Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except 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.

Table of Contents

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.

Table of Contents

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.

4

Table of Contents

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.

Table of Contents

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.

6

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

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

Table of Contents

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

Table of Contents

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:

	Three Months Ended March 31,	
(Dollars in thousands)	**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)

Table of Contents

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

Table of Contents

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:

(Dollars in thousands)	At March 31, 2014				At December 31, 2013			
	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

Table of Contents

Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial	Real Estate Construction	Real Estate Residential Secured for Business Purpose	Total
At 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.

Table of Contents

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

14

Table of Contents

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

	At March 31, 2014			At December 31, 2013		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	**$ 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

Table of Contents

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.

16

Table of Contents

The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the three 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

Table of Contents

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

18

Table of Contents

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)

19

Table of Contents

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:

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	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		$

Table of Contents

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.

Table of Contents

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.

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				