and by personal guarantees. Commercial real estate and residential real estate loans secured for a business purpose are originated primarily within the Southeastern Pennsylvania market area at conservative loan-to-value ratios and often with 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.

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

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

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three months ended March 31, 2014 and 2013:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
Three Months Ended March 31, 2014								
Reserve for loan and lease losses:								
Beginning balance	**$ 9,789**	**$ 8,780**	**$ 1,062**	**$ 1,284**	**$ 694**	**$ 1,285**	**$ 1,600**	**$ 24,494**
Charge-offs	**(1,439)**	**(57)**	**(15)**	**(80)**	**(223)**	**(147)**	**N/A**	**(1,961)**
Recoveries	**45**	**370**	**3**	**1**	**78**	**62**	**N/A**	**559**
Provision (recovery of provision)	**1,152**	**154**	**6**	**16**	**49**	**95**	**3**	**1,475**
Ending balance	**$ 9,547**	**$ 9,247**	**$ 1,056**	**$ 1,221**	**$ 598**	**$ 1,295**	**$ 1,603**	**$ 24,567**
Three Months Ended March 31, 2013								

Reserve for loan and lease losses:								
Beginning balance	$ 11,594	$ 7,507	$ 639	$ 980	$ 679	$ 1,326	$ 2,021	$ 24,746
Charge-offs	(1,071)	(382)	(50)	(4)	(180)	(159)	N/A	(1,846)
Recoveries	48	6	8	2	34	150	N/A	248
Provision (recovery of provision)	1,312	892	(18)	(186)	95	41	(62)	2,074
Ending balance	$ 11,883	$ 8,023	$ 579	$ 792	$ 628	$ 1,358	$ 1,959	$ 25,222

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At March 31, 2014								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 1,022**	**$ 17**	**$ 533**	**$**	**$**	**$**	**$ N/A**	**$ 1,572**
Ending balance: collectively evaluated for impairment	**8,525**	**9,230**	**523**	**1,221**	**598**	**1,295**	**1,603**	**22,995**
Total ending balance	**$ 9,547**	**$ 9,247**	**$ 1,056**	**$ 1,221**	**$ 598**	**$ 1,295**	**$ 1,603**	**$ 24,567**
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	**$ 12,931**	**$ 36,849**	**$ 2,629**	**$ 1,029**	**$ 2**	**$**		**$ 53,440**
Ending balance: collectively evaluated for impairment	**435,796**	**647,250**	**34,367**	**245,346**	**36,819**	**107,428**		**1,507,006**

Total ending balance	**$ 448,727**	**$ 684,099**	**$ 36,996**	**$ 246,375**	**$ 36,821**	**$ 107,428**		**$ 1,560,446**

N/A Not applicable

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(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At March 31, 2013								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 252	$	$	$	$	$	$ N/A	$ 252
Ending balance: collectively evaluated for impairment	11,631	8,023	579	792	628	1,358	1,959	24,970
Total ending balance	$ 11,883	$ 8,023	$ 579	$ 792	$ 628	$ 1,358	$ 1,959	$ 25,222
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 2,297	$ 38,209	$ 171	$ 827	$ 41	$		$ 41,545
Ending balance: collectively evaluated for impairment	466,140	592,837	31,584	226,059	41,740	87,470		1,445,830
Total ending balance	$ 468,437	$ 631,046	$ 31,755	$ 226,886	$ 41,781	$ 87,470		$ 1,487,375

N/A Not applicable

Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at March 31, 2014 and December 31, 2013:

(Dollars in thousands)	At March 31, 2014 Recorded Investment	At March 31, 2014 Unpaid Principal Balance	At March 31, 2014 Related Allowance	At December 31, 2013 Recorded Investment	At December 31, 2013 Unpaid Principal Balance	At December 31, 2013 Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	**$ 9,143**	**$ 9,400**		$ 10,890	$ 11,749	
Real estate commercial real estate	**22,829**	**24,516**		28,883	35,700	
Real estate construction	**12,541**	**14,724**		12,357	14,540	
Real estate residential secured for business purpose	**976**	**978**		224	235	
Real estate residential secured for personal purpose	**952**	**1,037**		131	131	
Real estate home equity secured for personal purpose	**77**	**77**		77	77	
Loans to individuals	**2**	**2**		36	54	
Total impaired loans with no allowance recorded	**$ 46,520**	**$ 50,734**		$ 52,598	$ 62,486	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 3,788**	**$ 4,375**	**$ 1,022**	$ 3,215	$ 3,272	$ 2,398
Real estate commercial real estate	**1,479**	**1,479**	**17**			
Real estate residential secured for business purpose	**1,653**	**1,665**	**533**	1,550	1,550	501
Real estate residential secured for personal purpose				970	976	64
Total impaired loans with an allowance recorded	**$ 6,920**	**$ 7,519**	**$ 1,572**	$ 5,735	$ 5,798	$ 2,963
Total impaired loans:						
Commercial, financial and agricultural	**$ 12,931**	**$ 13,775**	**$ 1,022**	$ 14,105	$ 15,021	$ 2,398
Real estate commercial real estate	**24,308**	**25,995**	**17**	28,883	35,700	
Real estate construction	**12,541**	**14,724**		12,357	14,540	
Real estate residential secured for business purpose	**2,629**	**2,643**	**533**	1,774	1,785	501
Real estate residential secured for personal purpose	**952**	**1,037**		1,101	1,107	64
Real estate home equity secured for personal purpose	**77**	**77**		77	77	
Loans to individuals	**2**	**2**		36	54	
Total impaired loans	**$ 53,440**	**$ 58,253**	**$ 1,572**	$ 58,333	$ 68,284	$ 2,963

Impaired loans includes nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. These loans are individually measured to determine the amount of potential impairment. The loans are reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans initial effective interest rates. Impaired loans included other accruing impaired loans of $27.4 million and $27.5 million at March 31, 2014 and December 31, 2013, respectively. Specific reserves on other accruing impaired loans were $739 thousand and $1.6 million at March 31, 2014 and December 31, 2013, respectively.

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

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 14,075**	**$ 127**	**$ 65**	$ 2,884	$ 8	$ 39
Real estate commercial real estate	**25,957**	**282**	**94**	23,958	155	225
Real estate construction	**12,500**	**42**	**124**	15,844	28	184
Real estate residential secured for business purpose	**2,058**	**16**	**20**	184		3
Real estate residential secured for personal purpose	**1,029**		**14**	803		12
Real estate home equity secured for personal purpose	**77**		**1**	6		
Loans to individuals	**10**			46	1	
Total	**$ 55,706**	**$ 467**	**$ 318**	$ 43,725	$ 192	$ 463

* Includes interest income recognized on a cash basis for nonaccrual loans of $23 thousand and $6 thousand for the three months ended March 31, 2014 and 2013, respectively and interest income recognized on the accrual method for accruing impaired loans of $444 thousand and $186 thousand for the three months ended March 31, 2014 and 2013, respectively.

Troubled Debt Restructured Loans

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

	Three Months Ended March 31, 2014				Three Months Ended March 31, 2013			
(Dollars in thousands)	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								
Total		$	$	$		$	$	$
Nonaccrual Troubled Debt Restructured Loans:								
Real estate commercial real estate	1	$ 50	$ 50	$				
Real estate residential secured for business purpose	2	688	688					
Total	3	$ 738	$ 738	$		$	$	$

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

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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 months ended March 31, 2014. There were no troubled debt loan restructurings during the three months ended March 31, 2013.

	Three Months Ended March 31, 2014					
	Interest Rate Reduction		Maturity Date Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Accruing Troubled Debt Restructured Loans:						
Total		$		$		$
Nonaccrual Troubled Debt Restructured Loans:						
Real estate commercial real estate	**1**	**$ 50**		**$**	**1**	**$ 50**
Real estate residential secured for business purpose	**1**	**55**	**1**	**633**	**2**	**688**
Total	**2**	**$ 105**	**1**	**$ 633**	**3**	**$ 738**

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

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
(Dollars in thousands)	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 $7.2 million at both March 31, 2014 and December 31, 2013. The fair value of mortgage servicing rights was determined using discount rates ranging from 5.1% to 10.0% at March 31, 2014 and 5.0% to 10.0% at December 31, 2013.

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

	Three Months Ended March 31,	
(Dollars in thousands)	**2014**	**2013**
Beginning of period	**$ 5,519**	$ 4,152
Servicing rights capitalized	**123**	768
Amortization of servicing rights	**(243)**	(431)
Changes in valuation allowance	**7**	234
End of period	**$ 5,406**	$ 4,723
Mortgage loans serviced for others	**$ 753,561**	$ 648,621

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

	Three Months Ended March 31,	
(Dollars in thousands)	**2014**	**2013**
Valuation allowance, beginning of period	**$ (250)**	$ (497)
Additions		
Reductions	**7**	234
Direct write-downs		
Valuation allowance, end of period	**$ (243)**	$ (263)

The estimated amortization expense of mortgage servicing rights for the remainder of 2014 and the succeeding fiscal years is as follows:

Year (Dollars in thousands)	**Amount**
Remainder of 2014	$ 623
2015	745
2016	640
2017	547
2018	458
Thereafter	2,393

Note 6. Income Taxes

At March 31, 2014 and December 31, 2013, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in noninterest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in noninterest expense in the year it is assessed and is treated as a deductible expense for tax purposes. At March 31, 2014, the Corporation s tax years 2010 through 2013 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

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

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

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

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

Components of net periodic benefit cost (income) were as follows:

	Three Months Ended March 31,			
	2014	**2013**	**2014**	**2013**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 136**	$ 156	**$ 19**	$ 21
Interest cost	**475**	431	**36**	29
Expected return on plan assets	**(745)**	(555)		
Amortization of net actuarial loss	**161**	286	**3**	6
Accretion of prior service cost	**(70)**	(59)	**(5)**	(5)
Net periodic benefit cost (income)	**$ (43)**	$ 259	**$ 53**	$ 51

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The Corporation previously disclosed in its financial statements for the year ended December 31, 2013, that it expected to make contributions of $162 thousand to its non-qualified retirement plans and $94 thousand to its other postretirement benefit plans in 2014. During the three months ended March 31, 2014, the Corporation contributed $33 thousand to its non-qualified retirement plans and $23 thousand to its other postretirement plans. During the three months ended March 31, 2014, $485 thousand has been paid to participants from the retirement plans and $23 thousand has been paid to participants from the other postretirement plans.

Note 8. 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 March 31, 2014	2013
Numerator for basic and diluted earnings per share income available to common shareholders	**$ 5,726**	$ 5,398
Denominator for basic earnings per share weighted-average shares outstanding	**16,256**	16,788
Effect of dilutive securities employee stock options and awards	**98**	71
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**16,354**	16,859
Basic earnings per share	**$ 0.35**	$ 0.32
Diluted earnings per share	**$ 0.35**	$ 0.32
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	**488**	653

Note 9. 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 (Losses) 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, 2013	**$ (1,472)**	**$**	**$ (8,483)**	**$ (9,955)**
Net Change	**1,695**		**58**	**1,753**

Balance, March 31, 2014	**$**	**223**	**$**		**$**	**(8,425)**	**$**	**(8,202)**
Balance, December 31, 2012	$	8,344	$	(1,241)	$	(14,023)	$	(6,920)
Net Change		(1,033)		105		149		(779)
Balance, March 31, 2013	$	7,311	$	(1,136)	$	(13,874)	$	(7,699)

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The following table illustrates the amounts reclassified out of each component of accumulated comprehensive (loss) income for the three months ended March 31, 2014 and 2013:

Details about Accumulated Other Comprehensive (Loss) Income Components	**Amount Reclassified from Accumulated Other Comprehensive (Loss) Income Three Months Ended March 31,**		**Affected Line Item in the Statement of Income**
(Dollars in thousands)	**2014**	**2013**	
Net unrealized holding gains (losses) on available-for-sale investment securities:			
	$ 142	$ 185	Net gain on sales of investment securities
	142	185	Total before tax
	(50)	(65)	Tax expense
	$ 92	$ 120	Net of tax
Defined benefit pension plans:			
Amortization of net loss included in net periodic pension costs*	**$ (164)**	$ (292)	
Accretion of prior service cost included in net periodic pension costs*	**75**	64	
	(89)	(228)	Total before tax
	31	79	Tax benefit
	$ (58)	$ (149)	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 10. Derivative Instruments and Hedging Activities

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

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

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at March 31, 2014 and December 31, 2013:

(Dollars in thousands)	Notional Amount	Derivative Assets Balance Sheet Classification	Derivative Assets Fair Value	Derivative Liabilities Balance Sheet Classification	Derivative Liabilities Fair Value
At March 31, 2014					
Interest rate locks with customers	**$ 18,200**	Other Assets	**$ 419**		$
Forward loan sale commitments	**20,044**	Other Assets	**12**		
Total	**$ 38,244**		**$ 431**		$
At December 31, 2013					
Interest rate locks with customers	$ 15,176	Other Assets	$ 321		$
Forward loan sale commitments	17,425	Other Assets	25		
Total	$ 32,601		$ 346		$

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There were no derivatives designated as hedging instruments recorded on the consolidated balance sheets at March 31, 2014 and December 31, 2013.

For the three months ended March 31, 2014 and 2013, 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 March 31, 2014	Three Months Ended March 31, 2013
Interest rate locks with customers	Net gain on mortgage banking activities	**$ 98**	$ (62)
Forward loan sale commitments	Net gain on mortgage banking activities	**(13)**	(168)
Total		**$ 85**	$ (230)

For the three months ended March 31, 2014 and 2013, 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 March 31, 2014	Three Months Ended March 31, 2013
Interest rate swap cash flow hedge interest payments	Interest expense	**$**	$ 115
Interest rate swap cash flow hedge ineffectiveness	Interest expense		
Net loss		**$**	$ (115)

Note 11. 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.

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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 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 securities issued by U.S. Government sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, corporate and municipal bonds and certain equity securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy.

Fair values for securities are determined using independent pricing services and market-participating brokers. The Corporation s independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the pricing service s evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. If at any time, the pricing service determines that it does have not sufficient verifiable information to value a particular security, the Corporation will utilize valuations from another pricing service. Management has a sufficient understanding of the third party service s valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control.

On a quarterly basis, the Corporation reviews changes, as submitted by the pricing service, in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Corporation has its security portfolio priced by a second pricing service to determine consistency with another market evaluator, except for municipal bonds which are priced by another service provider on a sample basis. If, upon 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 March 31, 2014.

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 noninterest 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 Girard Partners acquisition, the potential cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $14.5 million cumulative over the five-year period ending December 31, 2018.

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For the John T. Fretz Insurance Agency 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.

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. 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 remote. Therefore, as of March 31, 2014, 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.

The following table presents the assets and liabilities measured at fair value on a recurring basis at March 31, 2014 and December 31, 2013, classified using the fair value hierarchy:

	At March 31, 2014			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$ 4,747	$	$	$ 4,747
U.S. government corporations and agencies		123,386		123,386
State and political subdivisions		107,897		107,897
Residential mortgage-backed securities		21,598		21,598
Collateralized mortgage obligations		6,970		6,970
Corporate bonds		36,340		36,340
Money market mutual funds	12,589			12,589
Equity securities	2,401			2,401
Total available-for-sale securities	19,737	296,191		315,928
Interest rate locks with customers		419		419
Forward loan sale commitments		12		12
Total assets	$ 19,737	$ 296,622	$	$ 316,359
Liabilities:				
Contingent consideration liability	$	$	$ 6,284	$ 6,284
Total liabilities	$	$	$ 6,284	$ 6,284

	At December 31, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at

				Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$ 4,708	$	$	$ 4,708
U.S. government corporations and agencies		128,148		128,148
State and political subdivisions		107,657		107,657
Residential mortgage-backed securities		35,480		35,480
Collateralized mortgage obligations		7,201		7,201
Corporate bonds		33,840		33,840
Money market mutual funds	16,900			16,900
Equity securities	2,347			2,347
Total available-for-sale securities	23,955	312,326		336,281
Interest rate locks with customers		321		321
Forward loan sale commitments		25		25
Total assets	$ 23,955	$ 312,672	$	$ 336,627
Liabilities:				
Contingent consideration liability	$	$	$ 501	$ 501
Total liabilities	$	$	$ 501	$ 501

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At March 31, 2014 and December 31, 2013, 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 three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014				
(Dollars in thousands)	Balance at December 31, 2013	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at March 31, 2014
Girard Partners	$	$ 5,469	$	$ 189	$ 5,658
John T. Fretz Insurance Agency	501			125	626
Total contingent consideration liability	$ 501	$ 5,469	$	$ 314	$ 6,284

	Three Months Ended March 31, 2013				
(Dollars in thousands)	Balance at December 31, 2012	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at March 31, 2013
Javers Group	$ 903	$	$	$ 27	$ 930
Total contingent consideration liability	$ 903	$	$	$ 27	$ 930

The Corporation may be required periodically to measure certain assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or impairment charges of individual assets. The following table represents assets measured at fair value on a non-recurring basis at March 31, 2014 and December 31, 2013:

	At March 31, 2014			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	$	$	$ 51,868	$ 51,868
Total	$	$	$ 51,868	$ 51,868

At December 31, 2013

(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	$	$	$ 55,370	$ 55,370
Total	$	$	$ 55,370	$ 55,370

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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 March 31, 2014 and December 31, 2013. The disclosed fair values are classified using the fair value hierarchy.

	At March 31, 2014				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$ 72,127	$	$	$ 72,127	$ 72,127
Held-to-maturity securities		66,683		66,683	65,796
Loans held for sale		1,871		1,871	1,856
Net loans and leases held for investment			1,501,729	1,501,729	1,484,011
Mortgage servicing rights		7,153		7,153	5,406
Other real estate owned		1,650		1,650	1,650
Total assets	$ 72,127	$ 77,357	$ 1,501,729	$ 1,651,213	$ 1,630,846
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$ 1,572,424	$	$	$ 1,572,424	$ 1,572,424
Time deposits		265,183		265,183	267,336
Total deposits	1,572,424	265,183		1,837,607	1,839,760
Short-term borrowings		39,747		39,747	41,486
Total liabilities	$ 1,572,424	$ 304,930	$	$ 1,877,354	$ 1,881,246
Off-Balance-Sheet:					
Commitments to extend credit	$	$ (1,376)	$	$ (1,376)	$

	At December 31, 2013				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$ 69,169	$	$	$ 69,169	$ 69,169
Held-to-maturity securities		66,853		66,853	66,003
Loans held for sale		2,267		2,267	2,267
Net loans and leases held for investment			1,477,945	1,477,945	1,461,620
Mortgage servicing rights		7,188		7,188	5,519
Other real estate owned		1,650		1,650	1,650
Total assets	$ 69,169	$ 77,958	$ 1,477,945	$ 1,625,072	$ 1,606,228

Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$ 1,573,709	$	$	$ 1,573,709	$ 1,573,709
Time deposits		268,909		268,909	270,789
Total deposits	1,573,709	268,909		1,842,618	1,844,498
Short-term borrowings		35,687		35,687	37,256
Total liabilities	$ 1,573,709	$ 304,596	$	$ 1,878,305	$ 1,881,754
Off-Balance-Sheet:					
Commitments to extend credit	$	$ (1,357)	$	$ (1,357)	$

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

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

Loans held for sale: The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. There were no valuation adjustments for loans held for sale at March 31, 2014 and December 31, 2013.

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 March 31, 2014, impaired loans held for investment had a carrying amount of $53.4 million with a valuation allowance of $1.6 million. At December 31, 2013, impaired loans held for investment had a carrying amount of $58.3 million with a valuation allowance of $3.0 million.

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 March 31, 2014, mortgage servicing rights had a carrying amount of $5.6 million with a valuation allowance of $243 thousand. At December 31, 2013, mortgage servicing rights had a carrying amount of $5.8 million with a valuation allowance of $250 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. During the three months ended March 31, 2014, there were no triggering events that required valuation of goodwill and other identifiable intangible assets.

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.

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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.

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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 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 2013 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 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. In January 2014, Delview completed the acquisition of Girard Partners, a registered investment advisory firm, headquartered in King of Prussia, Pennsylvania with two satellite offices in Virginia and Florida. The Bank is also the parent company of Univest Capital, Inc., an equipment financing business, and TCG Investment Advisory, a registered investment advisor which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals, municipalities and businesses throughout its markets of operation.

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Executive Overview

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

	Three Months Ended March 31,		Change	
(Dollars in thousands, except per share data)	**2014**	**2013**	**Amount**	**Percent**
Net income	**$ 5,726**	$ 5,398	$ 328	6%
Net income per share:				
Basic	**$ 0.35**	$ 0.32	$ 0.03	9
Diluted	**0.35**	0.32	0.03	9
Return on average assets	**1.07%**	0.98%	9 BP	9
Return on average equity	**8.22**	7.67	55 BP	7

Net interest income on a tax-equivalent basis of $19.2 million for the three months ended March 31, 2014 increased $106 thousand, or 1% compared to the same period in 2013. The net interest margin on a tax-equivalent basis for the first quarter of 2014 was 3.96%, an increase of 14 basis points compared to 3.82% for the first quarter of 2013.

The provision for loan and lease losses for the three months ended March 31, 2014 was $1.5 million, a decrease of $599 thousand, or 29% compared to the same period in 2013.

Noninterest income for the three months ended March 31, 2014 was $12.1 million, an increase of $666 thousand, or 6% from the comparable period in the prior year. Noninterest expense for the three months ended March 31, 2014 was $20.9 million, an increase of $647 thousand, or 3% compared to the same period in the prior year.

Gross loans and leases held for investment increased $19.0 million, or 1% from December 31, 2013. Deposits declined $4.7 million from December 31, 2013.

Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, decreased to $19.3 million at March 31, 2014 from $23.2 million at December 31, 2013 and $28.9 million at March 31, 2013. Nonaccrual loans and leases as a percentage of total loans and leases held for investment was 1.24% at March 31, 2014 compared to 1.51% at December 31, 2013 and 1.94% at March 31, 2013. Net loan and lease charge-offs were $1.4 million during the three months ended March 31, 2014, compared to $1.6 million for the same period in 2013.

On January 27, 2014, the Corporation completed the acquisition of Girard Partners, a registered investment advisory firm with more than $500 million in assets under management. The Corporation increased its assets under management to over $3.0 billion at the acquisition date and expanded its advisory capabilities. The Corporation paid $5.4 million in cash at closing with additional contingent consideration to be paid in annual installments over the five-year period ending December 31, 2018 based on the achievement of certain levels of EBITDA (earnings before interest, taxes, depreciation and amortization). As of the effective date of the acquisition, January 1, 2014, the Corporation recorded the estimated fair value of the contingent consideration of $5.5 million in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $14.5 million cumulative over the next five years. As a result of the Girard Partners acquisition, the Corporation recorded goodwill of $6.8 million (inclusive of the contingent consideration) and customer related intangibles of $4.3 million.

During the first quarter of 2014, the Corporation repurchased 110,671 shares of common stock at a cost of $2.0 million under its 2013 Board approved share repurchase program. Shares available for future repurchases under the plan totaled 689,329 at March 31, 2014. Total shares outstanding at March 31, 2014 were 16,249,152.

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 a general increase in interest rates over the last several quarters, 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 months ended March 31, 2014 and 2013. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Three months ended March 31, 2014 versus 2013

Net interest income on a tax-equivalent basis for the three months ended March 31, 2014 was $19.2 million, an increase of $106 thousand, or 1% compared to the same period in 2013. The tax-equivalent net interest margin for the three months ended March 31, 2014 increased 14 basis points to 3.96% from 3.82% for the three months ended March 31, 2013. The increase in the first quarter net interest margin from the prior year was primarily attributable to the redemption of the Corporation s trust preferred securities and termination of the related interest rate swap during the second quarter of 2013, maturities of higher yielding time deposits, a decline in the rate paid on time deposits and a reduction in lower yielding investment securities.

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Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

	Three Months Ended March 31,					
	2014			2013		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 25,403**	**$ 14**	**0.22%**	$ 48,347	$ 35	0.29%
U.S. government obligations	**131,302**	**331**	**1.02**	174,408	477	1.11
Obligations of states and political subdivisions	**107,756**	**1,456**	**5.48**	121,686	1,579	5.26
Other debt and equity securities	**151,572**	**720**	**1.93**	200,938	895	1.81
Total interest-earning deposits and investments	**416,033**	**2,521**	**2.46**	545,379	2,986	2.22
Commercial, financial and agricultural loans	**392,173**	**3,898**	**4.03**	438,434	4,676	4.33
Real estate commercial and construction loans	**591,064**	**6,888**	**4.73**	544,865	6,658	4.96
Real estate residential loans	**282,002**	**2,558**	**3.68**	257,435	2,455	3.87
Loans to individuals	**38,646**	**584**	**6.13**	42,781	596	5.65
Municipal loans and leases	**175,149**	**2,121**	**4.91**	134,450	1,716	5.18
Lease financings	**71,312**	**1,632**	**9.28**	66,078	1,557	9.56
Gross loans and leases	**1,550,346**	**17,681**	**4.63**	1,484,043	17,658	4.83
Total interest-earning assets	**1,966,379**	**20,202**	**4.17**	2,029,422	20,644	4.13
Cash and due from banks	**29,949**			32,275		
Reserve for loan and lease losses	**(25,326)**			(25,245)		
Premises and equipment, net	**34,250**			33,046		
Other assets	**167,299**			163,649		
Total assets	**$ 2,172,551**			$ 2,233,147		
Liabilities:						
Interest-bearing checking deposits	**$ 313,666**	**43**	**0.06**	$ 244,089	36	0.06
Money market savings	**289,101**	**67**	**0.09**	325,677	80	0.10
Regular savings	**543,107**	**79**	**0.06**	534,701	76	0.06
Time deposits	**268,952**	**803**	**1.21**	323,982	1,048	1.31
Total time and interest-bearing deposits	**1,414,826**	**992**	**0.28**	1,428,449	1,240	0.35

Short-term borrowings	**39,631**	**6**	**0.06**	102,444	17	0.07
Subordinated notes and capital securities				20,982	289	5.59
Total borrowings	**39,631**	**6**	**0.06**	123,426	306	1.01
Total interest-bearing liabilities	**1,454,457**	**998**	**0.28**	1,551,875	1,546	0.40
Noninterest-bearing deposits	**408,763**			361,659		
Accrued expenses and other liabilities	**26,757**			34,055		
Total liabilities	**1,889,977**			1,947,589		
Shareholders Equity:						
Common stock	**91,332**			91,332		
Additional paid-in capital	**65,270**			64,721		
Retained earnings and other equity	**125,972**			129,505		
Total shareholders equity	**282,574**			285,558		
Total liabilities and shareholders equity	**$ 2,172,551**			$ 2,233,147		
Net interest income		**$ 19,204**			$ 19,098	
Net interest spread			**3.89**			3.73
Effect of net interest-free funding sources			**0.07**			0.09
Net interest margin			**3.96%**			3.82%
Ratio of average interest-earning assets to average interest-bearing liabilities	**135.20%**			130.27%		

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 months ended March 31, 2014 and 2013 have been calculated using the Corporation s federal applicable rate of 35%.

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Table 2 Analysis of Changes in Net Interest Income

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

	Three Months Ended March 31, 2014 Versus 2013		
(Dollars in thousands)	Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	$ (14)	$ (7)	$ (21)
U.S. government obligations	(110)	(36)	(146)
Obligations of states and political subdivisions	(187)	64	(123)
Other debt and equity securities	(231)	56	(175)
Interest on deposits and investments	(542)	77	(465)
Commercial, financial and agricultural loans	(470)	(308)	(778)
Real estate commercial and construction loans	548	(318)	230
Real estate residential loans	227	(124)	103
Loans to individuals	(61)	49	(12)
Municipal loans and leases	499	(94)	405
Lease financings	122	(47)	75
Interest and fees on loans and leases	865	(842)	23
Total interest income	323	(765)	(442)
Interest expense:			
Interest-bearing checking deposits	7		7
Money market savings	(7)	(6)	(13)
Regular savings	3		3
Time deposits	(169)	(76)	(245)
Interest on time and interest-bearing deposits	(166)	(82)	(248)
Short-term borrowings	(9)	(2)	(11)
Subordinated notes and capital securities	(289)		(289)
Interest on borrowings	(298)	(2)	(300)
Total interest expense	(464)	(84)	(548)
Net interest income	$ 787	$ (681)	$ 106

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 months ended March 31, 2014 and 2013 have been calculated using the Corporation s federal applicable rate of 35%.

Interest Income

Three months ended March 31, 2014 versus 2013

Interest income on a tax-equivalent basis for the three months ended March 31, 2014 was $20.2 million, a decrease of $442 thousand, or 2% from the same period in 2013. The decrease was primarily due to lower rates on loans and a reduction in lower yielding investment securities partially offset by loan growth. The lower rates on loans were primarily in the commercial business, commercial real estate and residential real estate loan categories due to re-pricing and the competitive environment. Growth in commercial real estate loans, residential real estate loans and municipal loans and leases was partially offset by lower commercial business loan outstandings.

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Interest Expense

Three months ended March 31, 2014 versus 2013

Interest expense for the three months ended March 31, 2014 was $1.0 million, a decrease of $548 thousand, or 35% from the comparable period in 2013. The decrease was mainly attributable to the redemption of the Corporation s trust preferred securities and termination of the related interest rate swap during the second quarter of 2013, maturities of higher yielding time deposits and a decline in rates paid on time deposits. The average rate paid on borrowings declined by 95 basis points and the average cost of deposits declined by 7 basis points. For the three months ended March 31, 2014, the Corporation experienced decreases in average time deposits of $55.0 million and money market savings of $36.6 million partially offset by increases in average interest-bearing checking of $69.6 million and regular savings of $8.4 million. The lower interest rate environment continued to result in a shift in consumer deposits from time deposits to noninterest-bearing and regular savings deposits. The increase in interest-bearing checking deposits was primarily due to a product change for existing business and municipal customers which resulted in $68.1 million of customer repurchase agreements, classified as borrowings, being transferred to interest-bearing demand deposits during the second quarter of 2013.

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 March 31, 2014 and 2013 was $1.5 million and $2.1 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 noninterest income includes other miscellaneous income.

The following table presents noninterest income for the periods indicated:

	Three Months Ended March 31,	Change

(Dollars in thousands)	2014	2013	Amount	Percent
Trust fee income	**$ 1,899**	$ 1,734	$ 165	10%
Service charges on deposit accounts	**1,014**	1,086	(72)	(7)
Investment advisory commission and fee income	**3,049**	1,896	1,153	61
Insurance commission and fee income	**3,332**	2,523	809	32
Other service fee income	**1,807**	1,698	109	6
Bank owned life insurance income	**378**	504	(126)	(25)
Net gain on sales of securities	**142**	185	(43)	(23)
Net gain on mortgage banking activities	**349**	1,696	(1,347)	(79)
Other	**171**	153	18	12
Total noninterest income	**$ 12,141**	$ 11,475	$ 666	6

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Three months ended March 31, 2014 versus 2013

Noninterest income for the three months ended March 31, 2014 was $12.1 million, an increase of $666 thousand, or 6% from the comparable period in the prior year. Investment advisory commission and fee income increased $1.2 million primarily due to the acquisition of Girard Partners effective January 1, 2014. Insurance commission and fee income increased $809 thousand primarily due to an increase in contingency revenues and the acquisition of the John T. Fretz Insurance Agency on May 1, 2013. These favorable increases were partially offset by a $1.3 million decrease in the net gain on mortgage banking activities. Higher interest rates have reduced refinance activity while the harsh winter we experienced restrained purchase activity, leading to a 79% decline in funded loan volume for the three months ended March 31, 2014 from the comparable period in 2013.

Noninterest Expense

The operating costs of the Corporation are known as noninterest 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:

	Three Months Ended March 31,		**Change**	
(Dollars in thousands)	**2014**	**2013**	**Amount**	**Percent**
Salaries and benefits	**$ 10,671**	$ 9,860	$ 811	8%
Commissions	**1,590**	2,115	(525)	(25)
Net occupancy	**1,754**	1,399	355	25
Equipment	**1,334**	1,182	152	13
Professional services	**852**	767	85	11
Marketing and advertising	**361**	365	(4)	(1)
Deposit insurance premiums	**379**	392	(13)	(3)
Intangible expenses	**760**	209	551	N/M
Restructuring charges		539	(539)	N/M
Other	**3,182**	3,408	(226)	(7)
Total noninterest expense	**$ 20,883**	$ 20,236	$ 647	3

Three months ended March 31, 2014 versus 2013

Noninterest expense for the three months ended March 31, 2014 was $20.9 million, an increase of $647 thousand or 3% from the comparable period in the prior year. Intangible expenses increased $551 thousand and salaries and benefit expense increased $811 thousand primarily attributable to the Girard and Fretz acquisitions. These unfavorable variances were partially offset by a decrease in commission expense of $525 thousand mainly due to the decline in mortgage banking activity. Premises and equipment expenses increased $507 thousand mainly due to increased costs related to computer equipment and software, snow removal, a new leased office location in the Lehigh Valley and the Girard acquisition. In addition, non-interest expense during the three months ended March 31, 2013 included restructuring charges of $539 thousand.

Tax Provision

The provision for income taxes for the three months ended March 31, 2014 and 2013 was $2.0 million and $1.7 million, at effective rates of 26% and 24%, 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 the three months ended March 31, 2014 is mainly due to a higher amount of income taxable at the state level in 2014 versus 2013.

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Financial Condition

Assets

The following table presents assets at the dates indicated:

(Dollars in thousands)	At March 31, 2014	At December 31, 2013	Change Amount	Change Percent
Cash and interest-earning deposits	**$ 72,127**	$ 69,169	$ 2,958	4%
Investment securities	**381,724**	402,284	(20,560)	(5)
Loans held for sale	**1,856**	2,267	(411)	(18)
Loans and leases held for investment	**1,560,446**	1,541,484	18,962	1
Reserve for loan and lease losses	**(24,567)**	(24,494)	(73)	
Premises and equipment, net	**34,078**	34,129	(51)	
Goodwill and other intangibles, net	**76,281**	65,695	10,586	16
Bank owned life insurance	**61,015**	60,637	378	1
Accrued interest receivable and other assets	**38,234**	40,388	(2,154)	(5)
Total assets	**$ 2,201,194**	$ 2,191,559	$ 9,635	

Investment Securities

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

Total investments at March 31, 2014 decreased $20.6 million from December 31, 2013. Sales of $18.6 million, maturities and pay-downs of $18.4 million and calls of $5.3 million, were partially offset by purchases of $19.5 million and increases in the fair value of available-for-sale investment securities of $2.6 million. The increases in fair value of available-for-sale investment securities were primarily due to the decrease in long-term interest rates during the first quarter of 2014.

Loans and Leases

Gross loans and leases held for investment at March 31, 2014 increased $19.0 million or 1% from December 31, 2013. Commercial business loans increased $25.9 million, while commercial real estate loans decreased $7.1 million. While the longer-term economic outlook remains positive, household income and spending levels continue to remain stagnant. In the short-term, the Corporation anticipates that this will restrain overall credit demand and the utilization of available credit lines by both businesses and consumers.

Asset Quality

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

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

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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 March 31, 2014, the recorded investment in loans that were considered to be impaired was $53.4 million. The related reserve for loan losses was $1.6 million. At December 31, 2013, the recorded investment in loans that were considered to be impaired was $58.3 million. The related reserve for loan losses was $3.0 million. Impaired loans include nonaccrual loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits. For the three months ended March 31, 2014 and 2013, interest income that would have been recognized under the original terms for impaired loans was $318 thousand and $463 thousand. Interest income recognized for the three months ended March 31, 2014 and 2013 was $467 thousand and $192 thousand, respectively.

The impaired loan balances consisted mainly of commercial real estate, construction and commercial business loans. The $4.9 million decrease in impaired loans from December 31, 2013 was mainly due to the sale of a non-accrual commercial real estate loan for $2.5 million and the payoff of another commercial real estate loan for $1.3 million. Impaired loans at March 31, 2014 included one large credit which went on nonaccrual during the third quarter of 2009 and is comprised of four separate facilities to a local commercial real estate developer/home builder, aggregating to $9.6 million. 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. Other real estate owned was $1.7 million at March 31, 2014, unchanged from December 31, 2013.

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

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

(Dollars in thousands)	At March 31, 2014	At December 31, 2013	At March 31, 2013
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:			
Commercial, financial and agricultural	**$ 3,155**	$ 4,253	$ 1,837
Real estate commercial	**4,590**	8,091	12,146
Real estate construction	**9,153**	9,159	13,538
Real estate residential	**2,108**	1,402	998
Loans to individuals	**2**		2
Lease financings	**279**	330	366
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	**19,287**	23,235	28,887
Accruing troubled debt restructured loans and lease modifications not included in the above	**7,036**	7,943	13,037
Accruing loans and leases 90 days or more past due:			
Commercial, financial and agricultural	**15**	12	49
Real estate residential	**312**	23	
Loans to individuals	**206**	319	223
Lease financings	**48**	59	94
Total accruing loans and leases, 90 days or more past due	**581**	413	366
Total non-performing loans and leases	**26,904**	31,591	42,290
Other real estate owned	**1,650**	1,650	3,616
Total nonperforming assets	**$ 28,554**	$ 33,241	$ 45,906
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment	**1.24%**	1.51%	1.94%
Nonperforming loans and leases / loans and leases held for investment	**1.72**	2.05	2.84
Nonperforming assets / total assets	**1.30**	1.52	2.03

Allowance for loan and lease losses / loans and leases held for investment	**1.57**	1.59	1.70
Allowance for loan and lease losses / nonaccrual loans and leases	**127.38**	105.42	87.31
Allowance for loan and lease losses / nonperforming loans and leases	**91.31**	77.53	59.64
Allowance for loan and lease losses	**$ 24,567**	$ 24,494	$ 25,222
* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table	**$ 2,268**	$ 1,583	$ 572

The following table provides additional information on the Corporation s nonaccrual loans:

(Dollars in thousands)	**At March 31, 2014**	**At December 31, 2013**	**At March 31, 2013**
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	**$ 19,287**	$ 23,235	$ 28,887
Nonaccrual loans and leases with partial charge-offs	**7,456**	8,958	7,269
Life-to-date partial charge-offs on nonaccrual loans and leases	**4,270**	9,120	3,743
Charge-off rate of nonaccrual loans and leases with partial charge-offs	**36.4%**	50.4%	34.0%
Specific reserves on impaired loans	**$ 1,572**	$ 2,963	$ 252

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is appropriate at March 31, 2014 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.

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The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Impaired loans, including nonaccrual loans and leases, troubled debt restructured loans and other accruing impaired loans are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience and qualitative factors, 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. Historical loss experience is 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 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 $325 thousand and $319 thousand at March 31, 2014 and December 31, 2013, 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 $684 thousand and $608 thousand for the three months ended March 31, 2014 and 2013, respectively. The Corporation also has goodwill with a net carrying amount of $64.3 million at March 31, 2014 and $57.5 million at December 31, 2013, which is deemed to be an indefinite intangible asset and is not amortized. The increase in goodwill of $6.8 million was related to the Girard Partners acquisition.

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. There was no impairment to goodwill or identifiable intangibles during the three months ended March 31, 2014 and 2013. Since the last annual impairment analysis during 2013, there have been no circumstances to indicate impairment. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

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Other Assets

At March 31, 2014 and December 31, 2013, the Bank held $3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership as determined by the FHLB. The Bank is required to hold additional stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $3.0 million and $3.2 million at March 31, 2014 and December 31, 2013, respectively. Additionally, the FHLB might require its members to increase its capital stock requirement. Changes in the credit ratings of the U.S. government and federal agencies, including 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. The Corporation determined there was no other-than-temporary impairment of its investment in FHLB stock. Therefore, at March 31, 2014, the FHLB stock is recorded at cost.

Liabilities

The following table presents liabilities at the dates indicated:

(Dollars in thousands)	At March 31, 2014	At December 31, 2013	Change Amount	Change Percent
Deposits	**$ 1,839,760**	$ 1,844,498	$ (4,738)	%
Short-term borrowings	**41,486**	37,256	4,230	11
Accrued expenses and other liabilities	**36,652**	29,299	7,353	25
Total liabilities	**$ 1,917,898**	$ 1,911,053	$ 6,845	

Deposits

Total deposits declined $4.7 million from December 31, 2013, primarily due to a decrease in public funds partially offset by increases in noninterest-bearing deposits and interest-bearing savings deposits.

Borrowings

Short-term borrowings at March 31, 2014, consisted of customer repurchase agreements on an overnight basis totaling $41.5 million.

Shareholders Equity

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

(Dollars in thousands)	At March 31, 2014	At December 31, 2013	Change Amount	Change Percent
Common stock	**$ 91,332**	$ 91,332	$	%
Additional paid-in capital	**61,708**	62,417	(709)	(1)
Retained earnings	**175,080**	172,602	2,478	1

Accumulated other comprehensive loss	**(8,202)**	(9,955)	1,753	18
Treasury stock	**(36,622)**	(35,890)	(732)	(2)
Total shareholders equity	**$ 283,296**	$ 280,506	$ 2,790	1

Retained earnings at March 31, 2014 were impacted by the three months of net income of $5.7 million partially offset by cash dividends declared of $3.2 million. Accumulated other comprehensive loss decreased primarily due to increases in the fair value of available-for-sale investment securities. Treasury stock increased primarily due to the purchase of 110,671 treasury shares, totaling $2.0 million under its 2013 Board approved share repurchase program partially offset by the issuance of restricted stock.

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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

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2014:						
Total Capital (to Risk-Weighted Assets):						
Corporation	**$ 246,954**	**13.27%**	**$ 148,868**	**8.00%**	**$ 186,085**	**10.00%**
Bank	**230,133**	**12.49**	**147,394**	**8.00**	**184,243**	**10.00**
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	**223,345**	**12.00**	**74,434**	**4.00**	**111,651**	**6.00**
Bank	**207,076**	**11.24**	**73,697**	**4.00**	**110,546**	**6.00**
Tier 1 Capital (to Average Assets):						
Corporation	**223,345**	**10.64**	**83,994**	**4.00**	**104,993**	**5.00**
Bank	**207,076**	**9.92**	**83,517**	**4.00**	**104,397**	**5.00**
At December 31, 2013:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 256,329	13.90%	$ 147,568	8.00%	$ 184,460	10.00%
Bank	238,336	13.06	145,991	8.00	182,489	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	232,946	12.63	73,784	4.00	110,676	6.00
Bank	215,497	11.81	72,995	4.00	109,493	6.00
Tier 1 Capital (to Average Assets):						
Corporation	232,946	10.85	85,876	4.00	107,346	5.00
Bank	215,497	10.11	85,277	4.00	106,597	5.00

At March 31, 2014 and December 31, 2013, 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 March 31, 2014, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category.

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity Tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-adjusted assets requirements include a common equity Tier 1 capital ratio of 4.5% (6.5% to be considered well capitalized) and a Tier 1 capital ratio of

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6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered well capitalized); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered well capitalized). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The final rules permit institutions, other than certain large institutions, to elect to continue to treat certain components of accumulated other comprehensive income as permitted under the current general risk-based capital rules, and not reflect unrealized gains and losses on available-for-sale securities in common equity Tier 1 calculations. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Corporation and the Bank will continue to analyze these rules and their effects on the business, operations and capital levels of the Corporation and the Bank.

Asset/Liability Management

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

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

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 $474.1 million. At March 31, 2014 and December 31, 2013, there were no outstanding borrowings with the FHLB. At March 31, 2014 and December 31, 2013, the Bank had outstanding short-term letters of credit with the FHLB totaling $46.0 million and $35.0 million, respectively, which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB s internal credit rating of the Bank, and the amount of funds received may be reduced by additional required purchases of FHLB stock.

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The Bank, maintains federal fund lines with several correspondent banks totaling $82.0 million at March 31, 2014 and December 31, 2013. 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 March 31, 2014 and December 31, 2013, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. 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, 2013.

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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 March 31, 2014.

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 March 31, 2014 that materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in risk factors from those disclosed under Item 1A, Risk Factors. in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2013.

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 March 31, 2014 under its 2013 Board approved program.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 31, 2014	90,000	$ 18.46	90,000	710,000
February 1 28, 2014	20,671	18.16	20,671	689,329
March 1 31, 2014				689,329
Total	110,671	$ 18.40	110,671	

1. Transactions are reported as of trade dates.
2. On October 23, 2013, the Corporation s Board of Directors approved a new stock repurchase plan for the repurchase of up to 800,000 shares, or approximately 5% of the shares outstanding. The repurchased shares limit is net of normal treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and equity compensation plans. The program has no scheduled expiration date and the Board of Directors has the right to suspend or discontinue the program at any time.

Item 3. Defaults Upon Senior Securities

None.

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 Exhibit 3.1 of Form 10-K, filed with the Securities and Exchange Commission (the SEC) on March 4, 2014.
Exhibit 3.2	Amended By-Laws are incorporated by reference to Exhibit 3.2 of Form 10-K, filed with the SEC on March 4, 2014.
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 Jeffrey M. Schweitzer, President 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 Jeffrey M. Schweitzer, President and Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Michael S. Keim, Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document

Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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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: May 9, 2014	/s/ Jeffrey M. Schweitzer Jeffrey M. Schweitzer, President and Chief Executive Officer (Principal Executive Officer)
Date: May 9, 2014	/s/ Michael S. Keim Michael S. Keim, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)