UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 08, 2012
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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 September 30, 2012.

or

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

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

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

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices) (Zip Code)

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

Not applicable

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

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

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

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

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

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

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

Common Stock, $5 par value	**16,765,148**
(Title of Class)	**(Number of shares outstanding at October 31, 2012)**

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At September 30, 2012	(SEE NOTE) At December 31, 2011
ASSETS		
Cash and due from banks	**$ 38,977**	$ 39,857
Interest-earning deposits with other banks	**24,329**	67,520
Investment securities held-to-maturity (fair value $71,741 and $45,639 at September 30, 2012 and December 31, 2011, respectively)	**70,054**	45,804
Investment securities available-for-sale	**445,202**	425,361
Loans held for sale	**6,146**	3,157
Loans and leases held for investment	**1,469,511**	1,446,406
Less: Reserve for loan and lease losses	**(27,096)**	(29,870)
Net loans and leases held for investment	**1,442,415**	1,416,536
Premises and equipment, net	**33,700**	34,303
Goodwill	**56,238**	53,169
Other intangibles, net of accumulated amortization and fair value adjustments of $13,566 and $11,646 at September 30, 2012 and December 31, 2011, respectively	**5,717**	4,870
Bank owned life insurance	**61,044**	61,387
Accrued interest receivable and other assets	**48,259**	54,875
Total assets	**$ 2,232,081**	$ 2,206,839
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 334,856**	$ 304,006
Demand deposits, interest-bearing	**581,547**	547,034
Savings deposits	**519,600**	489,692
Time deposits	**341,927**	408,500
Total deposits	**1,777,930**	1,749,232
Securities sold under agreements to repurchase	**111,551**	109,740
Accrued interest payable and other liabilities	**39,642**	47,394
Long-term debt		5,000
Subordinated notes	**750**	1,875
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Company (Trust Preferred Securities)	**20,619**	20,619
Total liabilities	**1,950,492**	1,933,860
SHAREHOLDERS EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2012 and December 31, 2011; 18,266,404 shares issued at September 30, 2012 and December 31, 2011; 16,765,126 and 16,702,376 shares outstanding at September 30, 2012 and December 31, 2011, respectively	**91,332**	91,332

Additional paid-in capital		**58,404**		58,495
Retained earnings		**163,052**		157,566
Accumulated other comprehensive loss, net of taxes		**(4,135)**		(6,101)
Treasury stock, at cost; 1,501,278 shares and 1,564,028 shares at September 30, 2012 and December 31, 2011, respectively		**(27,064)**		(28,313)
Total shareholders equity		**281,589**		272,979
Total liabilities and shareholders equity	**$**	**2,232,081**	$	2,206,839

Note: The consolidated balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
	(Dollars in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 16,332**	$ 16,972	**$ 49,082**	$ 51,347
Exempt from federal income taxes	**1,143**	1,265	**3,565**	3,642
Total interest and fees on loans and leases	**17,475**	18,237	**52,647**	54,989
Interest and dividends on investment securities:				
Taxable	**1,354**	1,856	**4,588**	6,268
Exempt from federal income taxes	**1,103**	1,119	**3,310**	3,350
Other interest income	**45**	25	**121**	40
Total interest income	**19,977**	21,237	**60,666**	64,647
Interest expense				
Interest on deposits	**1,624**	2,170	**5,131**	6,926
Interest on short-term borrowings	**33**	96	**295**	256
Interest on long-term borrowings	**301**	355	**910**	1,059
Total interest expense	**1,958**	2,621	**6,336**	8,241
Net interest income	**18,019**	18,616	**54,330**	56,406
Provision for loan and lease losses	**2,210**	3,649	**7,653**	14,339
Net interest income after provision for loan and lease losses	**15,809**	14,967	**46,677**	42,067
Noninterest income				
Trust fee income	**1,625**	1,625	**4,875**	4,875
Service charges on deposit accounts	**1,122**	1,218	**3,301**	3,910
Investment advisory commission and fee income	**1,350**	1,239	**3,956**	3,595
Insurance commission and fee income	**2,129**	1,787	**6,453**	6,059
Other service fee income	**1,053**	814	**3,943**	3,606
Bank owned life insurance income	**463**	554	**2,305**	1,166
Other-than-temporary impairment on equity securities	**(4)**	(1)	**(13)**	(11)
Net gain on sales of securities	**9**	848	**291**	1,417
Net gain on mortgage banking activities	**2,171**	913	**4,517**	1,216
Net gain (loss) on sales and dispositions of fixed assets	**1,321**	(3)	**1,312**	(12)
Net loss on sales and write-downs of other real estate owned	**(621)**	(141)	**(1,723)**	(758)
Other	**243**	121	**665**	366
Total noninterest income	**10,861**	8,974	**29,882**	25,429
Noninterest expense				

Salaries and benefits	**10,828**	9,888	**33,124**	28,505
Net occupancy	**1,445**	1,361	**4,241**	4,272
Equipment	**1,152**	1,026	**3,297**	2,968
Marketing and advertising	**340**	305	**1,243**	1,287
Deposit insurance premiums	**406**	442	**1,279**	1,582
Other	**4,887**	4,273	**13,386**	11,833
Total noninterest expense	**19,058**	17,295	**56,570**	50,447
Income before income taxes	**7,612**	6,646	**19,989**	17,049
Applicable income taxes	**1,842**	1,402	**4,193**	3,427
Net income	**$ 5,770**	$ 5,244	**$ 15,796**	$ 13,622
Net income per share:				
Basic	**$ .34**	$ .31	**$ .94**	$ .81
Diluted	**.34**	.31	**.94**	.81
Dividends declared	**.20**	.20	**.60**	.60

Note: Certain amounts have been reclassified to conform to the current-year presentation. 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 September 30,					
	2012			2011		
(Dollars in thousands)	**Before Tax Amount**	**Tax Expense (Benefit)**	**Net of Tax Amount**	**Before Tax Amount**	**Tax Expense (Benefit)**	**Net of Tax Amount**
Net income	**$ 7,612**	**$ 1,842**	**$ 5,770**	$ 6,646	$ 1,402	$ 5,244
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	**2,698**	**944**	**1,754**	3,504	1,227	2,277
Less: reclassification adjustment for net gains on sales realized in net income	**(9)**	**(3)**	**(6)**	(848)	(297)	(551)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	**4**	**2**	**2**	1	1	
Total net unrealized gains on available-for-sale investment securities	**2,693**	**943**	**1,750**	2,657	931	1,726
Net change in fair value of derivatives used for cash flow hedges	**(213)**	**(75)**	**(138)**	(1,466)	(513)	(953)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**293**	**103**	**190**	180	63	117
Less: accretion of prior service cost included in net periodic pension costs	**(64)**	**(22)**	**(42)**	(65)	(23)	(42)
Total defined benefit pension plans	**229**	**81**	**148**	115	40	75
Other comprehensive income	**2,709**	**949**	**1,760**	1,306	458	848
Total comprehensive income	**$ 10,321**	**$ 2,791**	**$ 7,530**	$ 7,952	$ 1,860	$ 6,092

	Nine Months Ended September 30,					
(Dollars in thousands)	2012			2011		
	Before Tax Amount	**Tax Expense (Benefit)**	**Net of Tax Amount**	**Before Tax Amount**	**Tax Expense (Benefit)**	**Net of Tax Amount**
Net income	**$ 19,989**	**$ 4,193**	**$ 15,796**	$ 17,049	$ 3,427	$ 13,622
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	**3,215**	**1,125**	**2,090**	9,822	3,438	6,384
Less: reclassification adjustment for net gains on sales realized in net income	**(291)**	**(102)**	**(189)**	(1,417)	(496)	(921)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	**13**	**5**	**8**	11	4	7
Total net unrealized gains on available-for-sale investment securities	**2,937**	**1,028**	**1,909**	8,416	2,946	5,470
Net change in fair value of derivatives used for cash flow hedges	**(602)**	**(211)**	**(391)**	(1,838)	(643)	(1,195)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**882**	**309**	**573**	561	196	365
Less: accretion of prior service cost included in net periodic pension costs	**(192)**	**(67)**	**(125)**	(192)	(67)	(125)

Total defined benefit pension plans	**690**	**242**	**448**	369	129	240
Other comprehensive income	**3,025**	**1,059**	**1,966**	6,947	2,432	4,515
Total comprehensive income	**$ 23,014**	**$ 5,252**	**$ 17,762**	$ 23,996	$ 5,859	$ 18,137

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Nine Months Ended September 30, 2012							
Balance at December 31, 2011	**16,702,376**	**$ (6,101)**	**$ 91,332**	**$ 58,495**	**$ 157,566**	**$ (28,313)**	**$ 272,979**
Net income					**15,796**		**15,796**
Other comprehensive income, net of taxes		**1,966**					**1,966**
Cash dividends declared ($0.60 per share)					**(10,058)**		**(10,058)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**121,012**				**(64)**	**2,051**	**1,987**
Cancelled stock options and awards	**(13,125)**			**300**	**(54)**	**(213)**	**33**
Tax expense on stock based compensation				**(84)**			**(84)**
Purchases of treasury stock	**(116,294)**					**(1,877)**	**(1,877)**
Restricted stock awards granted	**71,157**			**(1,154)**	**(134)**	**1,288**	
Vesting of restricted stock awards				**847**			**847**
Balance at September 30, 2012	**16,765,126**	**$ (4,135)**	**$ 91,332**	**$ 58,404**	**$ 163,052**	**$ (27,064)**	**$ 281,589**

(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
For the Nine Months Ended September 30, 2011							
Balance at December 31, 2010	16,648,303	$ (6,766)	$ 91,332	$ 59,080	$ 151,978	$ (29,400)	$ 266,224
Net income					13,622		13,622
Other comprehensive income, net of taxes		4,515					4,515
Cash dividends declared ($0.60 per share)					(10,043)		(10,043)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	105,345			62	13	1,712	1,787
Purchases of treasury stock	(85,285)					(1,209)	(1,209)
Restricted stock awards granted	58,736			(1,019)	47	972	
Vesting of restricted stock awards				203			203
Balance at September 30, 2011	16,727,099	$ (2,251)	$ 91,332	$ 58,326	$ 155,617	$ (27,925)	$ 275,099

Note: Certain amounts have been reclassified to conform to the current-year presentation. 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)	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	**$ 15,796**	$ 13,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**7,653**	14,339
Depreciation of premises and equipment	**2,160**	1,942
Other-than-temporary impairment on equity securities	**13**	11
Net gain on sales of investment securities	**(291)**	(1,417)
Net gain on mortgage banking activities	**(4,517)**	(1,216)
Net (gain) loss on sales and dispositions of fixed assets	**(1,312)**	12
Net loss on sales and write-downs of other real estate owned	**1,723**	758
Bank owned life insurance income	**(2,305)**	(1,166)
Other adjustments to reconcile net income to cash provided by operating activities	**5,638**	2,509
Originations of loans held for sale	**(215,767)**	(105,389)
Proceeds from the sale of loans held for sale	**218,280**	108,836
Contributions to pension and other postretirement benefit plans	**(8,089)**	(90)
Decrease (increase) in accrued interest receivable and other assets	**801**	(1,467)
Decrease in accrued interest payable and other liabilities	**(39)**	(110)
Net cash provided by operating activities	**19,744**	31,174
Cash flows from investing activities:		
Net cash paid due to acquisitions	**(3,225)**	
Net capital expenditures	**(236)**	(1,481)
Proceeds from maturities of securities held-to-maturity		33
Proceeds from maturities and calls of securities available-for-sale	**107,920**	153,033
Proceeds from sales of securities available-for-sale	**57,162**	40,481
Purchases of investment securities held-to-maturity	**(24,697)**	(30,561)
Purchases of investment securities available-for-sale	**(182,949)**	(98,833)
Net (increase) decrease in loans and leases	**(36,131)**	13,114
Net decrease (increase) in interest-bearing deposits	**43,191**	(79,321)
Purchases of bank owned life insurance		(12,500)
Proceeds from bank owned life insurance	**2,415**	791
Proceeds from sales of other real estate owned	**1,482**	1,607
Net cash used in investing activities	**(35,068)**	(13,637)
Cash flows from financing activities:		
Net increase in deposits	**28,698**	38,793
Net decrease in short-term borrowings	**(3,189)**	(7,250)
Repayment of subordinated debt	**(1,125)**	(1,125)
Purchases of treasury stock	**(1,877)**	(1,209)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**1,987**	1,787
Cash dividends paid	**(10,050)**	(10,011)
Net cash provided by financing activities	**14,444**	20,985

Net (decrease) increase in cash and due from banks		**(880)**		38,522
Cash and due from banks at beginning of year		**39,857**		11,624
Cash and due from banks at end of period	**$**	**38,977**	$	50,146
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	**$**	**6,694**	$	8,374
Income taxes, net of refunds received		**1,437**		4,357
Non cash transactions:				
Noncash transfer of loans to other real estate owned	**$**		$	7,426
Noncash transfer of loans held for investment to loans held for sale		**2,599**		
Contingency consideration recorded as goodwill		**842**		

Note: Certain amounts have been reclassified to conform to the current-year presentation. 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 nine-month period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011, which was filed with the SEC on March 2, 2012.

Use of Estimates

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

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to simplify testing indefinite-lived intangible assets for impairment. The amendments allow an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative indefinite-lived intangible asset impairment test. An entity no longer will be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not, that its fair value is less than its carrying amount. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 or January 1, 2013 for the Corporation. Early adoption is permitted. The Corporation does not anticipate the guidance will have any impact on its financial statements.

In June 2011, the FASB issued an ASU regarding the presentation of comprehensive income and to increase the prominence of items reported in other comprehensive income and facilitate the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). The guidance requires entities to report the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This update is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied retrospectively. In December 2011, the FASB issued an ASU deferring the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. The Corporation adopted the two separate but consecutive financial statements approach for the three months ended March 31, 2012 and retrospectively for the three months ended March 31, 2011 by including consolidated statements of comprehensive income after the consolidated statements of income in this report. The standard did not have a material impact on the Corporation s financial statements.

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In May 2011, the FASB issued an ASU regarding fair value measurements which establishes a global standard in U.S. GAAP and IFRS for applying fair value measurements and disclosures. Consequently, the amendments in this update change the wording to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and most of the amendments are not intended to result in a change of the application of fair value measurement requirements. Additional disclosures required include: 1) for fair value measurements categorized within Level 3 of the fair value hierarchy: a) the valuation processes used by the reporting entity; and b) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any; and 2) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. This amendment is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied prospectively. The application of the provisions of this standard did not have a material impact on the Corporation s financial statements although it resulted in expanded disclosures effective March 31, 2012, which are included in Note 11, Fair Value Disclosures.

Note 2. Acquisition

On May 31, 2012, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of the Javers Group, a full-service employee benefits agency that specializes in comprehensive human resource management, payroll and administrative services to businesses with 50 to 1,000 employees. The acquisition expands the Corporation s insurance and employee benefits business and further diversifies its solutions to include human resource consulting services and technology.

The Corporation paid $3.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period ended June 30, 2015 based on the achievement of certain levels of revenue. As of the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of $842 thousand in other liabilities. The estimated fair value of the contingent consideration liability was calculated using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The potential cash payments that could result from the contingent consideration arrangement range from $0 thousand to a maximum of $1.7 million over the next three years. The 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 in projected revenue of the acquired business affecting the contingent consideration liability is recorded through non-interest expense.

As a result of the Javers Group acquisition, the Corporation recorded goodwill of $3.1 million (inclusive of contingent consideration) and customer related intangibles of $989 thousand. 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. The allocation of the purchase price to goodwill, customer related intangibles and the contingent consideration liability, as of September 30, 2012, are preliminary estimates and are subject to adjustment within the measurement period. The acquisition was accounted for in accordance with FASB Accounting Standards Codification Topic 805, Business Combinations.

Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at September 30, 2012 and December 31, 2011 by contractual maturity within each type.

	At September 30, 2012				At December 31, 2011			
(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:								
After 1 year to 5 years	**$ 70,054**	**$ 1,725**	**$ (38)**	**$ 71,741**	$ 45,804	$ 154	$ (319)	$ 45,639
	70,054	**1,725**	**(38)**	**71,741**	45,804	154	(319)	45,639
Total	**$ 70,054**	**$ 1,725**	**$ (38)**	**$ 71,741**	$ 45,804	$ 154	$ (319)	$ 45,639

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(Dollars in thousands)	At September 30, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. treasuries:								
Within 1 year	$	$	$	$	$ 2,525	$	$	$ 2,525
After 5 years to 10 years	**4,959**		**(7)**	**4,952**				
	4,959		**(7)**	**4,952**	2,525			2,525
U.S. government corporations and agencies:								
Within 1 year	**6,528**	**27**		**6,555**	10,009	77		10,086
After 1 year to 5 years	**151,267**	**1,615**		**152,882**	143,189	1,022	(33)	144,178
After 5 years to 10 years	**20,986**	**107**	**(7)**	**21,086**				
	178,781	**1,749**	**(7)**	**180,523**	153,198	1,099	(33)	154,264
State and political subdivisions:								
Within 1 year	**1,557**	**41**		**1,598**	752	5		757
After 1 year to 5 years	**7,596**	**169**	**(16)**	**7,749**	10,082	308	(16)	10,374
After 5 years to 10 years	**28,471**	**1,128**	**(6)**	**29,593**	11,846	664	(3)	12,507
Over 10 years	**79,567**	**5,704**	**(15)**	**85,256**	87,896	5,472	(1)	93,367
	117,191	**7,042**	**(37)**	**124,196**	110,576	6,449	(20)	117,005
Residential mortgage-backed securities:								
After 5 years to 10 years	**21,645**	**867**		**22,512**	20,745	743		21,488
Over 10 years	**72,911**	**3,370**		**76,281**	55,328	2,665	(680)	57,313
	94,556	**4,237**		**98,793**	76,073	3,408	(680)	78,801
Commercial mortgage obligations:								
After 1 year to 5 years	**118**	**1**		**119**				
After 5 years to 10 years	**1,190**	**16**		**1,206**	5,547	124		5,671
Over 10 years	**22,448**	**598**		**23,046**	54,994	799		55,793
	23,756	**615**		**24,371**	60,541	923		61,464
Corporate bonds:								
After 1 year to 5 years	**4,993**	**13**		**5,006**	4,991		(224)	4,767
	4,993	**13**		**5,006**	4,991		(224)	4,767
Money market mutual funds:								
Within 1 year	**4,500**			**4,500**	3,851			3,851
	4,500			**4,500**	3,851			3,851
Equity securities:								
No stated maturity	**2,289**	**737**	**(165)**	**2,861**	2,364	544	(224)	2,684
	2,289	**737**	**(165)**	**2,861**	2,364	544	(224)	2,684

Total	**$ 431,025**	**$ 14,393**	**$ (216)**	**$ 445,202**	$ 414,119	$ 12,423	$ (1,181)	$ 425,361

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties.

Securities with a fair value of $383.9 million and $338.5 million at September 30, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes as required by law.

The following table presents information related to sales of securities available for sale during the nine months ended September 30, 2012 and 2011.

(Dollars in thousands)	Nine Months Ended September 30, 2012	2011
Securities available for sale:		
Proceeds from sales	**$ 57,162**	$ 40,481
Gross realized gains on sales	**1,187**	1,428
Gross realized losses on sales	**896**	11
Tax expense related to net realized gains on sales	**102**	496

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Accumulated other comprehensive income related to securities of $9.2 million and $7.3 million, net of taxes, has been included in shareholders' equity at September 30, 2012 and December 31, 2011, respectively. Unrealized losses in investment securities at September 30, 2012 and December 31, 2011 do not represent other-than-temporary impairments.

The Corporation realized other-than-temporary impairment charges to noninterest income of $13 thousand and $11 thousand, respectively, on its equity portfolio during the nine months ended September 30, 2012 and 2011. The Corporation determined that it was probable that the fair value of certain equity securities would not recover to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other equity securities in an unrealized loss position, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the positive intent to hold these securities and believes it is more likely than not that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. The Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2012 and December 31, 2011.

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 has not recognized any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2012 and 2011.

At September 30, 2012 and December 31, 2011, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the amount of securities that were in an unrealized loss position at September 30, 2012 and December 31, 2011:

	At September 30, 2012					
	Less than Twelve Months		**Twelve Months or Longer**		**Total**	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. treasuries	**$ 4,952**	**$ (7)**	**$**	**$**	**$ 4,952**	**$ (7)**
U.S. government corporations and agencies	**4,993**	**(7)**			**4,993**	**(7)**
State and political subdivisions	**5,057**	**(24)**	**587**	**(13)**	**5,644**	**(37)**
Corporate bonds	**4,986**	**(38)**			**4,986**	**(38)**
Equity securities	**24**	**(1)**	**917**	**(164)**	**941**	**(165)**
Total	**$ 20,012**	**$ (77)**	**$ 1,504**	**$ (177)**	**$ 21,516**	**$ (254)**

	At December 31, 2011					
	Less than Twelve Months		**Twelve Months or Longer**		**Total**	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government corporations and agencies	$ 24,967	$ (33)	$	$	$ 24,967	$ (33)
State and political subdivisions			1,997	(20)	1,997	(20)
Residential mortgage-backed securities	5,184	(20)	3,311	(660)	8,495	(680)
Corporate bonds	34,851	(543)			34,851	(543)
Equity securities	920	(224)			920	(224)
Total	$ 65,922	$ (820)	$ 5,308	$ (680)	$ 71,230	$ (1,500)

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Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At September 30, 2012	At December 31, 2011
Commercial, financial and agricultural	**$ 476,125**	$ 477,662
Real estate-commercial	**515,743**	514,953
Real estate-construction	**95,245**	90,397
Real estate-residential secured for business purpose	**32,820**	32,481
Real estate-residential secured for personal purpose	**148,053**	132,245
Real estate-home equity secured for personal purpose	**82,337**	80,478
Loans to individuals	**42,626**	44,965
Lease financings	**76,562**	73,225
Total loans and leases held for investment, net of deferred income	**$ 1,469,511**	$ 1,446,406
Unearned lease income, included in the above table	**$ (11,040)**	$ (9,965)
Net deferred costs, included in the above table	**$ 1,057**	$ 876
Overdraft deposits included in the above table	**$ 122**	$ 123

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 greater than 90 days past due which are accruing interest at September 30, 2012 and December 31, 2011:

(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases Held for Investment	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At September 30, 2012							
Commercial, financial and agricultural	**$ 392**	**$ 342**	**$ 321**	**$ 1,055**	**$ 470,838**	**$ 476,125**	**$ 321**
Real estate commercial real estate and construction:							
Commercial real estate	**507**			**507**	**495,330**	**515,743**	
Construction					**79,175**	**95,245**	
Real estate residential and home equity:							
Residential secured for business purpose	**192**			**192**	**32,453**	**32,820**	
Residential secured for personal purpose		**205**		**205**	**147,525**	**148,053**	
Home equity secured for personal purpose	**224**	**80**	**58**	**362**	**81,975**	**82,337**	**58**
Loans to individuals	**252**	**250**	**289**	**791**	**41,787**	**42,626**	**289**
Lease financings	**813**	**843**	**22**	**1,678**	**74,329**	**76,562**	**22**
Total	**$ 2,380**	**$ 1,720**	**$ 690**	**$ 4,790**	**$ 1,423,412**	**$ 1,469,511**	**$ 690**

* Excludes impaired loans and leases.

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(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases Held for Investment	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At December 31, 2011							
Commercial, financial and agricultural	$ 3,741	$ 33	$	$ 3,774	$ 469,197	$ 477,662	$
Real estate commercial real estate and construction:							
Commercial real estate	2,212	723		2,935	491,498	514,953	
Construction					74,656	90,397	
Real estate residential and home equity:							
Residential secured for business purpose	340			340	32,026	32,481	
Residential secured for personal purpose	1,783			1,783	130,405	132,245	
Home equity secured for personal purpose	298	68	117	483	79,968	80,478	117
Loans to individuals	386	236	204	826	44,089	44,965	204
Lease financings	1,203	544	44	1,791	70,535	73,225	44
Total	$ 9,963	$ 1,604	$ 365	$ 11,932	$ 1,392,374	$ 1,446,406	$ 365

* Excludes impaired loans and leases.

Nonaccrual and Troubled Debt Restructured Loans and Lease Modifications

The following presents, by class of loans and leases, nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) and accruing troubled debt restructured loans and lease modifications at September 30, 2012 and December 31, 2011.

	At September 30, 2012			**At December 31, 2011**		
(Dollars in thousands)	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Total Impaired Loans and Leases	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Total Impaired Loans and Leases
Loans held for sale**	**$ 2,599**	**$**	**$ 2,599**	$	$	$
Loans and leases held for investment:						
Commercial, financial and agricultural	**3,966**	**266**	**4,232**	4,614	77	4,691
Real estate commercial real estate and construction:						
Commercial real estate	**9,318**	**10,588**	**19,906**	18,085	2,435	20,520
Construction	**13,614**	**2,456**	**16,070**	14,479	1,262	15,741
Real estate residential and home equity:						
Residential secured for business purpose	**175**		**175**	107	8	115
Residential secured for personal purpose	**323**		**323**	57		57
Home equity secured for personal purpose				27		27
Loans to individuals		**48**	**48**		50	50
Lease financings	**530**	**25**	**555**	838	61	899
Total	**$ 30,525**	**$ 13,383**	**$ 43,908**	$ 38,207	$ 3,893	$ 42,100

* Includes non-accrual troubled debt restructured loans and lease modifications of $228 thousand and $8.6 million at September 30, 2012 and December 31, 2011, respectively.

** Includes commercial, financial and agricultural loans of $447 thousand and commercial real estate loans of $2.2 million at September 30, 2012.

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Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at September 30, 2012 and December 31, 2011.

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

Commercial Credit Exposure Credit Risk by Internally Assigned Grades

	Commercial, Financial and Agricultural		Real Estate Commercial		Real Estate Construction		Real Estate Residential Secured for Business Purpose	
(Dollars in thousands)	**At September 30, 2012**	At December 31, 2011	**At September 30, 2012**	At December 31, 2011	**At September 30, 2012**	At December 31, 2011	**At September 30, 2012**	At December 31, 2011
Grade:								
1. Cash secured/ 2. Fully secured	**$ 2,125**	$ 2,426	**$**	$	**$**	$	**$**	$
3. Strong	**4,387**	4,441	**9,347**	9,365	**485**	1,124		
4. Satisfactory	**41,583**	32,730	**22,595**	28,517	**3,121**	89	**342**	1,309
5. Acceptable	**272,942**	289,835	**285,506**	296,499	**31,994**	35,207	**19,411**	18,990
6. Pre-watch	**92,646**	79,402	**126,515**	100,581	**42,429**	33,993	**10,146**	8,853
7. Special Mention	**33,580**	26,162	**28,161**	29,055	**477**	1,715	**288**	663
8. Substandard	**27,289**	40,634	**42,626**	49,943	**16,739**	18,269	**2,633**	2,666
9. Doubtful	**1,573**	2,032	**993**	993				
10. Loss								
Total	**$ 476,125**	$ 477,662	**$ 515,743**	$ 514,953	**$ 95,245**	$ 90,397	**$ 32,820**	$ 32,481

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 by payment activity. Nonperforming loans and leases are loans past due 90 days or more, loans and leases on non-accrual of interest and troubled debt restructured loans and lease modifications. Performing loans and leases are reviewed only if the loan becomes 60 days or more past due. Nonperforming loans and leases are reviewed monthly. Performing loans and leases have a nominal to moderate risk of loss. Nonperforming loans and leases are loans or leases with a well-defined weakness and where collection in-full is improbable.

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

(Dollars in thousands)	Real Estate Residential Secured for Personal Purpose At September 30, 2012	At December 31, 2011	Real Estate Home Equity Secured for Personal Purpose At September 30, 2012	At December 31, 2011	Loans to individuals At September 30, 2012	At December 31, 2011	Lease Financing At September 30, 2012	At December 31, 2011
Performing	**$ 147,730**	$ 132,188	**$ 82,279**	$ 80,334	**$ 42,289**	$ 44,711	**$ 75,985**	$ 72,282
Nonperforming	**323**	57	**58**	144	**337**	254	**577**	943
Total	**$ 148,053**	$ 132,245	**$ 82,337**	$ 80,478	**$ 42,626**	$ 44,965	**$ 76,562**	$ 73,225

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 Eastern Pennsylvania market area at conservative loan-to-value ratios and often by a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

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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, combined loan-to-value ratios at origination are generally limited to 80%. Other credit considerations may warrant higher combined loan-to-value ratios and are generally insured by private mortgage insurance.

Credit risk in the loans to individuals portfolio, which includes, direct consumer loans and credit cards, 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.

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

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

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three and nine months ended September 30, 2012 and 2011:

(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
For the Three Months Ended September 30, 2012								
Reserve for loan and lease losses:								
Beginning balance	**$ 12,021**	**$ 12,316**	**$ 834**	**$ 884**	**$ 719**	**$ 1,161**	**$ 2,567**	**$ 30,502**
Charge-offs*	**(4,143)**	**(1,318)**			**(168)**	**(203)**	**N/A**	**(5,832)**
Recoveries	**33**	**4**	**4**		**43**	**132**	**N/A**	**216**
Provision (recovery of provision)	**3,344**	**(763)**	**(154)**	**62**	**12**	**94**	**(385)**	**2,210**
Ending balance	**$ 11,255**	**$ 10,239**	**$ 684**	**$ 946**	**$ 606**	**$ 1,184**	**$ 2,182**	**$ 27,096**
For the Three Months Ended September 30, 2011								
Reserve for loan and lease losses:								
Beginning balance	$ 10,877	$ 16,092	$ 1,019	$ 696	$ 695	$ 1,912	$ 1,310	$ 32,601

Charge-offs	(160)	(4,661)	(120)		(209)	(310)	N/A	(5,460)
Recoveries	28	35	4	4	65	76	N/A	212
Provision (recovery of provision)	(1,021)	4,259	(47)	(4)	79	(66)	449	3,649
Ending balance	$ 9,724	$ 15,725	$ 856	$ 696	$ 630	$ 1,612	$ 1,759	$ 31,002

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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
For the Nine Months Ended September 30, 2012								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,262**	**$ 13,317**	**$ 823**	**$ 735**	**$ 730**	**$ 1,344**	**$ 1,659**	**$ 29,870**
Charge-offs*	**(7,308)**	**(2,993)**		**(2)**	**(408)**	**(849)**	**N/A**	**(11,560)**
Recoveries	**448**	**144**	**59**	**3**	**100**	**379**	**N/A**	**1,133**
Provision (recovery of provision)	**6,853**	**(229)**	**(198)**	**210**	**184**	**310**	**523**	**7,653**
Ending balance	**$ 11,255**	**$ 10,239**	**$ 684**	**$ 946**	**$ 606**	**$ 1,184**	**$ 2,182**	**$ 27,096**
For the Nine Months Ended September 30, 2011								
Reserve for loan and lease losses:								
Beginning balance	$ 9,630	$ 15,288	$ 1,333	$ 544	$ 734	$ 1,950	$ 1,419	$ 30,898
Charge-offs	(2,934)	(9,724)	(314)	(38)	(806)	(1,169)	N/A	(14,985)
Recoveries	209	115	10	7	143	266	N/A	750
Provision (recovery of provision)	2,819	10,046	(173)	183	559	565	340	14,339
Ending balance	$ 9,724	$ 15,725	$ 856	$ 696	$ 630	$ 1,612	$ 1,759	$ 31,002

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

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At September 30, 2012								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 428**	**$ 262**	**$**	**$**	**$**	**$**	**$ N/A**	**$ 690**
Ending balance: collectively evaluated for impairment	**10,827**	**9,977**	**684**	**946**	**606**	**1,184**	**2,182**	**26,406**
Total ending balance	**$ 11,255**	**$ 10,239**	**$ 684**	**$ 946**	**$ 606**	**$ 1,184**	**$ 2,182**	**$ 27,096**

Loans and leases held for investment:							
Ending balance: individually evaluated for impairment	**$ 4,232**	**$ 35,976**	**$ 175**	**$ 323**	**$ 48**	**$**	**$ 40,754**
Ending balance: collectively evaluated for impairment	**471,893**	**575,012**	**32,645**	**230,067**	**42,578**	**76,562**	**1,428,757**
Total ending balance	**$ 476,125**	**$ 610,988**	**$ 32,820**	**$ 230,390**	**$ 42,626**	**$ 76,562**	**$ 1,469,511**

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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 September 30, 2011								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 374	$ 1,784	$	$	$	$	$ N/A	$ 2,158
Ending balance: collectively evaluated for impairment	9,350	13,941	856	696	630	1,612	1,759	28,844
Total ending balance	$ 9,724	$ 15,725	$ 856	$ 696	$ 630	$ 1,612	$ 1,759	$ 31,002
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 5,861	$ 34,886	$ 215	$ 250	$ 50	$		$ 41,262
Ending balance: collectively evaluated for impairment	461,389	567,209	32,442	218,329	42,240	83,402		1,405,011
Total ending balance	$ 467,250	$ 602,095	$ 32,657	$ 218,579	$ 42,290	$ 83,402		$ 1,446,273

Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at September 30, 2012 and December 31, 2011:

	At September 30, 2012			At December 31, 2011		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Loans held for sale	**$ 2,599**	**$ 6,621**		$	$	
Loans held for investment:						
Commercial, financial and agricultural	**3,262**	**7,815**		3,384	4,422	
Real estate commercial real estate	**17,767**	**23,476**		19,453	27,146	
Real estate construction	**16,070**	**18,044**		15,741	17,268	
Real estate residential secured for business purpose	**175**	**186**		115	631	
Real estate residential secured for personal purpose	**323**	**323**		57	57	
Real estate home equity secured for personal purpose				27	27	
Loans to individuals	**48**	**57**		50	58	
Total impaired loans with no related allowance recorded:	**$ 40,244**	**$ 56,522**		$ 38,827	$ 49,609	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 970**	**$ 1,347**	**$ 428**	$ 1,307	$ 1,700	$ 510
Real estate commercial real estate	**2,139**	**2,331**	**262**	1,067	1,067	743
Total impaired loan with an allowance recorded	**$ 3,109**	**$ 3,678**	**$ 690**	$ 2,374	$ 2,767	$ 1,253

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(Dollars in thousands)	At September 30, 2012 Recorded Investment	At September 30, 2012 Unpaid Principal Balance	At September 30, 2012 Related Allowance	At December 31, 2011 Recorded Investment	At December 31, 2011 Unpaid Principal Balance	At December 31, 2011 Related Allowance
Total impaired loans:						
Loans held for sale	**$ 2,599**	**$ 6,621**	**$**	$	$	$
Loans held for investment:						
Commercial, financial and agricultural	**4,232**	**9,162**	**428**	4,691	6,122	510
Real estate commercial real estate	**19,906**	**25,807**	**262**	20,520	28,213	743
Real estate construction	**16,070**	**18,044**		15,741	17,268	
Real estate residential secured for business purpose	**175**	**186**		115	631	
Real estate residential secured for personal purpose	**323**	**323**		57	57	
Real estate home equity secured for personal purpose				27	27	
Loans to individuals	**48**	**57**		50	58	
Total impaired loans:	**$ 43,353**	**$ 60,200**	**$ 690**	$ 41,201	$ 52,376	$ 1,253

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

(Dollars in thousands)	Three Months Ended September 30, 2012 Average Recorded Investment	Three Months Ended September 30, 2012 Interest Income Recognized*	Three Months Ended September 30, 2012 Interest Income That Would Have Been Recognized Under Original Terms	Three Months Ended September 30, 2011 Average Recorded Investment	Three Months Ended September 30, 2011 Interest Income Recognized*	Three Months Ended September 30, 2011 Interest Income That Would Have Been Recognized Under Original Terms
Loans held for sale	**$ 650**	**$**	**$**	$	$	$
Loans held for investment:						
Commercial, financial and agricultural	**5,474**	**23**	**71**	5,924		77
Real estate commercial real estate	**20,525**	**69**	**257**	21,497	39	463
Real estate construction	**16,324**	**33**	**190**	17,746	20	223
Real estate residential secured for business purpose	**176**		**2**	247	2	4
Real estate residential secured for personal purpose	**320**		**5**	219		3
Real estate home equity secured for personal purpose				31		
Loans to individuals	**48**	**1**		51	1	
Total	**$ 43,517**	**$ 126**	**$ 525**	$ 45,715	$ 62	$ 770

* Includes interest income recognized on accruing troubled debt restructured loans of $126 thousand and $60 thousand for the three months ended September 30, 2012 and 2011, respectively.

(Dollars in thousands)	Nine Months Ended September 30, 2012 Average Recorded Investment	Nine Months Ended September 30, 2012 Interest Income Recognized*	Nine Months Ended September 30, 2012 Interest Income That Would Have Been Recognized Under Original Terms	Nine Months Ended September 30, 2011 Average Recorded Investment	Nine Months Ended September 30, 2011 Interest Income Recognized*	Nine Months Ended September 30, 2011 Interest Income That Would Have Been Recognized Under Original Terms

Loans held for sale	**$ 260**	**$**	**$**	$	$	$
Loans held for investment:						
Commercial, financial and agricultural	**5,542**	**56**	**223**	6,498	14	270
Real estate commercial real estate	**20,417**	**156**	**783**	18,535	91	1,024
Real estate construction	**16,238**	**85**	**575**	17,104	48	681
Real estate residential secured for business purpose	**150**		**5**	343	5	13
Real estate residential secured for personal purpose	**188**		**9**	590	19	23
Real estate home equity secured for personal purpose	**3**			18		
Loans to individuals	**49**	**4**		59	4	1
Total	**$ 42,847**	**$ 301**	**$ 1,595**	$ 43,147	$ 181	$ 2,012

* Includes interest income recognized on accruing troubled debt restructured loans of $293 thousand and $139 thousand for the nine months ended September 30, 2012 and 2011, respectively.

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Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and non-accrual loans that were restructured during the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30, 2012				Three Months Ended September 30, 2011			
(Dollars in thousands)	Number Of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Number Of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans								
Commercial, financial and agricultural	**2**	**$ 1,731**	**$ 1,731**	**$**		$	$	$
Real estate commercial real estate	**1**	**1,621**	**1,621**					
Total	**3**	**$ 3,352**	**$ 3,352**	**$**		$	$	$
Nonaccrual Troubled Debt Restructured Loans								
Real estate commercial real estate		**$**	**$**	**$**	1	$ 6,667	$ 6,667	$
Total		**$**	**$**	**$**	1	$ 6,667	$ 6,667	$

	Nine Months Ended September 30, 2012				Nine Months Ended September 30, 2011			
(Dollars in thousands)	Number Of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Number Of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans								
Commercial, financial and agricultural	**10**	**$ 3,404**	**$ 3,404**	**$**		$	$	$
Real estate commercial real estate	**5**	**2,630**	**2,630**		5	2,438	2,435	
Real estate construction	**2**	**1,330**	**1,330**		5	2,182	2,182	
Real estate residential secured for business purpose					1	98	98	
Real estate residential secured for personal purpose					1	156	156	
Real estate home equity secured for personal purpose					1	31	31	
Total	**17**	**$ 7,364**	**$ 7,364**	**$**	13	$ 4,905	$ 4,902	$
Nonaccrual Troubled Debt Restructured Loans								
Commercial, financial and agricultural	**2**	**$ 448**	**$ 448**	**$**		$	$	$
Real estate commercial real estate	**1**	**124**	**124**		2	9,432	9,432	
Total	**3**	**$ 572**	**$ 572**	**$**	2	$ 9,432	$ 9,432	$

The Corporation grants concessions primarily related to extensions of interest-only payment periods and an occasional payment modification. These modifications typically are on a short-term basis up to one year. Our goal when restructuring a credit is to afford the customer a reasonable period of time to provide cash flow relief to customers experiencing cash flow difficulties.

Accruing loans totaling $7.4 million were restructured during the first nine months of 2012. Accruing troubled debt restructured loans were primarily comprised of three categories of loans on which interest is being accrued under the restructured terms, and the loans were current or less than ninety days past due. The first category primarily consisted of four commercial business loans for one borrower totaling $1.3 million, which had their interest only payment terms extended due to reduced cash flows. During the third quarter of 2012 these loans were paid off. This category also consisted of one commercial business loan totaling $1.7 million, which had its term extended by 90 days. During the third quarter of 2012, this loan was paid off. The second category primarily consisted of one commercial real estate loan totaling $1.6 million, which had its interest only payment terms extended six months due to reduced cash flows. The third category primarily consisted of one commercial construction loan totaling $1.2 million, which had interest only payment terms extended until projected cash flows

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from rental property income are received. Accruing troubled debt restructured loans charged-off during the nine months ended September 30, 2012 subsequent to the restructuring totaled approximately $372 thousand, primarily due to declines in collateral values for two commercial real estate loans for one borrower.

Nonaccrual loans totaling $572 thousand were restructured during the first nine months of 2012. Nonaccrual troubled debt restructured loans were comprised of two commercial business loans and one commercial real estate loan for one borrower, which were granted principal and interest deferrals for a six month period.

The following presents, by class of loans, information regarding accruing and nonaccrual troubled debt restructured loans, for which there was a payment default during the three and nine month periods ending September 30, 2012 and 2011 and within twelve months of the restructuring date.

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Accruing Troubled Debt Restructured Loans:				
Real estate residential secured for personal purpose		$	1	$ 158
Real estate home equity secured for personal purpose			1	31
Total		$	2	$ 189
Nonaccrual Troubled Debt Restructured Loans:				
Real estate commercial real estate		$	1	$ 2,761
Total		$	1	$ 2,761

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Accruing Troubled Debt Restructured Loans:				
Real estate residential secured for personal purpose		$	1	$ 158
Real estate home equity secured for personal purpose			1	31
Total		$	2	$ 189
Nonaccrual Troubled Debt Restructured Loans:				
Real estate commercial real estate		$	1	$ 2,761
Total		$	1	$ 2,761

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 using an accelerated amortization method and are subject to periodic impairment testing. The aggregate fair value of these rights was $3.2 million and $2.8 million at September 30, 2012 and December 31, 2011, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 3.5% to 7.5% at September 30, 2012 and 3.5% to 7.3% at December 31, 2011.

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

(Dollars in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Beginning of period	**$ 3,276**	$ 2,878	**$ 2,739**	$ 2,441
Servicing rights capitalized	**741**	277	**1,777**	965
Amortization of servicing rights	**(463)**	(123)	**(1,147)**	(312)
Changes in valuation	**(372)**	(672)	**(187)**	(734)
End of period	**$ 3,182**	$ 2,360	**$ 3,182**	$ 2,360
Mortgage loans serviced for others	**$ 540,735**	$ 377,060	**$ 540,735**	$ 377,060

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

(Dollars in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Valuation allowance, beginning of period	**$ (608)**	$ (263)	**$ (793)**	$ (201)
Additions	**(372)**	(672)	**(187)**	(734)
Reductions				
Direct write-downs				
Valuation allowance, end of period	**$ (980)**	$ (935)	**$ (980)**	$ (935)

The estimated amortization expense of mortgage servicing rights for the remainder of 2012 and the succeeding fiscal years is as follows:

Year (Dollars in thousands)	Amount
Remainder of 2012	$ 225
2013	777
2014	588
2015	427
2016	302
Thereafter	863

Note 6. Income Taxes

As of September 30, 2012 and December 31, 2011, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. As of September 30, 2012, the Corporation s tax years 2009 through 2011 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 Savings Plan, the Employee Stock Purchase Plan and the Long-Term Incentive Plans and therefore is not actively offered to new participants.

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

Components of net periodic benefit cost were as follows:

	Three Months Ended September 30,			
	2012	2011	2012	2011
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	

Service cost	**$ 156**	$ 138	**$ 21**	$ 16
Interest cost	**431**	431	**29**	29
Expected return on plan assets	**(564)**	(474)		
Amortization (accretion) of net loss/gain	**287**	185	**6**	(5)
Accretion of prior service cost	**(58)**	(59)	**(6)**	(6)
Net periodic cost	**$ 252**	$ 221	**$ 50**	$ 34

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(Dollars in thousands)	Nine Months Ended September 30, 2012	2011	2012	2011
	Retirement Plans		Other Post Retirement Benefits	
Service cost	**$ 469**	$ 416	**$ 62**	$ 49
Interest cost	**1,294**	1,294	**88**	88
Expected return on plan assets	**(1,692)**	(1,422)		
Amortization of net loss	**865**	549	**17**	12
Accretion of prior service cost	**(176)**	(176)	**(16)**	(16)
Net periodic cost	**$ 760**	$ 661	**$ 151**	$ 133

The Corporation contributed $8.0 million to its qualified retirement plan during the three and nine months ended September 30, 2012 and may make additional contributions during the remainder of 2012 to maximize tax benefits. The Corporation expects to make contributions of $40 thousand to its non-qualified retirement plans and $87 thousand to its other postretirement benefit plans in 2012. During the nine months ended September 30, 2012, the Corporation contributed $30 thousand to its non-qualified retirement plans and $59 thousand to its other postretirement plans. During the nine months ended September 30, 2012, $1.2 million has been paid to participants from the qualified and non-qualified retirement plans and $59 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 September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Numerator for basic and diluted earnings per share income available to common shareholders	**$ 5,770**	$ 5,244	**$ 15,796**	$ 13,622
Denominator for basic earnings per share weighted-average shares outstanding	**16,760**	16,771	**16,760**	16,752
Effect of dilutive securities employee stock options and awards	**60**		**49**	
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**16,820**	16,771	**16,809**	16,752
Basic earnings per share	**$ 0.34**	$ 0.31	**$ 0.94**	$ 0.81
Diluted earnings per share	**$ 0.34**	$ 0.31	**$ 0.94**	$ 0.81
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	**588**	508	**579**	498

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 Gains on Available for Sale Investment Securities	Net Change in Fair Value of Derivative Used for Cash Flow Hedges	Net Change Related to Defined Benefit Pension Plan	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2011	**$ 7,306**	**$ (932)**	**$ (12,475)**	**$ (6,101)**
Net Change	**1,909**	**(391)**	**448**	**1,966**

Balance, September 30, 2012	**$**	**9,215**	**$**	**(1,323)**	**$**	**(12,027)**	**$**	**(4,135)**
Balance, December 31, 2010	$	884	$	320	$	(7,970)	$	(6,766)
Net Change		5,470		(1,195)		240		4,515
Balance, September 30, 2011	$	6,354	$	(875)	$	(7,730)	$	(2,251)

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Note 10. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to floating 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 on 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. Loans held for sale are included as forward loan commitments.

On December 23, 2008, the Corporation entered into a cash flow hedge with a notional amount of $20.0 million that had the effect of converting the variable rates on trust preferred securities to a fixed rate. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.65% and receives a floating rate based on the three month LIBOR with a maturity date of January 7, 2019. The Corporation expects that there will be no ineffectiveness in the next twelve months, and therefore anticipates no portion of the net loss in accumulated other comprehensive loss will be reclassified to interest expense within the next twelve months.

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2012 and December 31, 2011:

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At September 30, 2012					
Interest rate locks with customers	**$ 77,633**	Other Assets	**$ 3,420**		**$**
Forward loan commitments	**81,155**			Other Liabilities	**1,029**
Total	**$ 158,788**		**$ 3,420**		**$ 1,029**
At December 31, 2011					
Interest rate locks with customers	$ 35,934	Other Assets	$ 1,079		$
Forward loan commitments	39,080			Other Liabilities	302
Total	$ 75,014		$ 1,079		$ 302

The following table presents the notional amounts and fair values of derivatives designated as hedging instruments recorded on the consolidated balance sheets at September 30, 2012 and December 31, 2011:

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At September 30, 2012					
Interest rate swap cash flow hedge	**$ 20,000**		**$**	Other Liabilities	**$ 2,036**
Total	**$ 20,000**		**$**		**$ 2,036**

At December 31, 2011				
Interest rate swap cash flow hedge	$ 20,000	$	Other Liabilities	$ 1,435
Total	$ 20,000	$		$ 1,435

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For the three and nine months ended September 30, 2012 and 2011, the amounts included in the consolidated statements of income for derivatives not designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Statement of Income Classification	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest rate locks with customers	Net gain (loss) on mortgage banking activities	**$ 1,394**	$ 1,060	**$ 2,341**	$ 829
Forward loan commitments	Net gain (loss) on mortgage banking activities	**(617)**	(369)	**(727)**	(606)
Total		**$ 777**	$ 691	**$ 1,614**	$ 223

For the three and nine months ended September 30, 2012 and 2011, the amounts included in the consolidated statements of income for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Statement of Income Classification	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest rate swap cash flow hedge interest payments	Interest expense	**$ 112**	$ 123	**$ 331**	$ 360
Interest rate swap cash flow hedge ineffectiveness	Interest expense				
Total		**$ 112**	$ 123	**$ 331**	$ 360

At September 30, 2012 and December 31, 2011, the amounts included in accumulated other comprehensive loss for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Accumulated other comprehensive (loss) income	At September 30, 2012	At December 31, 2011
Interest rate swap cash flow hedge	Fair value, net of taxes	**$ (1,323)**	$ (932)
Total		**$ (1,323)**	$ (932)

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.

Investment Securities

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

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

On a quarterly basis, the Corporation reviews changes, as submitted by the pricing service, in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Corporation has its security portfolio priced by a second pricing service to determine consistency with another market evaluator, except for municipal bonds which are priced by another service provider on a sample basis. If, on the Corporation s review or in comparing with another servicer, a material difference between pricing evaluations were to exists, the Corporation may submit an inquiry to its current pricing service regarding the data used to make the valuation of a particular security. If the Corporation determines it has market information that would support a different valuation than its current pricing service s evaluation it can submit a challenge for a change to that security s valuation. There were no material differences in valuations noted at September 30, 2012.

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 estimated 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 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 in projected revenue of the acquired business which affect the contingent consideration liability will be recorded through non-interest expense. Due to the significant unobservable input related to the projected revenue, the contingent consideration liability is classified within Level 3 of the valuation hierarchy. An increase in the projected revenue may result in a significantly higher fair value of the contingent consideration liability. Alternatively, a decrease in the projected revenue may result in a significantly lower estimated fair value of the contingent consideration liability.

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The following table presents the assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, classified using the fair value hierarchy:

	At September 30, 2012			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S. government treasuries	**$ 4,952**	**$**	**$**	**$ 4,952**
U.S. government corporations and agencies		**180,523**		**180,523**
State and political subdivisions		**124,196**		**124,196**
Residential mortgage-backed securities		**98,793**		**98,793**
Commercial mortgage obligations		**24,371**		**24,371**
Corporate bonds		**5,006**		**5,006**
Money market mutual funds	**4,500**			**4,500**
Equity securities	**2,861**			**2,861**
Total available-for-sale securities	**12,313**	**432,889**		**445,202**
Interest rate locks with customers		**3,420**		**3,420**
Total assets	**$ 12,313**	**$ 436,309**	**$**	**$ 448,622**
Liabilities:				
Interest rate swap	**$**	**$ 2,036**	**$**	**$ 2,036**
Forward loan commitments		**1,029**		**1,029**
Contingent consideration liability			**876**	**876**
Total liabilities	**$**	**$ 3,065**	**$ 876**	**$ 3,941**

	At December 31, 2011			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S. government treasuries	$ 2,525	$	$	$ 2,525
U.S. government corporations and agencies		154,264		154,264
State and political subdivisions		117,005		117,005
Residential mortgage-backed securities		78,801		78,801
Commercial mortgage obligations		61,464		61,464
Corporate bonds		4,767		4,767
Money market mutual funds	3,851			3,851
Equity securities	2,684			2,684
Total available-for-sale securities	9,060	416,301		425,361
Interest rate locks with customers		1,079		1,079
Total assets	$ 9,060	$ 417,380	$	$ 426,440
Liabilities:				
Interest rate swap	$	$ 1,435	$	$ 1,435

Forward loan commitments		302		302
Total liabilities	$	$ 1,737	$	$ 1,737

The following table presents a reconciliation for all assets measured at fair value on a recurring basis and for which the Corporation utilized Level 3 inputs to determine fair value for the nine months ended September 30, 2011. There was no activity to report for the three and nine months ended September 30, 2012, or the three months ended September 30, 2011.

	Nine Months Ended September 30, 2011					
(Dollars in thousands)	**Balance at December 31, 2010**	**Total Unrealized Gains or (Losses)**	**Total Realized Gains or (Losses)**	**Paydowns**	**Transfers to Level 2**	**Balance at September 30, 2011**
Available-for-sale securities:						
Commercial mortgage obligations	$ 4,331	$ (26)	$	$ (135)	$ (4,170)	$
Total Level 3 assets	$ 4,331	$ (26)	$	$ (135)	$ (4,170)	$

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Realized gains or losses are recognized in the consolidated statements of income. There were no realized gains or losses recognized on Level 3 assets during the three or nine month periods ended September 30, 2012 or 2011.

On May 31, 2012 and as disclosed in Note 2, as a result of the purchase of Javers Group, the Corporation recorded a contingent consideration liability. The following table presents the change in the balance of the contingent consideration liability for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the nine months ended September 30, 2012:

(Dollars in thousands)	
Balance as of December 31, 2011	$
Contingent consideration from new acquisition	842
Adjustment of contingent consideration liability	34
Balance as of September 30, 2012	$ 876

The following table represents assets measured at fair value on a non-recurring basis as of September 30, 2012 and December 31, 2011.

	At September 30, 2012			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Impaired loans held for investment	**$**	**$**	**$ 40,065**	**$ 40,065**
Mortgage servicing rights		**3,182**		**3,182**
Other real estate owned		**3,301**		**3,301**
Total	**$**	**$ 6,483**	**$ 40,065**	**$ 46,548**

	At December 31, 2011			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Impaired loans held for investment	$	$	$ 39,948	$ 39,948
Mortgage servicing rights		2,739		2,739
Other real estate owned		6,600		6,600
Total	$	$ 9,339	$ 39,948	$ 49,287

Impaired loans held for investment include those collateral-dependent loans for which the practical expedient was applied, resulting in a fair-value adjustment to the loan. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans less cost to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At September 30, 2012, impaired loans held for investment had a carrying amount of $40.8 million with a valuation allowance of $690 thousand. At December 31, 2011, impaired loans held for investment had a carrying amount of $41.2 million with a valuation allowance of $1.3 million.

The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 2 of the valuation hierarchy. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. At September 30, 2012, mortgage servicing rights had a carrying amount of $4.2 million with a negative valuation allowance of $980 thousand. At December 31, 2011, mortgage servicing rights had a carrying amount of $3.5 million with a negative valuation allowance of $793 thousand.

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. During the third quarter of 2012, two commercial other real estate owned properties with a total carrying amount of $2.3 million were written down to their updated fair value of $1.7 million, resulting in an impairment charge of $621 thousand, which was included in earnings. During the nine months ended September 30, 2012, three commercial other real estate owned properties with a total carrying amount of $5.2 million, were written down to their updated fair values totaling $3.3 million, resulting in impairment charges of $1.9 million, which were included in earnings.

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Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other intangible assets. During the nine months ended September 30, 2012, there were no triggering events that required valuation of goodwill and other intangible assets.

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 as of September 30, 2012 and December 31, 2011. The disclosed fair values are classified using the fair value hierarchy.

	At September 30, 2012				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	**$ 63,306**	**$**	**$**	**$ 63,306**	**$ 63,306**
Held-to-maturity securities		**71,741**		**71,741**	**70,054**
Loans held for sale		**3,670**	**2,599**	**6,269**	**6,146**
Net loans and leases held for investment			**1,464,468**	**1,464,468**	**1,442,415**
Total assets	**$ 63,306**	**$ 75,411**	**$ 1,467,067**	**$ 1,605,784**	**$ 1,581,921**
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	**$ 1,436,003**	**$**	**$**	**$ 1,436,003**	**$ 1,436,003**
Time deposits		**345,517**		**345,517**	**341,927**
Total deposits	**1,436,003**	**345,517**		**1,781,520**	**1,777,930**
Short-term borrowings		**109,315**		**109,315**	**111,551**
Long-term borrowings		**21,339**		**21,339**	**21,369**
Total liabilities	**$ 1,436,003**	**$ 476,171**	**$**	**$ 1,912,174**	**$ 1,910,850**
Off-Balance-Sheet:					
Commitments to extend credit	**$**	**$ (1,276)**	**$**	**$ (1,276)**	**$**

	At December 31, 2011				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$ 107,377	$	$	$ 107,377	$ 107,377
Held-to-maturity securities		45,639		45,639	45,804
Loans held for sale		3,255		3,255	3,157
Net loans and leases held for investment			1,453,129	1,453,129	1,416,536
Total assets	$ 107,377	$ 48,894	$ 1,453,129	$ 1,609,400	$ 1,572,874
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$ 1,340,732	$	$	$ 1,340,732	$ 1,340,732
Time deposits		411,818		411,818	408,500
Total deposits	1,340,732	411,818		1,752,550	1,749,232
Short-term borrowings		106,677		106,677	109,740
Long-term borrowings		27,654		27,654	27,494
Total liabilities	$ 1,340,732	$ 546,149	$	$ 1,886,881	$ 1,886,466

Off-Balance-Sheet:							
Commitments to extend credit	$	$	(1,227)	$	$	(1,227)	$

The following valuation methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

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

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

Loans held for sale: The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. At September 30, 2012, nonaccrual commercial loans totaling $2.6 million were transferred to loans held for sale. There were no valuation adjustments for loans held for sale at September 30, 2012 and December 31, 2011.

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.

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 carrying amount for demand and savings accounts previously reported at December 31, 2011 included the estimated fair value of the non-financial intangible of $43.1 million which has been excluded for September 30, 2012 and December 31, 2011 presentation purposes. 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 securities sold under repurchase agreements are estimated using current market rates for similar borrowings and are classified within Level 2 in the fair value hierarchy. Short-term FHLB advances are estimated using a discounted cash flow analysis based on current market rates for similar borrowings, and include components for operating expense and embedded prepayment options that are observable. Short-term FHLB advances are classified within Level 2 in the fair value hierarchy.

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

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

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 means basis points ; N/M equates to not meaningful ; equates to zero or doesn t round to a reportable number ; and N/A equates to not applicable. Certain amounts have been reclassified to conform to the current-year presentation.)

Forward-Looking Statements

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words believe, anticipate, estimate, expect, project, target, goal and similar expressions are intended to identify forward 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 as of 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 2011 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) and Univest Delaware, Inc. The Corporation s former subsidiary, Univest Reinsurance Corporation, was liquidated during the third quarter of 2012 and the net assets were transferred to the Corporation.

The Bank is engaged in the general commercial banking business and provides a full range of banking services and trust services to its customers. The Bank is the parent company of Delview, Inc., which is the parent company of Univest Insurance, Inc., an independent insurance agency, and Univest Investments, Inc., a full-service broker-dealer and investment advisory firm. The Bank is also the parent company of Univest Capital, Inc., a small ticket commercial finance 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 September 30,		Change		Nine Months Ended September 30,		Change	
(Dollars in thousands, except per share data)	**2012**	2011	Amount	Percent	**2012**	2011	Amount	Percent
Net income	**$ 5,770**	$ 5,244	$ 526	10%	**$ 15,796**	$ 13,622	$ 2,174	16%
Net income per share:								
Basic	**$ 0.34**	$ 0.31	$ 0.03	10	**$ 0.94**	$ 0.81	$ 0.13	16
Diluted	**0.34**	0.31	0.03	10	**0.94**	0.81	0.13	16
Return on average assets	**1.04%**	0.98%	6 BP	6	**0.96%**	0.87%	9 BP	10
Return on average equity	**8.19%**	7.55%	64 BP	8	**7.60%**	6.69%	91 BP	14

Net interest income on a tax-equivalent basis for the three months ended September 30, 2012 was down $654 thousand, or 3% compared to the same period in 2011. The third quarter 2012 net interest margin on a tax-equivalent basis was 3.84%, a decrease of 31 basis points from 4.15% for the third quarter of 2011. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2012 was down $2.1 million or 3% compared to the same period in 2011. The tax equivalent net interest margin for the nine months ended September 30, 2012 was 3.92% compared to 4.21% for the same period in the prior year.

The provision for loan and lease losses decreased by $1.4 million and $6.7 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011.

Non-interest income increased $1.9 million or 21% and $4.5 million or 18% during the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. Non-interest expense increased $1.8 million or 10% and $6.1 million or 12% for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011.

Gross loans and leases grew $23.1 million from December 31, 2011 and deposits grew $28.7 million from December 31, 2011.

Nonperforming loans and leases increased to $44.6 million at September 30, 2012 compared to $42.5 million at December 31, 2011. Nonperforming loans and leases were $42.6 million at September 30, 2011. Nonperforming loans and leases as a percentage of total loans and leases (held for investment and nonaccrual loans held for sale) were 3.03% at September 30, 2012 compared to 2.94% at December 31, 2011 and 2.96% at September 30, 2011. Net loan and lease charge-offs were $5.6 million for the three months ended September 30, 2012 compared to $5.2 million for the same period in the prior year. Net charge-offs for the nine months ended September 30, 2012 declined to $10.4 million compared to $14.2 million for the same period in the prior year. Charge-offs occurred primarily in the commercial, financial and agricultural and commercial real estate categories.

On May 31, 2012, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of the Javers Group, a full-service employee benefits agency that specializes in comprehensive human resource management, payroll and administrative services to businesses with 50 to 1,000 employees. The acquisition expands the Corporation s insurance and employee benefits business and further diversifies its solutions to include human resource consulting services and technology. The Corporation paid $3.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period ended June 30, 2015 based on the achievement of certain levels of revenue. As of the acquisition date, the Corporation recorded the estimated fair value of the contingent payments of $842 thousand as additional goodwill and the liability is included in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from $0 thousand to a maximum of $1.7 million over the next three years. As a result of the Javers Group acquisition, the Corporation recorded goodwill of $3.1 million (inclusive of contingent consideration) and customer related intangibles of $989 thousand.

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

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The Corporation earns its revenues primarily from the margins and fees it generates from loans and leases and depository services it provides as well as from trust fees and insurance and investment commissions. 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; although interest rates are expected to remain low for the foreseeable future, it anticipates increasing interest rates over the longer term, which it expects would benefit its net interest margin.

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

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation's revenue. Table 1 presents a summary of the Corporation's average balances, the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the three and nine months ended September 30, 2012 and 2011. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Net interest income on a tax-equivalent basis for the three months ended September 30, 2012 decreased $654 thousand, or 3% compared to the same period in 2011. The tax-equivalent net interest margin for the three months ended September 30, 2012 decreased 31 basis points to 3.84% from 4.15% for the three months ended September 30, 2011. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2012 decreased $2.1 million, or 3% compared to the same period in 2011. The tax-equivalent net interest margin for the nine months ended September 30, 2012 decreased 29 basis points to 3.92% from 4.21% for the nine months ended September 30, 2011. The declines in net interest income and the net interest margin were primarily due to the re-investment of maturing and called investment securities with lower yielding investments, as a result of the lower interest rate environment and lower rates on commercial loans (including real estate loans) due to re-pricing and competitive pressures. The decline in net interest income and net interest margin was partially offset by re-pricing of certificates of deposits and savings account products. During the three months ended September 30, 2012, the Corporation increased its investments in government agencies, treasuries and corporate bonds with longer duration maturities as interest rate protection in the prolonged low rate interest environment.

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Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

	Three Months Ended September 30,					
	2012			2011		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 52,214**	**$ 45**	**0.34%**	$ 46,109	$ 25	0.22%
U.S. Government obligations	**156,885**	**508**	**1.29**	129,263	509	1.56
Obligations of states and political subdivisions	**121,612**	**1,696**	**5.55**	112,935	1,720	6.04
Other debt and equity securities	**196,026**	**846**	**1.72**	167,178	1,347	3.20
Total interest-earning deposits and investments	**526,737**	**3,095**	**2.34**	455,485	3,601	3.14
Commercial, financial and agricultural loans	**452,531**	**4,895**	**4.30**	435,805	4,930	4.49
Real estate commercial and construction loans	**525,143**	**6,804**	**5.15**	528,936	7,308	5.48
Real estate residential loans	**256,297**	**2,616**	**4.06**	247,332	2,684	4.31
Loans to individuals	**42,991**	**602**	**5.57**	42,358	594	5.56
Municipal loans and leases	**129,651**	**1,748**	**5.36**	132,494	1,919	5.74
Lease financings	**59,284**	**1,415**	**9.50**	58,419	1,456	9.89
Gross loans and leases	**1,465,897**	**18,080**	**4.91**	1,445,344	18,891	5.19
Total interest-earning assets	**1,992,634**	**21,175**	**4.23**	1,900,829	22,492	4.69
Cash and due from banks	**50,875**			57,572		
Reserve for loan and lease losses	**(31,365)**			(34,104)		
Premises and equipment, net	**34,002**			34,257		
Other assets	**168,137**			154,892		
Total assets	**$ 2,214,283**			$ 2,113,446		
Liabilities:						
Interest-bearing checking deposits	**$ 230,462**	**40**	**0.07**	$ 210,499	57	0.11
Money market savings	**331,425**	**121**	**0.15**	291,830	167	0.23
Regular savings	**514,205**	**187**	**0.14**	483,341	349	0.29
Time deposits	**348,675**	**1,276**	**1.46**	394,509	1,597	1.61
Total time and interest-bearing deposits	**1,424,767**	**1,624**	**0.45**	1,380,179	2,170	0.62
Short-term borrowings	**104,110**	**33**	**0.13**	104,469	96	0.36
Long-term debt				5,000	48	3.81
Subordinated notes and capital securities	**21,732**	**301**	**5.51**	23,240	307	5.24
Total borrowings	**125,842**	**334**	**1.06**	132,709	451	1.35
Total interest-bearing liabilities	**1,550,609**	**1,958**	**0.50**	1,512,888	2,621	0.69
Demand deposits, non-interest bearing	**346,687**			292,273		
Accrued expenses and other liabilities	**36,815**			32,783		
Total liabilities	**1,934,111**			1,837,944		

Shareholders Equity:				
Common stock	**91,332**		91,332	
Additional paid-in capital	**61,327**		61,473	
Retained earnings and other equity	**127,513**		122,697	
Total shareholders equity	**280,172**		275,502	
Total liabilities and shareholders equity	**$ 2,214,283**		$ 2,113,446	
Net interest income		**$ 19,217**		$ 19,871
Net interest spread		**3.73**		4.00
Effect of net interest-free funding sources		**0.11**		0.15
Net interest margin		**3.84%**		4.15%
Ratio of average interest-earning assets to average interest-bearing liabilities	**128.51%**		125.64%	

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	Nine Months Ended September 30,					
	2012			2011		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 55,358**	**$ 121**	**0.29%**	$ 24,076	$ 40	0.22%
U.S. Government obligations	**148,422**	**1,519**	**1.37**	150,902	1,865	1.65
Obligations of states and political subdivisions	**119,634**	**5,092**	**5.69**	110,730	5,153	6.22
Other debt and equity securities	**192,833**	**3,069**	**2.13**	169,453	4,403	3.47
Total interest-earning deposits and investments	**516,247**	**9,801**	**2.54**	455,161	11,461	3.37
Commercial, financial and agricultural loans	**445,301**	**14,423**	**4.33**	431,983	15,048	4.66
Real estate commercial and construction loans	**529,778**	**20,741**	**5.23**	542,926	21,958	5.41
Real estate residential loans	**251,035**	**7,818**	**4.16**	245,889	8,082	4.39
Loans to individuals	**43,803**	**1,856**	**5.66**	42,428	1,817	5.73
Municipal loans and leases	**133,557**	**5,450**	**5.45**	128,202	5,529	5.77
Lease financings	**57,708**	**4,244**	**9.82**	61,000	4,442	9.74
Gross loans and leases	**1,461,182**	**54,532**	**4.99**	1,452,428	56,876	5.24
Total interest-earning assets	**1,977,429**	**64,333**	**4.35**	1,907,589	68,337	4.79
Cash and due from banks	**41,152**			41,205		
Reserve for loan and lease losses	**(31,706)**			(33,506)		
Premises and equipment, net	**34,231**			34,393		
Other assets	**168,485**			155,561		
Total assets	**$ 2,189,591**			$ 2,105,242		
Liabilities:						
Interest-bearing checking deposits	**$ 227,775**	**138**	**0.08**	$ 204,619	180	0.12
Money market savings	**317,390**	**391**	**0.16**	292,620	542	0.25
Regular savings	**505,451**	**634**	**0.17**	482,026	1,186	0.33
Time deposits	**371,056**	**3,968**	**1.43**	403,729	5,018	1.66
Total time and interest-bearing deposits	**1,421,672**	**5,131**	**0.48**	1,382,994	6,926	0.67
Short-term borrowings	**110,177**	**295**	**0.36**	105,250	256	0.33
Long-term debt	**146**	**4**	**3.66**	5,000	142	3.80
Subordinated notes and capital securities	**22,108**	**906**	**5.47**	23,615	917	5.19
Total borrowings	**132,431**	**1,205**	**1.22**	133,865	1,315	1.31
Total interest-bearing liabilities	**1,554,103**	**6,336**	**0.54**	1,516,859	8,241	0.73
Demand deposits, non-interest bearing	**319,176**			283,124		
Accrued expenses and other liabilities	**38,682**			32,966		
Total liabilities	**1,911,961**			1,832,949		
Shareholders Equity:						
Common stock	**91,332**			91,332		
Additional paid-in capital	**61,352**			61,452		
Retained earnings and other equity	**124,946**			119,509		

Total shareholders equity	**277,630**			272,293		
Total liabilities and shareholders equity	**$ 2,189,591**			$ 2,105,242		
Net interest income		**$ 57,997**			$ 60,096	
Net interest spread			**3.81**			4.06
Effect of net interest-free funding sources			**0.11**			0.15
Net interest margin			**3.92%**			4.21%
Ratio of average interest-earning assets to average interest-bearing liabilities	**127.24%**			125.76%		

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the three and nine months ended September 30, 2012 and 2011 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 September 30, 2012 Versus 2011			Nine Months Ended September 30, 2012 Versus 2011		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$ 4	$ 16	$ 20	$ 65	$ 16	$ 81
U.S. Government obligations	97	(98)	(1)	(31)	(315)	(346)
Obligations of states and political subdivisions	124	(148)	(24)	397	(458)	(61)
Other debt and equity securities	203	(704)	(501)	543	(1,877)	(1,334)
Interest on deposits, investments and federal funds sold	428	(934)	(506)	974	(2,634)	(1,660)
Commercial, financial and agricultural loans and leases	182	(217)	(35)	458	(1,083)	(625)
Real estate commercial and construction loans	(53)	(451)	(504)	(513)	(704)	(1,217)
Real estate residential loans	94	(162)	(68)	166	(430)	(264)
Loans to individuals	7	1	8	60	(21)	39
Municipal loans and leases	(41)	(130)	(171)	230	(309)	(79)
Lease financings	20	(61)	(41)	(235)	37	(198)
Interest and fees on loans and leases	209	(1,020)	(811)	166	(2,510)	(2,344)
Total interest income	637	(1,954)	(1,317)	1,140	(5,144)	(4,004)
Interest expense:						
Interest-bearing checking deposits	6	(23)	(17)	20	(62)	(42)
Money market savings	20	(66)	(46)	46	(197)	(151)
Regular savings	23	(185)	(162)	55	(607)	(552)
Time deposits	(178)	(143)	(321)	(387)	(663)	(1,050)
Interest on time and interest-bearing deposits	(129)	(417)	(546)	(266)	(1,529)	(1,795)
Securities sold under agreement to repurchase and other short-term borrowings		(63)	(63)	13	26	39
Long-term debt	(48)		(48)	(133)	(5)	(138)
Subordinated notes and capital securities	(21)	15	(6)	(60)	49	