UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 04, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission File number 0-7617

Univest Corporation of Pennsylvania

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-1886144**
(State or other jurisdiction of	**(IRS Employer**

incorporation of organization)	**Identification No.)**
14 North Main Street	
Souderton, Pennsylvania	**18964**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code

(215) 721-2400

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock, $5 par value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 twelve 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 ninety days. YES x NO ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

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 Act). YES ¨ NO x

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $260,112,880 as of June 30, 2012 based on the June 30, 2012 closing price of the Registrant s Common Stock of $16.13 per share.

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	16,820,440
(Title of Class)	(Number of shares outstanding at January 31, 2013)

DOCUMENTS INCORPORATED BY REFERENCE

Part I and Part III incorporate information by reference from the proxy statement for the annual meeting of shareholders on April 16, 2013.

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PART I

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 but not limited to those set forth below as well as the risk factors described in Item 1A, Risk Factors :

- 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.

Item 1. ***Business***

General

Univest Corporation of Pennsylvania, (the Corporation), is a Pennsylvania corporation organized in 1973 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956. The Corporation owns all of the capital stock of Univest Bank and Trust Co. (the Bank) and Univest Delaware, Inc. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation s and the Bank s legal headquarters are located at 14 North Main Street, Souderton, PA 18964.

The Bank is a Pennsylvania state-chartered bank and trust company. As a state-chartered member bank of the Federal Reserve System, the Bank is regulated primarily by the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia. The Bank converted to a Pennsylvania state-chartered bank from a national bank effective as of the close of the business on June 29, 2011. The Corporation believes that the charter conversion allows greater flexibility to execute its strategy as a community bank and remain competitive in the markets it chooses to serve.

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

Univest Delaware, Inc. is a passive investment holding company located in Delaware. 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.

Univest Investments, Inc., Univest Insurance, Inc. and Univest Capital, Inc. were formed to enhance the traditional banking and trust services provided by the Bank. Univest Investments, Univest Insurance and Univest Capital do not currently meet the quantitative thresholds for separate disclosure as a business segment. Therefore, the Corporation currently has one reportable segment, Community Banking, and this is strategically how the Corporation operates and has positioned itself in the marketplace. The Corporation s activities are interrelated, each activity is dependent, and performance is assessed based on how each of these activities supports the others. Accordingly, significant operating decisions are based upon analysis of the Corporation as one Community Banking operating segment.

At December 31, 2012, the Corporation had total assets of $2.3 billion, net loans and leases of $1.5 billion, total deposits of $1.9 billion and total shareholders equity of $284.3 million.

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Employees

At December 31, 2012, the Corporation and its subsidiaries employed six hundred and fourteen (614) persons. None of these employees are covered by a collective bargaining agreement and the Corporation believes it enjoys good relations with its personnel.

Market Area

The Corporation is headquartered in Souderton, Pennsylvania, which is located in Southeastern Pennsylvania, approximately thirty-five miles north of Philadelphia. The highest concentration of our deposits and loans are in Montgomery and Bucks counties where all of our thirty-two retail financial service centers are located. These are two of the wealthiest counties in Pennsylvania. Significant types of employment industries include pharmaceuticals, health care, electronics, computer services, insurance, industrial machinery, retailing and meat processing. Major companies throughout the two counties include Merck and Company, Abington Memorial Hospital, Prudential Insurance, GlaxoSmithKline, Lockheed Martin, Hatfield Quality Meats, Aetna/U.S. Healthcare, St. Mary Medical Center, Healthcare Services, Giant Food Stores LLC, Doylestown Hospital, Grand View Hospital and Northtec LLC. Unemployment rates at December 2012 were 7% in both Montgomery and Bucks counties, slightly lower than Pennsylvania s state unemployment rate and the federal unemployment rate of 8%, according to the Bureau of Labor Statistics. In addition to our hub in Montgomery and Bucks counties, we have commercial lending and insurance offices in Lehigh and Chester counties. These areas currently represent a smaller segment of the Corporation s market area.

The Corporation ranks sixth in market share in Montgomery County with fifteen financial service centers, twelfth in Bucks County with seventeen financial service centers; with 4% of total combined market share in the two counties according to data provided by SNL Financial. Montgomery County s population has grown 7% to 800,000 from the year 2000 to 2010, and is expected to grow 3% through 2015, while Bucks County s population has grown 5% to 630,000 during the same period, and is expected to grow .6% through 2015, according to SNL Financial. The median age is 41 years and 42 years in Montgomery and Bucks counties, respectively, consistent with the median age of 40 years in Pennsylvania and slightly higher than the median age in the Unites States of 37 years. County estimates project the median age to increase over the next two decades. The median yearly household income was $76,000 during 2011 for both Montgomery and Bucks Counties and is expected to increase 13% through 2016 for each county, according to SNL Financial. The yearly median income for both counties is well above that of both the Commonwealth of Pennsylvania and the United States of $49,000 and $50,000 during 2011, respectively.

Competition

The Corporation s service areas are characterized by intense competition for banking business among commercial banks, savings institutions and other financial institutions. The Corporation s subsidiary bank actively competes with such banks and financial institutions for local retail and commercial accounts, in Bucks, Montgomery, Chester and Lehigh counties, as well as other financial institutions outside its primary service area.

In competing with other banks, savings institutions, and other financial institutions, the Bank seeks to provide personalized services through management s knowledge and awareness of their service area, customers and borrowers.

Other competitors, including credit unions, consumer finance companies, insurance companies, leasing companies and mutual funds, compete with certain lending and deposit gathering services offered by the Bank and its subsidiaries, Univest Investments, Inc., Univest Insurance, Inc. and Univest Capital, Inc.

Supervision and Regulation

The financial industry in the United States, particularly entities that are chartered as banks, is highly regulated by federal and state laws that limit the types of businesses in which banks and their holding companies may engage, and which impose significant operating requirements and limitations on banking entities. The discussion below is only a brief summary of some of the significant laws and regulations that affect the Bank and the Corporation, and is not intended to be a complete description of all such laws.

The Bank is subject to supervision and is regularly examined by the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia. The Bank is also subject to examination by the Federal Deposit Insurance Corporation.

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The Corporation is subject to the provisions of the Bank Holding Company Act of 1956, as amended, and is registered pursuant to its provisions. The Corporation is subject to the reporting requirements of the Board of Governors of the Federal Reserve System (the Board); and the Corporation, together with its subsidiaries, is subject to examination by the Board. The Federal Reserve Act limits the amount of credit that a member bank may extend to its affiliates, and the amount of its funds that it may invest in or lend on the collateral of the securities of its affiliates. Under the Federal Deposit Insurance Act, insured banks are subject to the same limitations.

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX adopted new standards of corporate governance and imposed additional requirements on the board of directors and management of public companies. SOX also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal control over financial reporting, identify any material weaknesses in its internal control over financial reporting and assert that such internal controls are effective. The Corporation has continued to be in compliance with SOX 404 during 2012. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation s Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

The Dodd-Frank Act was signed into law on July 21, 2010. Generally, the Dodd-Frank Act was effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Corporation s business, results of operations and financial condition. The Dodd-Frank Act, among other things:

- Centralized responsibility for consumer financial protection by the creation of a new agency, the Consumer Financial Protection Bureau, that has rulemaking authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;

- Increased the FDIC assessment for depository institutions with assets of $10 billion or more, changed the basis for determining FDIC premiums from insured deposits to consolidated assets less tangible capital; and increases the minimum reserve ratio for the deposit insurance fund to 1.35% by September 30, 2020;

- Permanently increased the federal deposit insurance coverage to $250 thousand, increased the Securities Investor Protection Corporation protection from $100 thousand to $250 thousand, and provided unlimited federal deposit insurance until December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions;

- Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- Amended the Electronic Funds Transfer Act, Regulation E to give the Federal Reserve authority to establish rules to limit debit-card interchange fees and rules regarding overdraft fees;

- Provides for new disclosures and other requirements relating to executive compensation, proxy access by shareholders and corporate governance;

- Provides mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and

Created a financial stability oversight council responsible for recommending to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

To comply with certain provisions of the Dodd-Frank Act and due to agreements that were reached by the Basel Committee on Banking Supervision in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Basel III), on June 7, 2012, the federal bank regulatory agencies issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets. The proposed rules indicated that the final rule would become effective on January 1, 2013, and the changes set forth in the final rules would be phased in from January 1, 2013 through January 1, 2019. However, the agencies have recently indicated that, due to the volume of public comments received, the final rule was delayed and was not effective on January 1, 2013.

Credit and Monetary Policies

The Bank is affected by the fiscal and monetary policies of the federal government and its agencies, including the Federal Reserve Board of Governors. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The Board uses its powers to regulate reserve requirements of member banks, the discount rate on member-bank borrowings, interest rates on time and savings deposits of member banks, and to conduct open-market operations in United States Government securities to exercise control over the supply of money and credit. The policies have a direct effect on the amount of bank loans and deposits and on the interest rates charged on loans and paid on deposits, with the result that the policies have a material effect on bank earnings. Future policies of the Board and other authorities cannot be predicted, nor can their effect on future bank earnings.

The Bank is a member of the Federal Home Loan Bank System (FHLBanks), which consists of 12 regional Federal Home Loan Banks, and is subject to supervision and regulation by the Federal Housing Finance Agency. The FHLBanks provide a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank of Pittsburgh (FHLB), is required to acquire and hold shares of capital stock in the FHLB as regulated by the FHLB. In December 2008, the FHLB suspended its dividends and the repurchase of capital stock due to capital compliance requirements. Since October 2010, the FHLB has repurchased a limited amount of excess capital stock each quarter. Since February 2012, the FHLB has paid a capital stock dividend each quarter. The FHLB will make decisions on future repurchases of excess capital stock and dividend payments on a quarterly basis. At December 31, 2012, the Bank owned $4.1 million in FHLB capital stock.

The deposits of the Bank are insured under the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. During the fourth quarter of 2009, the FDIC Board implemented an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund (DIF). The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. At December 31, 2012, $2.4 million remained in a prepaid asset account. The prepaid amount of $2.4 million has a zero percent risk-weighting for risk-based capital ratio calculations. The remaining prepaid amount will be expensed over the 2013 through 2014 period as the actual FDIC assessment is determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014, at which time any excess will be returned to the Bank.

Effective April 1, 2011, in accordance with the provisions of the Dodd-Frank Act, the FDIC implemented a final rule regarding deposit insurance assessments. The rule changed the assessment base from domestic deposits to average consolidated total assets minus average tangible equity, adopted a new large-bank pricing assessment scheme, and set a target size for the DIF at 2% of insured deposits. The rule adopted a new assessment rate schedule and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels. The rule lowered overall assessment rates in order to generate the same approximate amount of revenue under the new larger base as was raised under the old base. Nearly all institutions with assets less than $10 billion pay smaller assessments as a result of this rule. The rule eliminated the adjustment to the rate paid for secured liabilities, including Federal Home Loan Bank advances, since these are part of the new assessment base. It also created a new depository institution debt adjustment that increases the assessment rate of an institution that holds long-term debt issued by another insured depository institution. The final rule also created a scorecard-based assessment system for banks with more than $10 billion in assets. The scorecards include financial measures that the FDIC believes are predictive of long-term performance.

Acquisitions

Univest Corporation of Pennsylvania and its subsidiaries Univest Bank and Trust Co., Univest Insurance, Inc., Univest Capital, Inc., Univest Investments, Inc. and TCG Investment Advisory, provide financial solutions to individuals, businesses, municipalities and nonprofit organizations. The Corporation prides itself on being a financial organization that continues to increase its scope of services while maintaining traditional beliefs and a determined commitment to the communities it serves. Over the past five years, the Corporation and its subsidiaries have experienced stable growth, both organically and through various acquisitions to be the best integrated financial solutions provider in the market.

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The acquisitions included:

- Javers Group on May 31, 2012
- Liberty Benefits, Inc. on December 29, 2008
- Trollinger Consulting Group (commencing in January 2011, Trollinger Consulting Group is operating under the trade name of Univest Municipal Pension Services)
  - TC Group Securities Company, Inc. on December 31, 2008
  - Allied Benefits Group, LLC on December 31, 2008
  - TCG Investment Advisory Inc. on December 31, 2008

Securities and Exchange Commission Reports

The Corporation makes available free-of-charge its reports that are electronically filed with the Securities and Exchange Commission (SEC) including its Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports on its website as a hyperlink to EDGAR. These reports are available as soon as reasonably practicable after the material is electronically filed. The Corporation s website address is www.univest.net. The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2012 to each shareholder who requests one in writing after March 31, 2013. Requests should be directed to: Karen E. Tejkl, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 64197, Souderton, PA 18964.

The Corporation s filings are also available at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the hours of operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains the Corporation s SEC filings electronically at www.sec.gov.

Item 1A. ***Risk Factors***

An investment in the Corporation s common stock is subject to risks inherent to the Corporation s business. Before making an investment, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this report. This report is qualified in its entirety by these risk factors.

Risks Relating to Recent Economic Conditions and Governmental Response Efforts

The Corporation s earnings are impacted by general business and economic conditions.

The Corporation s operations and profitability are impacted by general business and economic conditions; these conditions include long-term and short-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control.

The U.S. economy entered into one of the longest economic recessions in December 2007. The capital and credit markets experienced extreme volatility and disruption for an extended period of time. The volatility and disruption in the capital and credit markets have produced downward pressure on stock prices of, and credit availability to, certain companies without regard to those companies underlying financial strength. This resulted in significant write-downs of asset values by financial institutions, including government sponsored entities and major commercial and investment banks. Uncertainty in the financial markets and downturn in general economic conditions, including dramatic declines in the housing market, with falling home prices and increased foreclosures and high levels of unemployment, has persisted over the past few years. The American Taxpayer Relief Act of 2012, better known as the fiscal cliff legislation, was enacted on January 2, 2013, and addressed the expiration of many key tax provisions for both individuals and businesses. Although general economic trends and market conditions have since stabilized to some degree, the continued economic pressures on consumers and businesses and continued high unemployment rate may adversely affect our business, financial condition, and results of operations.

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We cannot predict the effect of recent legislative and regulatory initiatives and they could increase our costs of doing business and adversely affect our results of operations and financial condition.

The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Included was the creation of a new federal agency to administer and enforce consumer and fair lending laws, a function that was formerly performed by the depository institution regulators. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations. Other changes to statutes, regulations or regulatory policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer, limit the fees we may charge, increase the ability of non-banks to offer competing financial services and products and limit our ability to attract and maintain our executive officers, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation s business, financial condition and results of operations.

In addition, recent government responses to the condition of the global financial markets and the banking industry has, among other things, increased our costs significantly and may further increase our costs for items such as federal deposit insurance. The FDIC insures deposits at FDIC-insured financial institutions, including our Bank up to applicable limits. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC would pay all deposits of a failed bank up to the insured amount from the Deposit Insurance Fund. Increases in deposit insurance premiums could adversely affect our net income.

The repeal of Federal prohibitions on payment of interest on business demand deposits could increase the Corporation s interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on business demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on business demand deposits to compete for clients. The Corporation does not yet know the long-term industry impact of this change. The Corporation s interest expense will increase and its net interest margin will decrease if it begins offering interest on business demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on the Corporation s business, financial condition and results of operations.

We borrow from the Federal Home Loan Bank and the Federal Reserve, and these lenders could modify or terminate their current programs which could have an adverse effect on our liquidity and profitability.

We at times utilize the FHLB for overnight borrowings and term advances; we also borrow from the Federal Reserve and from correspondent banks under our federal funds lines of credit. The amount loaned to us is generally dependent on the value of the collateral pledged as well as the FHLB s internal credit rating of the Bank. These lenders could reduce the percentages loaned against various collateral categories, could eliminate certain types of collateral and could otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so, because of capital adequacy or other balance sheet concerns. Any change or termination of our borrowings from the FHLB, the Federal Reserve or correspondent banks would have an adverse effect on our liquidity and profitability.

Our results of operations may be adversely affected by other-than-temporary impairment charges relating to our investment portfolio.

We may be required to record future impairment charges on our investment securities, including our investment in the FHLB, if they suffer declines in value that we consider other-than-temporary. Numerous factors, including the lack of liquidity for re-sales of certain investment securities, the absence of reliable pricing information for investment securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough, it could affect the ability of our Bank to pay dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders. Significant impairment charges could also negatively impact our regulatory capital ratios and result in our Bank not being classified as well-capitalized for regulatory purposes.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. The ongoing liquidity crisis and the loss of confidence in financial institutions may increase our cost of funding and limit our access to some of our customary sources of capital, including, but not limited to, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve.

Such sources of capital may not be available to us on acceptable terms or not available at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our subsidiary bank or counterparties participating in the capital markets may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Market and Business

The Corporation s profitability is affected by economic conditions in the Commonwealth of Pennsylvania.

Unlike larger regional banks that operate in large geographies, the Corporation provides banking and financial services to customers primarily in the Bucks, Montgomery, Chester and Lehigh Counties of Pennsylvania. Because of our geographic concentration, continuation of a slow and uncertain economic recovery in our region could make it more difficult to attract deposits and could cause higher rates of loss and delinquency on our loans than if the loans were more geographically diversified. Adverse economic conditions in the region, including, without limitation, declining real estate values, could cause our levels of non-performing assets and loan losses to increase. If the slow and uncertain economic recovery continues or is prolonged, borrowers may be less likely to repay their loans as scheduled. A continued sluggish economy could, therefore, result in losses that materially and adversely affect our financial condition and results of operations.

The Corporation operates in a highly competitive industry and market area which could adversely impact its business and results of operations.

We face substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including commercial banks, community banks, savings institutions, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit-gathering services offered by us. Increased competition in our markets may result in reduced loans and deposits.

Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to offer competitive products and services, our business may be negatively affected.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

The Corporation s controls and procedures may fail or be circumvented.

Our management diligently reviews and updates the Corporation s internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any failure or undetected circumvention of these controls could have a material adverse impact on our financial condition and results of operations.

Potential acquisitions may disrupt the Corporation s business and dilute shareholder value.

We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity.

Our acquisition activities could involve a number of additional risks, including the risks of:

incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;

using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;

the time and expense required to integrate the operations and personnel of the combined businesses;

creating an adverse short-term effect on our results of operations; and

losing key employees and customers as a result of an acquisition that is poorly received.

We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value.

The Corporation may not be able to attract and retain skilled people.

We are dependent on the ability and experience of a number of key management personnel who have substantial experience with our operations, the financial services industry, and the markets in which we offer products and services. The loss of one or more senior executives or key managers may have an adverse effect on our operations. The Corporation does not currently have employment agreements or non-competition agreements with any of our named executive officers. Also, as we continue to grow operations, our success depends on our ability to continue to attract, manage, and retain other qualified middle management personnel.

If we lost a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

Our profitability depends in part on our success in attracting and retaining a stable base of low-cost deposits. At December 31, 2012, 20% of our deposit base was comprised of noninterest bearing deposits, of which 16% consisted of business deposits, which are primarily operating accounts for businesses, and 4% consisted of consumer deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and customers are increasingly seeking investments that are safe, including the purchase of U.S. Treasury securities and other government-guaranteed obligations, as well as the establishment of accounts at the largest, most-well capitalized banks. If we were to lose a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

The Corporation s information systems may experience an interruption or breach in security.

The Corporation relies heavily on information systems to conduct its business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in the Corporation s customer relationship management and general ledger, deposit, loan, and other systems. The Corporation has policies and procedures designed with the intention to prevent or limit the effect of any failure, interruption, or breach in our security systems. The occurrence of any such failures, interruptions, or breaches in security could expose the Corporation to reputation risk, civil litigation, regulatory scrutiny and possible financial liability that could have a material adverse effect on our financial condition.

The Corporation continually encounters technological change.

Our future success depends, in part, on our ability to effectively embrace technology efficiencies to better serve customers and reduce costs. Failure to keep pace with technological change could potentially have an adverse effect on our business operations and financial condition.

The Corporation is subject to claims and litigation.

Customer claims and other legal actions, whether founded or unfounded, could result in financial or reputation damage and have a material adverse effect on our financial condition and results of operations if such claims are not resolved in a manner favorable to the Corporation.

Natural disasters, acts of war or terrorism and other external events could negatively impact the Corporation.

Natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation s ability to conduct business. In addition, such events could affect the stability of the Corporation s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Our management has established disaster recovery policies and procedures that are expected to mitigate events related to natural or man-made disasters; however, the occurrence of any such event and the impact of an overall economic decline resulting from such a disaster could have a material adverse effect on the Corporation s financial condition.

The Corporation depends on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer s audited financial statements conform to U.S. generally accepted accounting principles (GAAP) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. Our financial condition and results of operations could be negatively impacted to the extent we incorrectly assess the creditworthiness of our borrowers, fail to detect or respond to deterioration in asset quality in a timely manner, or rely on financial statements that do not comply with GAAP or are materially misleading.

Risks Related to the Banking Industry

The Corporation is subject to interest rate risk.

Our profitability is dependent to a large extent on our net interest income. Like most financial institutions, we are affected by changes in general interest rate levels and by other economic factors beyond our control. Although we believe we have implemented strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial and prolonged change in market interest rates could adversely affect our operating results.

Net interest income may decline in a particular period if:

In a declining interest rate environment, more interest-earning assets than interest-bearing liabilities re-price or mature, or

In a rising interest rate environment, more interest-bearing liabilities than interest-earning assets re-price or mature.

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

The Corporation is subject to lending risk.

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. Various laws and regulations also affect our lending activities and failure to comply with such applicable laws and regulations could subject the Corporation to enforcement actions and civil monetary penalties.

At December 31, 2012, approximately 82% of our loan and lease portfolio consisted of commercial, financial and agricultural, commercial real estate and construction loans and leases which are generally perceived as having more risk of default than residential real estate 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, as well as the factors affecting residential real estate borrowers. An increase in non-performing loans and leases could result in a net loss of earnings from these loans and leases, an increase in the provision for possible loan and lease losses, and an increase in loan and lease charge-offs. The risk of loan and lease losses increases if the economy worsens.

Commercial 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 projects 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 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 business, commercial real estate, and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans.

The Corporation s allowance for possible loan and lease losses may be insufficient and an increase in the allowance would reduce earnings.

We maintain an allowance for loan and lease losses. The allowance is established through a provision for loan and lease losses based on management s evaluation of the risks inherent in our loan portfolio and the general economy. The allowance is based upon a number of factors, including the size of the loan and lease portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management s assessment of the credit risk inherent in the portfolio, historical loan and lease loss experience and loan underwriting policies. In addition, we evaluate all loans and leases identified as problem loans and augment the allowance based upon our estimation of the potential loss associated with those problem loans and leases. Additions to our allowance for loan and lease losses decrease our net income.

If the evaluation we perform in connection with establishing loan and lease loss reserves is wrong, our allowance for loan and lease losses may not be sufficient to cover our losses, which would have an adverse effect on our operating results. Due to the volatile economy, we could experience an increase in delinquencies and losses as these loans continue to mature.

The federal regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may from time to time require us to increase our allowance for loan and lease losses, thereby negatively affecting our financial condition and earnings at that time. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control.

Changes in economic conditions and the composition of our loan portfolio could lead to higher loan charge-offs or an increase in our provision for loan losses and may reduce our net income.

Changes in national and regional economic conditions could impact our loan portfolios. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as other factors, could weaken the economies of the communities we serve. Weakness in the market areas we serve could depress our earnings and consequently our financial condition because customers may not demand our products or services; borrowers may not be able to repay their loans; the value of the collateral securing our loans to borrowers may decline and the quality of our loan portfolio may decline. Any of the latter three scenarios could require us to charge off a higher percentage of our loans and/or increase our provision for loan and lease losses, which would reduce our net income and could require us to raise capital.

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The Corporation is subject to environmental liability risk associated with lending activities.

In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. The Corporation may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. Our policies and procedures require environmental factors to be considered during the loan application process. An environmental review is performed before initiating any commercial foreclosure action; however, these reviews may not be sufficient to detect all potential environmental hazards. Possible remediation costs and liabilities could have a material adverse effect on our financial condition.

The Corporation is subject to extensive government regulation and supervision.

We are subject to Federal Reserve Board regulation. Our Bank is subject to extensive regulation, supervision, and examination by our primary federal regulators, the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia, and by the FDIC, the regulating authority that insures customer deposits. Also, as a member of the FHLB, our Bank must comply with applicable regulations of the Federal Housing Finance Board and the FHLB. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. Our Bank s activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A large claim against our Bank under these laws could have a material adverse effect on our results of operations.

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America and the General Assembly of the Commonwealth of Pennsylvania. New financial reform legislation has been enacted by Congress changing the bank regulatory framework, creating an independent consumer protection bureau and establishing more stringent capital standards for financial institutions and their holding companies. The legislation has, and will likely continue to result, in new regulations including those that affect lending, funding, trading and investment activities of financial institutions and their holding companies. Such additional regulation and oversight could have a material and adverse impact on us.

Consumers may decide not to use banks to complete their financial transactions.

The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams could have an adverse effect on our financial condition and results of operations.

Risks Related to Our Common Stock

An investment in the Corporation s common stock is not an insured deposit.

The Corporation s common stock is not a bank deposit, is not insured by the FDIC or any other deposit insurance fund, and is subject to investment risk, including the loss of some or all of your investment. Our common stock is subject to the same market forces that affect the price of common stock in any company.

The Corporation s stock price can be volatile.

The Corporation s stock price can fluctuate in response to a variety of factors, some of which are not under our control. These factors include:

- our past and future dividend practice;
- our financial condition, performance, creditworthiness and prospects;
- quarterly variations in our operating results or the quality of our assets;

operating results that vary from the expectations of management, securities analysts and investors;

changes in expectations as to our future financial performance;

the operating and securities price performance of other companies that investors believe are comparable to us;

future sales of our equity or equity-related securities;

the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and

changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events.

These factors could cause the Corporation s stock price to decrease regardless of our operating results.

The Corporation s common stock is listed for trading on the NASDAQ Global Select Market under the symbol UVSP ; the trading volume has historically been less than that of larger financial services companies. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive.

A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

Anti-takeover provisions could negatively impact our shareholders.

The provisions of the Corporation s shareholder rights plan, together with certain provisions in the Corporation s Articles of Incorporation and Bylaws, as well as federal banking laws, regulatory approval requirements, and Pennsylvania law could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation s shareholders.

There may be future sales or other dilution of the Corporation s equity, which may adversely affect the market price of our common stock.

The Corporation is generally not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of any additional shares of common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common stock or the exercise of such securities could be substantially dilutive to shareholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. The market price of our common stock could decline as a result of offerings or because of sales of shares of our common stock made after offerings or the perception that such sales could occur. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

The Corporation relies on dividends from our subsidiaries for most of our revenue.

The Corporation is a bank holding company and our operations are conducted by our subsidiaries from which we receive dividends. The ability of our subsidiaries to pay dividends is subject to legal and regulatory limitations, profitability, financial condition, capital expenditures and other cash flow requirements. The ability of our Bank to pay cash dividends to the Corporation is limited by its obligation to maintain sufficient capital and by other restrictions on its cash dividends that are applicable to state member banks in the Federal Reserve System. If our Bank is not permitted to pay cash dividends to the Corporation, it is unlikely that we would be able to pay cash dividends on our common stock.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The Corporation and its subsidiaries occupy forty-four properties in Montgomery, Bucks, Chester and Lehigh counties in Pennsylvania, Prince Georges County in Maryland, Burlington County in New Jersey and Hennepin County in Minnesota, most of which are used principally as banking offices. Business locations and hours are available on the Corporation s website at www.univest.net.

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The Corporation owns its corporate headquarters buildings, which are shared with the Bank and Univest Investments, Inc., in Souderton, Montgomery County. Univest Investments, Inc. also occupies a location in Allentown, Lehigh County. Univest Insurance, Inc. occupies four locations, of which two are owned by the Bank, one in Lansdale, Montgomery County and one in West Chester, Chester County; and two are leased, one in Upper Marlboro, Prince Georges County in Maryland and one in Delran, Burlington County in New Jersey. Univest Capital, Inc. occupies three leased locations, one in Bensalem, Bucks County, one in Allentown, Lehigh County, and one in Bloomington, Hennepin County in Minnesota. The Bank serves the area through its thirty traditional offices and two supermarket branches that offer traditional community banking and trust services. Fifteen banking offices are located in Montgomery County, of which ten are owned, two are leased and three are buildings owned on leased land; seventeen banking offices are located in Bucks County, of which five are owned, ten are leased and two are buildings owned on leased land. The Bank has two additional regional leased offices primarily used for loan production, one of which is located in Bucks County and one in Lehigh County.

Additionally, the Bank provides banking and trust services for the residents and employees of twelve retirement home communities. The Bank has six off-premise automated teller machines located in Montgomery County and two off-premise automated teller machines located in Bucks County. The Bank provides banking services nationwide through the internet via its website www.univest.net.

Item 3. ***Legal Proceedings***

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

Item 4. ***Mine Safety Disclosures***

Not Applicable.

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PART II

Item 5. ***Market for the Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Corporation s common stock is traded on the NASDAQ Global Select Market under the symbol UVSP. At December 31, 2012, the Corporation had 5,075 stockholders.

Broadridge Corporate Issuer Solutions, Inc. (Broadridge), serves as the Corporation s transfer agent. Broadridge is located at 1717 Arch Street, Suite 1300, Philadelphia, PA 19103. Shareholders can contact a representative by calling 866-321-8021.

Range of Market Prices of Common Stock and Cash Dividends

The following table shows the range of market values of the Corporation s stock. The prices shown on this page represent transactions between dealers and do not include retail markups, markdowns, or commissions. The table also presents the cash dividends declared per share for each quarter.

	Market Price		Cash Dividends Declared per Share
	High	**Low**	
2012			
January March	**$ 17.46**	**$ 14.69**	**$ 0.20**
April June	**17.24**	**15.17**	**0.20**
July September	**18.68**	**15.51**	**0.20**
October December	**18.47**	**15.33**	**0.20**
2011			
January March	$ 19.98	$ 15.82	$ 0.20
April June	17.99	15.00	0.20
July September	16.91	12.09	0.20
October December	16.09	12.86	0.20

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Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation s common stock during the five years ended December 31, 2012, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100.00 was invested on December 31, 2007, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

Comparison of Cumulative Total Return on

$100 Investment Made on December 31, 2007

Five Year Cumulative Total Return Summary

	2007	2008	2009	2010	2011	2012
Univest Corporation of Pennsylvania	100.00	156.76	89.15	101.86	81.97	100.31
NASDAQ Stock Market (US)	100.00	60.04	87.23	103.04	102.25	120.35
NASDAQ Banks	100.00	78.54	65.73	75.02	67.17	79.70

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Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and shares under the equity compensation plan, Univest 2003 Long-term Incentive Plan, at December 31, 2012:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plan approved by security holders	584,349	$ 20.85	612,726
Equity compensation plans not approved by security holders			
Total	584,349	$ 20.85	612,726

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2012:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Oct. 1, 2012 Oct. 31, 2012		$		541,929
Nov. 1, 2012 Nov. 30, 2012				541,929
Dec. 1, 2012 Dec. 31, 2012				541,929
Total				

1. The number of shares approved for repurchase under the Corporation s current stock repurchase program is 643,782. The Corporation s current stock repurchase program was approved by its Board of Directors and announced on 8/22/2007. The repurchased shares limit is net of normal treasury activity such as purchases to fund the dividend reinvestment, employee stock purchase and the equity compensation plans.
2. The Corporation s current stock repurchase program does not have an expiration date.
3. No stock repurchase plan or program of the Corporation expired during the period covered by the table.
4. The Corporation has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further purchases. The plans are restricted during certain blackout periods in conformance with the Corporation s Insider

Trading Policy.

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Item 6. ***Selected Financial Data***

	For the Years Ended December 31,				
(Dollars in thousands, except per share data)	2012	2011	2010	2009	2008
Earnings					
Interest income	**$ 80,654**	$ 85,468	$ 91,003	$ 96,359	$ 108,057
Interest expense	**8,174**	10,728	17,469	28,723	42,310
Net interest income	**72,480**	74,740	73,534	67,636	65,747
Provision for loan and lease losses	**10,035**	17,479	21,565	20,886	8,769
Net interest income after provision for loan and lease losses	**62,445**	57,261	51,969	46,750	56,978
Noninterest income	**40,260**	34,407	34,418	29,917	26,615
Noninterest expense	**76,282**	68,010	67,349	65,324	57,225
Income before income taxes	**26,423**	23,658	19,038	11,343	26,368
Applicable income taxes	**5,551**	4,776	3,282	563	5,778
Net income	**$ 20,872**	$ 18,882	$ 15,756	$ 10,780	$ 20,590
Financial Condition at Year End					
Cash and interest-earning deposits	**$ 146,112**	$ 107,377	$ 29,187	$ 68,597	$ 40,066
Investment securities	**499,579**	471,165	467,024	420,045	432,266
Net loans and leases held for investment	**1,457,116**	1,416,536	1,440,288	1,401,182	1,436,774
Assets	**2,304,841**	2,206,839	2,133,893	2,085,421	2,084,797
Deposits	**1,865,333**	1,749,232	1,686,270	1,564,257	1,527,328
Borrowings	**117,276**	137,234	143,865	214,063	312,736
Shareholders equity	**284,277**	272,979	266,224	267,807	203,207
Per Common Share Data					
Average shares outstanding (in thousands)	**16,761**	16,743	16,598	14,347	12,873
Earnings per share basic	**$ 1.25**	$ 1.13	$ 0.95	$ 0.75	$ 1.60
Earnings per share diluted	**1.24**	1.13	0.95	0.75	1.60
Dividends declared per share	**0.80**	0.80	0.80	0.80	0.80
Book value (at year-end)	**16.95**	16.34	15.99	16.27	15.71
Dividends declared to net income	**64.25%**	70.87%	84.31%	109.33%	50.03%
Profitability Ratios					
Return on average assets	**0.95%**	0.89%	0.75%	0.52%	1.02%
Return on average equity	**7.39**	6.91	5.82	4.68	10.09
Average equity to average assets	**12.78**	12.87	12.92	11.06	10.08
Asset Quality Ratios					
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) to loans and leases held for investment	**2.17%**	2.64%	3.07%	2.35%	0.35%
Nonperforming loans and leases to loans and leases held for investment	**3.11**	2.94	3.16	2.65	0.45
Net charge-offs to average loans and leases outstanding	**1.03**	1.28	1.07	0.63	0.62
Allowance for loan and leases losses to total loans and leases held for investment	**1.67**	2.07	2.10	1.74	0.90
Allowance for loan and leases losses to nonaccrual loans and leases	**77.01**	78.18	68.31	74.03	260.85
Allowance for loan and leases losses to nonperforming loans and leases	**53.76**	70.34	66.48	65.54	200.15

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

(All dollar amounts presented within tables are in thousands, except per share data. BP equates to basis points ; N/M equates to not meaningful ; equates to zero or doesn t round to a reportable number ; and N/A equates to not applicable. Certain amounts have been reclassified to conform to the current-year presentation.)

The information contained in this report may contain forward-looking statements, including statements relating to Univest Corporation of Pennsylvania (the Corporation) and its financial condition and results of operations that involve certain risks, uncertainties and assumptions. The Corporation s actual results may differ materially from those anticipated, projected, expected or projected as discussed in forward-looking statements. A discussion of forward-looking statements and factors that might cause such a difference includes those discussed in Item 1. Business, Item 1A. Risk Factors, as well as those within this Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report.

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.

Fair Value Measurement of Investment Securities Available-for-Sale and Assessment for Impairment of Certain Investment Securities: The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment in the statement of operations and statement of financial condition for market value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management s intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that either statement of financial position or statement of operations adjustments may be required.

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.

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 credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell, and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery, is recognized in other comprehensive income, net of tax. The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that the fair value of certain equity securities will 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. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment and the Corporation s positive intent and ability to hold these securities until recovery to the Corporation s cost basis occurs.

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Reserve for Loan and Lease Losses: Reserves for loan and lease losses are provided using techniques that specifically identify losses on impaired loans and leases, estimate losses on pools of homogeneous loans and leases, and estimate the amount of unallocated reserve necessary to account for losses that are present in the loan and lease portfolio but not yet currently identifiable. The adequacies of these reserves are sensitive to changes in current economic conditions that may affect the ability of borrowers to make contractual payments as well as the value of the collateral committed to secure such payments. Rapid or sustained downturns in the economy may require increases in reserves that may negatively impact the Corporation s results of operations and statements of financial condition in the periods requiring additional reserves.

Valuation of Goodwill and Other Intangible Assets: Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation also completes an annual impairment test for other intangible assets, or more often, if events and circumstances indicate a possible impairment.

The Corporation completed an impairment test for goodwill and other intangible assets during the fourth quarter of 2012. The Corporation employs general industry practices in evaluating the fair value of its goodwill and other intangible assets. Goodwill and other assets and liabilities have been allocated to defined reporting units, which are generally the Bank, Univest Investments, Inc. and Univest Insurance. The Corporation s two-step impairment testing of goodwill is described as follows. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill.

For the Bank, in Step 1, fair value is determined by using a weighted average of the market and income approaches. Under the market approach, fair value is measured based on trading multiples of independent publicly traded entities of comparable sizes. Under the income approach, fair value is measured utilizing a net present value of cash flows of projected net income based on the compound annual growth rate of equity and a discount rate. The discount rate is calculated by utilizing the cost of equity method. A heavier weighting is placed on the market approach as data is readily available for comparable banks. The fair value of the Bank that was calculated was compared to its carrying amount. The fair value exceeded its carrying amount, therefore, no impairment existed. If the fair value of the Bank is less than its carrying amount, a Step 2 test is required to calculate and compare the fair value of its goodwill with the carrying amount of that goodwill. The valuation procedures applied in Step 2 are similar to those that would be performed upon an acquisition, with the Step 1 fair value representing a hypothetical reporting unit purchase price. If the implied fair value of goodwill is less than its carrying amount, impairment exists which requires an impairment charge to noninterest expense

For Univest Investments, Inc. and Univest Insurance, Inc. in Step 1, the fair value of each reporting unit is determined by using a weighted average of the income and market approaches. Under the income approach, fair value is measured utilizing a net present value of cash flows of projected net income based on the compound annual growth rate of equity and a discount rate. The discount rate is calculated by utilizing the cost of equity and the cost of debt methods. Under the market approach, fair value is measured based on trading multiples of independent publicly traded entities of comparable sizes. Univest Investments, Inc. and Univest Insurance, Inc., being fee-based revenue dependent, warrant a heavier weighting on the income approach; and not being publicly traded, warrant less weighting on the market approach. The fair value that was calculated for each reporting unit was compared to the carrying amount of the reporting unit. The fair value of each reporting unit exceeded its carrying amount, therefore, no impairment existed. If the fair value of any reporting unit is less than its carrying amount, a Step 2 test is required to calculate and compare the fair value of reporting unit goodwill with the carrying amount of that goodwill. The valuation procedures applied in Step 2 are similar to those that would be performed upon an acquisition, with the Step 1 fair value representing a hypothetical reporting unit purchase price. If the implied fair value of goodwill is less than its carrying amount, impairment exists which requires an impairment charge to noninterest expense.

There was no goodwill impairment and no material impairment to identifiable intangibles recorded during 2012 or 2011. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

For other identifiable intangible assets, changes in the useful life or economic value of acquired assets may require a reduction in the asset value carried on the financial statements of the Corporation and a related charge in the statement of operations. Such changes in asset value could result from a change in market demand for the products or services offered by an acquired business or by reductions in the expected profit margins that can be obtained through the future delivery of the acquired product or service line.

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Mortgage Servicing Rights: The Corporation has mortgage servicing rights for mortgages it originated, subsequently sold and retained servicing. The value of the rights is booked as income when the corresponding mortgages are sold. The income booked at sale is the estimated present value of the cash flows that will be received from servicing the loans over their entire future term. The term of a servicing right can be reasonably estimated using prepayment assumptions of comparable assets priced in the secondary market. As mortgage rates being offered to the public decrease, the life of loan servicing rights tends to shorten, as borrowers have increased incentive to refinance. Shortened loan servicing lives may require changes in the value of the servicing rights that have already been recorded to be marked down in the statement of operations of the servicing company. This may cause a material change in reported operations for the Corporation depending on the size of the servicing portfolio and the degree of change in the prepayment speed of the type and coupon of loans being serviced.

Deferred Tax Assets and Liabilities: The Corporation recognizes deferred tax assets and liabilities for the future effects of temporary differences, net operating loss carryforwards, and tax credits. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the statement of operations in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in management s judgment it is more likely than not that some portion of the asset will not be realized. Management may need to modify their judgments in this regard from one period to another should a material change occur in the business environment, tax legislation, or in any other business factor that could impair the Corporation s ability to benefit from the asset in the future.

Benefit Plans: The Corporation has a retirement plan that it provides as a benefit to employees hired before December 8, 2009 and former employees who were also hired before December 8, 2009 and met the plan s vesting requirements. The Corporation also provides supplemental retirement plans that it provides as a benefit to certain current and former executives. Determining the adequacy of the funding of these plans may require estimates of future salary rate increases, of long-term rates of investment return, and the use of an appropriate discount rate for the obligation. Changes in these estimates and assumptions due to changes in the economic environment or financial markets may result in material changes in the Corporation s results of operations or statement of financial condition.

Stock-Based Compensation: The fair value of share based awards is recognized as compensation expense over the vesting period based on the grant-date fair value of the awards. The Corporation uses the Black-Scholes Model to estimate the fair value of each option on the date of grant. The Black-Scholes model estimates the fair value of employee stock options using a pricing model which takes into consideration the exercise price of the option, the expected life of the option, the current market price and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Corporation s estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. The Corporation grants stock options to employees with an exercise price equal to the fair value of the shares at the date of grant. The fair value of restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period.

Readers of the Corporation s financial statements should be aware that the estimates and assumptions used in the Corporation s current financial statements may need to be updated in future financial presentations for changes in circumstances, business or economic conditions in order to fairly represent the condition of the Corporation at that time.

General

The Corporation earns its revenues primarily through its subsidiaries, from the margins and fees it generates from the lending and depository services it provides as well as fee-based income from trust, insurance and investments. 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. Growth is pursued through expansion of current customer relationships and development of additional relationships with new offices and strategically related acquisitions. The Corporation has also taken steps in recent years to reduce its dependence on net interest income by intensifying its focus on fee-based income from trust, insurance, mortgage banking and investment services to customers.

The principal component of earnings for the Corporation is net interest income, which is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The net interest margin, which is the ratio of net interest income to average earning assets, is affected by several factors including market interest rates, economic conditions, loan and lease demand, and deposit activity. 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.

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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:

	For the Years Ended December 31,			Amount of Change		Percent Change	
Dollars in thousands, (except per share data)	**2012**	**2011**	**2010**	**2012 to 2011**	**2011 to 2010**	**2012 to 2011**	**2011 to 2010**
Net income	**$ 20,872**	$ 18,882	$ 15,756	**$ 1,990**	$ 3,126	**11%**	20%
Net income per share:							
Basic	**$ 1.25**	$ 1.13	$ 0.95	**$ 0.12**	$ 0.18	**11**	19
Diluted	**1.24**	1.13	0.95	**0.11**	0.18	**10**	19
Return on average assets	**0.95%**	0.89%	0.75%	**6 BP**	14 BP	**7**	19
Return on average equity	**7.39%**	6.91%	5.82%	**48 BP**	109 BP	**7**	19

2012 versus 2011

The 2012 results compared to 2011 include the following significant components:

Net interest income on a tax-equivalent basis decreased $2.4 million, or 3% during 2012 compared to 2011. The net interest margin on a tax-equivalent basis decreased 26 basis points to 3.89% from 4.15%.

The provision for loan and lease losses declined by $7.4 million, or 43% during 2012 compared to 2011 primarily the result of migration and resolution of loans through the loan workout process and a decrease in loss factors for commercial real estate loans.

Noninterest income increased $5.9 million, or 17% during 2012 over 2011. Noninterest expense increased $8.3 million, or 12% for 2012 compared to the prior year.

Gross loans and leases held for investment grew $35.5 million from December 31, 2011 and deposits grew $116.1 million from December 31, 2011.

Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, decreased to $32.1 million at December 31, 2012 compared to $38.2 million at December 31, 2011. Nonaccrual loans and leases as a percentage of total loans and leases held for investment were 2.17% at December 31, 2012 compared to 2.64% at December 31, 2011. Net loan and lease charge-offs were $15.2 million for 2012 compared to $18.5 million for 2011. Charge-offs occurred primarily in the commercial, financial and agricultural and commercial real estate categories.

2011 versus 2010

The 2011 results compared to 2010 include the following significant components:

Net interest income on a tax-equivalent basis increased $1.6 million, or 2% during 2011 over 2010. The net interest margin on a tax-equivalent basis increased 4 basis points to 4.15% from 4.11%.

The provision for loan and lease losses declined by $4.1 million, or 19% during 2011 compared to 2010 primarily as a result of the migration and resolution of loans through the loan workout process, lower loan volume and a decrease in loss factors.

Noninterest income for 2011 remained level with the prior year. Noninterest expense increased $661 thousand, or 1% during 2011 compared to 2010.

Gross loans and leases held for investment decreased $24.8 million from December 31, 2010. Deposits grew $63.0 million from December 31, 2010.

Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, decreased to $38.2 million at December 31, 2011 compared to $45.2 million at December 31, 2010. Nonaccrual loans and leases as a percentage of total loans and leases held for investment were 2.64% at December 31, 2011 compared to 3.07% at December 31, 2010. Net loan and lease charge-offs were $18.5 million for 2011 compared to $15.5 million for 2010. Charge-offs occurred primarily in the commercial, financial and agricultural and commercial real estate categories.

During the third and fourth quarters of 2011, the Corporation deployed $1.0 million of capital to repurchase 77,037 shares of common stock through the stock repurchase program.

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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Acquisitions

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 ending June 30, 2015 based on the achievement of certain levels of revenue. At the acquisition date, the Corporation recorded the estimated fair value of the contingent payments of $842 thousand as additional goodwill in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $1.7 million over the next three years. The Corporation recorded goodwill of $3.1 million (inclusive of contingent consideration) and customer related intangibles of $989 thousand as a result of the Javers Group acquisition.

On December 31, 2008, the Corporation completed the acquisition of the Trollinger Consulting Group and related entities, an independent actuarial, administrative, consulting/compliance, and investment counseling firm that exclusively serves Municipal Pension Plan clients. The Corporation recorded $2.9 million in goodwill and $3.0 million in customer related intangibles as a result of the Trollinger Consulting Group acquisition. The Corporation recorded additional goodwill of $157 thousand in 2009. The Corporation recorded additional goodwill of $1.8 million and $925 thousand at December 31, 2011 and 2010, respectively for earn-out payments related to the acquisition of Trollinger Consulting Group for achieving specified operating income targets. The Corporation has no remaining contingent earn-out payments.

On December 29, 2008, the Corporation completed the acquisition of Liberty Benefits, Inc., a full service employee benefits brokerage and consulting firm specializing in providing comprehensive employee benefits packages to businesses both large and small. The Corporation recorded $2.8 million in goodwill and $740 thousand in customer related intangibles as a result of the Liberty Benefits, Inc. acquisition.

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 year ended December 31, 2012 compared to 2011 and for the year ended December 31, 2011 compared to 2010. 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.

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Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

	For the Years Ended December 31,								
	2012			2011			2010		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:									
Interest-earning deposits with other banks	**$ 52,387**	**$ 164**	**0.31%**	$ 44,696	$ 116	0.26%	$ 24,790	$ 72	0.29%
U.S. Government obligations	**154,715**	**2,038**	**1.32**	145,253	2,366	1.63	151,725	3,160	2.08
Obligations of states and political subdivisions	**119,993**	**6,669**	**5.56**	111,722	6,875	6.15	108,694	7,006	6.45
Other debt and equity securities	**195,765**	**3,913**	**2.00**	172,238	5,697	3.31	172,763	7,217	4.18
Total interest-earning deposits and investments	**522,860**	**12,784**	**2.45**	473,909	15,054	3.18	457,972	17,455	3.81
Commercial, financial and agricultural loans	**445,883**	**19,367**	**4.34**	428,222	19,721	4.61	422,401	20,315	4.81
Real estate commercial and construction loans	**530,633**	**27,550**	**5.19**	541,073	29,152	5.39	534,573	30,834	5.77
Real estate residential loans	**253,486**	**10,373**	**4.09**	246,102	10,740	4.36	256,427	11,124	4.34
Loans to individuals	**43,562**	**2,480**	**5.69**	42,760	2,433	5.69	45,287	2,698	5.96
Municipal loans and leases	**133,212**	**7,231**	**5.43**	129,880	7,471	5.75	107,832	6,248	5.79
Lease financings	**58,672**	**5,709**	**9.73**	60,042	5,856	9.75	75,565	6,851	9.07
Gross loans and leases	**1,465,448**	**72,710**	**4.96**	1,448,079	75,373	5.21	1,442,085	78,070	5.41
Total interest-earning assets	**1,988,308**	**85,494**	**4.30**	1,921,988	90,427	4.70	1,900,057	95,525	5.03
Cash and due from banks	**49,362**			41,028			35,612		
Reserve for loan and lease losses	**(30,771)**			(33,152)			(28,688)		
Premises and equipment, net	**34,079**			34,376			34,914		
Other assets	**167,515**			158,548			151,527		
Total assets	**$ 2,208,493**			$ 2,122,788			$ 2,093,422		
Liabilities:									
Interest-bearing checking deposits	**$ 230,031**	**177**	**0.08**	$ 206,830	238	0.12	$ 178,679	242	0.14
Money market savings	**330,839**	**509**	**0.15**	299,299	701	0.23	303,012	1,060	0.35
Regular savings	**510,005**	**790**	**0.15**	482,064	1,468	0.30	445,721	2,555	0.57
Time deposits	**363,225**	**5,162**	**1.42**	408,638	6,576	1.61	432,919	10,054	2.32
Total time and interest-bearing deposits	**1,434,100**	**6,638**	**0.46**	1,396,831	8,983	0.64	1,360,331	13,911	1.02
Short-term borrowings	**108,023**	**326**	**0.30**	106,280	332	0.31	139,776	2,116	1.51
Long-term debt	**109**	**4**	**3.67**	5,000	190	3.80	5,363	190	3.54
Subordinated notes and capital securities	**21,921**	**1,206**	**5.50**	23,425	1,223	5.22	24,927	1,252	5.02
Total borrowings	**130,053**	**1,536**	**1.18**	134,705	1,745	1.30	170,066	3,558	2.09
Total interest-bearing liabilities	**1,564,153**	**8,174**	**0.52**	1,531,536	10,728	0.70	1,530,397	17,469	1.14
Demand deposits, non-interest bearing	**327,576**			284,850			259,303		
Accrued expenses and other liabilities	**34,478**			33,147			33,232		
Total liabilities	**1,926,207**			1,849,533			1,822,932		

Shareholders Equity:						
Common stock	**91,332**		91,332		91,332	
Additional paid-in capital	**64,517**		61,457		61,420	
Retained earnings and other equity	**126,437**		120,466		117,738	
Total shareholders equity	**282,286**		273,255		270,490	
Total liabilities and shareholders equity	**$ 2,208,493**		$ 2,122,788		$ 2,093,422	
Net interest income		**$ 77,320**		$ 79,699		$ 78,056
Net interest spread		**3.78**		4.00		3.89
Effect of net interest-free funding sources		**0.11**		0.15		0.22
Net interest margin		**3.89%**		4.15%		4.11%
Ratio of average interest-earning assets to average interest-bearing liabilities	**127.12%**		125.49%		124.15%	

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 years ended December 31, 2012, 2011 and 2010 have been calculated using the Corporation s federal applicable rate of 35.0%.

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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 for the year ended December 31, 2012 compared to 2011 and for the year ended December 31, 2011 compared to 2010, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

	For the Years Ended December 31, 2012 Versus 2011			For the Years Ended December 31, 2011 Versus 2010		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	**$ 23**	**$ 25**	**$ 48**	$ 52	$ (8)	$ 44
U.S. Government obligations	**146**	**(474)**	**(328)**	(131)	(663)	(794)
Obligations of states and political subdivisions	**485**	**(691)**	**(206)**	195	(326)	(131)
Other debt and equity securities	**700**	**(2,484)**	**(1,784)**	(22)	(1,498)	(1,520)
Interest on deposits, investments and federal funds sold	**1,354**	**(3,624)**	**(2,270)**	94	(2,495)	(2,401)
Commercial, financial and agricultural loans	**809**	**(1,163)**	**(354)**	273	(867)	(594)
Real estate commercial and construction loans	**(548)**	**(1,054)**	**(1,602)**	371	(2,053)	(1,682)
Real estate residential loans	**314**	**(681)**	**(367)**	(436)	52	(384)
Loans to individuals	**47**		**47**	(147)	(118)	(265)
Municipal loans and leases	**187**	**(427)**	**(240)**	1,266	(43)	1,223
Lease financings	**(135)**	**(12)**	**(147)**	(1,482)	487	(995)
Interest and fees on loans and leases	**674**	**(3,337)**	**(2,663)**	(155)	(2,542)	(2,697)
Total interest income	**2,028**	**(6,961)**	**(4,933)**	(61)	(5,037)	(5,098)
Interest expense:						
Interest-bearing checking deposits	**26**	**(87)**	**(61)**	35	(39)	(4)
Money market savings	**67**	**(259)**	**(192)**	(12)	(347)	(359)
Regular savings	**80**	**(758)**	**(678)**	194	(1,281)	(1,087)
Time deposits	**(686)**	**(728)**	**(1,414)**	(538)	(2,940)	(3,478)
Interest on time and interest-bearing deposits	**(513)**	**(1,832)**	**(2,345)**	(321)	(4,607)	(4,928)
Short-term borrowings	**5**	**(11)**	**(6)**	(414)	(1,370)	(1,784)
Long-term debt	**(180)**	**(6)**	**(186)**			
Subordinated notes and capital securities	**(81)**	**64**	**(17)**	(77)	48	(29)
Interest on borrowings	**(256)**	**47**	**(209)**	(491)	(1,322)	(1,813)
Total interest expense	**(769)**	**(1,785)**	**(2,554)**	(812)	(5,929)	(6,741)
Net interest income	**$ 2,797**	**$ (5,176)**	**$ (2,379)**	$ 751	$ 892	$ 1,643

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 years ended December 31, 2012, 2011 and 2010 have been calculated using the Corporation s federal applicable rate of 35.0%.

2012 versus 2011

Net interest income on a tax-equivalent basis for the year ended December 31, 2012 was $77.3 million, a decrease of $2.4 million, or 3% compared to 2011. The tax-equivalent net interest margin for the year ended December 31, 2012 decreased 26 basis points to 3.89% from 4.15% for 2011. The declines in net interest income and net interest margin were primarily due to the re-investment of maturing and called investment securities into lower yielding investments as a result of the lower interest rate environment and lower rates on commercial loans due to re-pricing and competitive pressures. The declines in net interest income and net interest margin were partially offset by re-pricing of certificates of deposit and savings account products.

2011 versus 2010

Net interest income on a tax-equivalent basis for the year ended December 31, 2011was $79.7 million, an increase of $1.6 million, or 2% compared to 2010. The tax-equivalent net interest margin for the year ended December 31, 2011 increased 4 basis points to 4.15% from 4.11% for 2010. The increases in net interest income and the net interest margin during 2011 were a result of declines in the cost of interest-bearing liabilities, exceeding the declines in yields on interest-earning assets. The increases were also attributed to declines in the volume of FHLB borrowings. The Corporation repaid its maturing FHLB advances in 2010 reducing average year-to-date FHLB advances from $45.8 million for the year ended December 31, 2010 to $5.0 million for the year ended December 31, 2011.

Interest Income

2012 versus 2011

Interest income on a tax-equivalent basis for the year ended December 31, 2012 decreased $4.9 million, or 6% from 2011. This decrease was primarily due to a 73 basis point decrease in the average rate earned on investment securities and deposits at other banks as well as a 25 basis point decrease in the average rate earned on loans. The decline in interest income on investment securities and deposits at other banks of $2.3 million for the year ended December 31, 2012 compared to the same period in 2011 was primarily due to maturities, pay-downs and calls of investment securities and their replacement with lower yielding investments due to the lower interest rate environment. Interest and fees on loans and leases declined by $2.7 million during the year ended December 31, 2012 compared to the same period in 2011. The Corporation experienced decreases in the average rates on commercial real estate, construction, commercial business and residential loans. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity. These unfavorable variances were offset by growth of commercial business loans.

2011 versus 2010

Interest income on a tax-equivalent basis for the year ended December 31, 2011 decreased $5.1 million, or 5% from 2010. This decrease was primarily due to a 63 basis point decrease in the average rate earned on investment securities and deposits at other banks as well as a 20 basis point decrease in the average rate earned on loans. The decline in interest income on investment securities and deposits at other banks of $2.4 million for the year ended December 31, 2011 compared to the same period in 2010 was primarily due to maturities, pay-downs and calls of investment securities and their replacement with lower yielding investments due to the lower interest rate environment and an increase in interest-bearing deposits as the Corporation kept the investment portfolio with a shorter duration. Interest and fees on loans and leases declined by $2.7 million during the year ended December 31, 2011 compared to the same period in 2010. The Corporation experienced decreases in the average rates on commercial real estate, construction and commercial business loans and decreases in average volume for residential real estate loans and lease financings. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity as well as reduced leasing origination volume. These unfavorable variances were offset by growth of municipal loans and leases, commercial business loans and commercial real estate and construction loans.

Interest Expense

2012 versus 2011

Interest expense for the year ended December 31, 2012 decreased $2.6 million, or 24% from 2011. This decrease was primarily due to an 18 basis point decrease in the Corporation s average cost of deposits largely attributable to re-pricing of time deposit and savings accounts. For the year ended December 31, 2012, interest expense on time deposits decreased $1.4 million and interest expense on savings accounts decreased by $870 thousand. For the year ended December 31, 2012, average interest-bearing deposits increased by $37.3 million with increases in average interest-bearing checking of $23.2 million, money market savings of $31.5 million and average regular savings of $27.9 million partially offset by a decrease in average time deposits of $45.4 million. The Corporation s focus on growing low cost core deposits by attaining new customers and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings and interest-bearing checking accounts.

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2011 versus 2010

Interest expense for the year ended December 31, 2011 decreased $6.7 million, or 39% from 2010. This decrease was primarily due to a 38 basis point decrease in the Corporation s average cost of deposits as well as a $35.4 million decrease in average borrowings and a 79 basis point decrease in the average borrowing rate. The decrease in the Corporation s cost of deposits was largely attributable to re-pricing of time deposit and savings accounts. For the year ended December 31, 2011, interest expense on time deposits decreased $3.5 million and interest expense on savings accounts decreased by $1.1 million. For the year ended December 31, 2011, average interest-bearing deposits increased by $36.5 million with increases in average interest-bearing checking of $28.2 million, average regular savings of $36.3 million partially offset by a decrease in average time deposits of $24.3 million. The Corporation s focus on growing low cost core deposits by attaining new customers and the lower interest rate environment resulted in a shift in customer deposits from time deposits to savings and interest-bearing checking accounts. Interest expense on other short-term borrowings decreased $1.7 million for the year ended December 31, 2011 compared to 2010 primarily due to a decrease in average volume of $38.7 million and a reduction in average rate of 275 basis points. The decreases in average rate and volume were mostly due to maturities of FHLB advances.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans are also reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans initial effective interest rates. Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2012, 2011 and 2010 was $10.0 million, $17.5 million and $21.6 million, respectively. The decrease in the provision during 2012 compared to 2011 was primarily the result of migration and resolution of loans through the loan workout process and a decrease in loss factors for commercial real estate loans. The decrease in the provision during 2011 compared to 2010 was primarily the result of the migration and resolution of loans through the loan workout process, lower loan volume and a decrease in loss factors.

Noninterest Income

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

The following table presents noninterest income as of the dates indicated:

	For the Years Ended December 31,			$ Change		% Change	
(Dollars in thousands)	**2012**	**2011**	**2010**	**2012 to 2011**	**2011 to 2010**	**2012 to 2011**	**2011 to 2010**
Trust fee income	**$ 6,777**	$ 6,344	$ 6,080	**$ 433**	$ 264	**7%**	4%
Service charges on deposit accounts	**4,429**	5,057	6,693	**(628)**	(1,636)	**(12)**	(24)
Investment advisory commission and fee income	**5,363**	5,373	4,626	**(10)**	747		16
Insurance commission and fee income	**8,531**	7,733	7,694	**798**	39	**10**	1
Other service fee income	**5,855**	5,240	5,046	**615**	194	**12**	4
Bank owned life insurance income	**2,670**	1,668	1,270	**1,002**	398	**60**	31
Other-than-temporary impairment on equity securities	**(13)**	(16)	(62)	**3**	46	**19**	74
Net gain on sales of securities	**305**	1,417	432	**(1,112)**	985	**(78)**	N/M
Net gain on mortgage banking activities	**6,088**	1,868	2,960	**4,220**	(1,092)	**N/M**	(37)
Net loss on interest rate swap			(1,072)		1,072		N/M
Net gain (loss) on sales and dispositions of fixed assets	**1,257**	(12)	(11)	**1,269**	(1)	**N/M**	(9)

Net loss on sales and write-downs of other real estate owned	**(1,904)**	(798)	(377)	**(1,106)**	(421)	**N/M**	N/M
Other	**902**	533	1,139	**369**	(606)	**69**	(53)
Total noninterest income	**$ 40,260**	$ 34,407	$ 34,418	**$ 5,853**	$ (11)	**17**	

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2012 versus 2011

Noninterest income for the year ended December 31, 2012 was $40.3 million, an increase of $5.9 million, or 17% compared to 2011. The increase was primarily attributable to an increase in the net gain on mortgage banking activities of $4.2 million due to stronger mortgage demand from increased refinance activity, a $1.3 million gain on the sale of a former operations building and proceeds from bank owned life insurance death benefits of $989 thousand. In addition, insurance commission and fee income was up $798 thousand mostly due to the Javers Group acquisition on May 31, 2012. These favorable variances were partially offset by an increase in the net loss on sales and write-downs of other real estate owned of $1.1 million. In addition, the net gain on sales of securities was $305 thousand for the year ended December 31, 2012 compared to $1.4 million for the same period in 2011. The sale of available-for-sale investment securities during the year ended December 31, 2012 and 2011 amounted to $57.2 million and $40.5 million, respectively, and consisted primarily of U.S. government agency bonds.

2011 versus 2010

Noninterest income for the year ended December 31, 2011 was $34.4 million, remaining level with the prior year. Noninterest income for 2011 included increases from trust fees of $264 thousand, investment advisory commissions and fees of $747 thousand, bank owned life insurance income of $398 thousand and an increase in the net gain on sales of securities of $985 thousand. The increase in investment advisory commissions and fee income was mostly a result of attaining several new customers. Additionally, the year ended December 31, 2010 was impacted by fair value write-downs on the ineffective portion of a fair value swap of $1.1 million, which was terminated in August 2010 due to the forecasted low interest rate environment. These favorable variances were partially offset by a decline of $1.6 million in service charges on deposit accounts due to the amendments to Regulation E which were implemented on August 15, 2010; a decline of $1.1 million in the net gain on mortgage banking activities due to weaker mortgage demand in the first six months of 2011 partially offset by significant improvement in the last six months of 2011 due to re-financings; and an increase in the net loss on sales and fair value write-downs of other real estate owned properties of $421 thousand. The first quarter of 2010 also included proceeds from a litigation settlement which is reflected in other income.

Service charges on deposit accounts decreased $1.6 million during the year ended December 31, 2011 over 2010 mainly due to the implementation of Regulation E. In November 2009, the Federal Reserve Board issued a final rule that, effective July 1, 2010, in accordance with Regulation E, prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The Corporation implemented the provisions of Regulation E in the third quarter of 2010. In July 2011, the Corporation implemented changes reducing insufficient funds and overdraft fees which reflected changes in industry practices to benefit customers.

Noninterest Expense

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

The following table presents noninterest expense as of the dates indicated:

	For the Years Ended December 31,			**$ Change**		**% Change**	
(Dollars in thousands)	**2012**	**2011**	**2010**	**2012 to 2011**	**2011 to 2010**	**2012 to 2011**	**2011 to 2010**
Salaries, commissions and benefits	**$ 44,287**	$ 38,230	$ 38,034	**$ 6,057**	$ 196	**16%**	1%
Net occupancy	**5,716**	5,782	5,476	**(66)**	306	**(1)**	6
Equipment	**4,486**	4,002	3,811	**484**	191	**12**	5
Marketing and advertising	**1,725**	1,760	2,318	**(35)**	(558)	**(2)**	(24)
Deposit insurance premiums	**1,689**	2,039	2,670	**(350)**	(631)	**(17)**	(24)
Other	**18,379**	16,197	15,040	**2,182**	1,157	**13**	8
Total noninterest expense	**$ 76,282**	$ 68,010	$ 67,349	**$ 8,272**	$ 661	**12**	1

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2012 versus 2011

Noninterest expense for the year ended December 31, 2012 was $76.3 million, an increase of $8.3 million or 12% compared to 2011. Salaries, commissions and benefits increased $6.1 million for the year ended December 31, 2012 as compared 2011 mainly due to higher commissions related to increased mortgage banking activities, annual performance increases and additional staff hired primarily to support revenue generation, including staff from the Javers acquisition. Additionally, non-interest expense increased due to higher loan workout, legal, employment services and equipment expenses. The year-to-date increases were partially offset by a decline in deposit insurance premiums of $350 thousand mainly due to the amended assessment calculation requirement through the FDIC rule implemented April 1, 2011. The payment was formerly based on deposits whereas the rule change now bases the payment on the average consolidated total assets less average tangible equity.

2011 versus 2010

For the year ended December 31, 2011, noninterest expense was $68.0 million, an increase of $661 thousand or 1% compared to 2010. Salaries and benefits increased $196 thousand for the year ended December 31, 2011 as compared 2010 mainly as a result of higher commissions, employee incentives, special awards for employees up through senior vice president and annual performance increases. Salaries and benefits expense also increased as the Corporation continued to grow the mortgage banking business. These increases were partially offset by higher deferred loan origination costs. The Corporation implemented higher deferred loan origination costs on loan credits, commencing during the fourth quarter of 2010, based upon an in-depth study performed which incorporated management s additional review time spent as a result of increased scrutiny of loan credits. In addition, noninterest expense included increases in occupancy expenses of $497 thousand primarily due to increased rent, taxes and other occupancy costs related to a branch relocation and branch improvements and increases in other expenses mostly due to increased loan workout, legal and other real estate owned expenses. These unfavorable variances were partially offset by a decline of $558 thousand in marketing and advertising expenses due to a major brand campaign in 2010 and a decline of $631 thousand in deposit insurance premiums mainly due to the amended assessment calculation requirement through the FDIC implemented April 1, 2011.

Tax Provision

The provision for income taxes was $5.6 million, $4.8 million and $3.3 million for the years ended December 31, 2012, 2011 and 2010, respectively at effective rates of 21%, 20% and 17%, respectively. The effective tax rates reflect tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The increase in the effective tax rate between the years of 2011 and 2010 was primarily due to a smaller percentage of tax-exempt income to pre-tax income in 2011.

Financial Condition

During 2012, total assets increased primarily due to increases in cash and other short-term interest-earning deposits, investment securities and total loans and leases. Detailed explanations of these fluctuations are discussed as follows.

ASSETS

The following table presents assets at the dates indicated:

	At December 31,			
(Dollars in thousands)	**2012**	**2011**	**$ Change**	**% Change**
Cash and interest-earning deposits	**$ 146,112**	$ 107,377	$ 38,735	36%
Investment securities	**499,579**	471,165	28,414	6
Loans held for sale	**4,530**	3,157	1,373	43
Loans and leases held for investment	**1,481,862**	1,446,406	35,456	2
Reserve for loan and lease losses	**(24,746)**	(29,870)	5,124	17
Premises and equipment, net	**33,222**	34,303	(1,081)	(3)
Goodwill and other intangibles, net	**62,694**	58,039	4,655	8
Bank owned life insurance	**61,409**	61,387	22	
Accrued interest receivable and other assets	**40,179**	54,875	(14,696)	(27)
Total assets	**$ 2,304,841**	$ 2,206,839	$ 98,002	4

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Investment Securities

The investment portfolio is managed as part of the overall asset and liability management process to provide liquidity to the Bank and optimize income and market performance over an entire interest rate cycle while mitigating risk. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk and to take advantage of market conditions that create more economically beneficial returns on these investments, and to collateralize public fund deposits. Total investments increased primarily due to purchases of corporate, U.S. Government agency and mortgage-backed securities, and municipal bonds, partially offset by maturities, sales and calls of U.S. Government agency securities and mortgage-backed securities.

Table 3 Investment Securities

The following table shows the carrying amount of investment securities at the dates indicated. Held-to-maturity and available-for-sale portfolios are combined.

	At December 31,		
(Dollars in thousands)	2012	2011	2010
U.S. treasuries	**$ 4,938**	$ 2,525	$
U.S. government corporations and agencies	**172,142**	154,264	188,100
State and political subdivisions	**122,168**	117,005	108,048
Residential mortgage-backed securities	**90,740**	78,801	85,116
Commercial mortgage obligations	**27,012**	61,464	73,091
Corporate bonds	**74,859**	50,571	7,974
Money market mutual funds	**4,878**	3,851	1,710
Equity securities	**2,842**	2,684	2,985
Total investment securities	**$ 499,579**	$ 471,165	$ 467,024

Table 4 Investment Securities (Yields)

The following table shows the maturity distribution and weighted average yields of the investment securities at the dates indicated. Expected maturities will differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties; therefore, the stated yield may not be recognized in future periods. Equity securities have no stated maturity and the current dividend yields may not be recognized in future periods. The weighted average yield is calculated by dividing income, which has not been tax equated on tax-exempt obligations, within each contractual maturity range by the outstanding amount of the related investment. Held-to-maturity and available-for-sale portfolios are combined.

	At December 31,					
(Dollars in thousands)	2012 Amount	2012 Yield	2011 Amount	2011 Yield	2010 Amount	2010 Yield
1 Year or less	**$ 14,112**	**1.32%**	$ 17,219	0.89%	$ 12,205	1.58%
After 1 Year to 5 Years	**225,632**	**1.40**	205,123	1.79	195,127	1.89
After 5 Years to 10 Years	**85,282**	**2.36**	39,666	3.53	38,812	4.12
After 10 Years	**171,711**	**3.27**	206,473	3.62	217,895	4.10
No stated maturity	**2,842**	**1.99**	2,684	1.82	2,985	1.39
Total	**$ 499,579**	**2.21**	$ 471,165	2.71	$ 467,024	3.10

Loans and Leases

Total gross loans and leases held for investment increased $35.5 million at December 31, 2012 as compared to December 31, 2011 primarily due to increases of $19.2 million in commercial real estate loans, $14.3 million in residential real estate loans and $10.6 million in lease financings, net of unearned income. These increases were partially offset by a decrease of $9.2 million in commercial, financial and agricultural loans. While the Corporation continued to see increased loan activity during 2012, overall credit demand and utilization of lines by businesses and consumers remains light as a result of the slow and uncertain economic recovery.

At December 31, 2012 there were no concentrations of loans or leases exceeding 10% of total loans and leases other than as disclosed in Table 5.

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Table 5 Loan and Lease Portfolio

The following table presents the composition of the loan and lease portfolio at the dates indicated:

(Dollars in thousands)	At December 31, 2012	2011	2010	2009	2008
Commercial, financial and agricultural	**$ 468,421**	$ 477,662	$ 457,671	$ 447,495	$ 424,649
Real estate commercial	**530,122**	514,953	496,357	467,320	395,855
Real estate construction	**91,250**	90,397	139,958	112,259	156,654
Real estate residential	**264,432**	245,204	251,057	266,622	316,039
Loans to individuals	**43,780**	44,965	44,087	46,761	54,212
Lease financings	**83,857**	73,225	82,056	85,523	102,483
Total loans and leases held for investment, net of deferred income	**$ 1,481,862**	$ 1,446,406	$ 1,471,186	$ 1,425,980	$ 1,449,892

Table 6 Loan and Lease Maturities and Sensitivity to Changes in Interest Rates

The following table presents the maturity and interest rate sensitivity of the loan and lease portfolio at December 31, 2012:

(Dollars in thousands)	Total	Due in One Year or Less	Due after One Year to Five Years	Due after Five Years
Commercial, financial and agricultural	$ 468,421	$ 319,293	$ 124,518	$ 24,610
Real estate commercial	530,122	148,779	318,216	63,127
Real estate construction	91,250	55,458	26,925	8,867
Real estate residential	264,432	105,376	41,724	117,332
Loans to individuals	43,780	19,958	11,037	12,785
Leases financings	83,857	31,650	52,070	137
Total gross loans and leases held for investment	$ 1,481,862	$ 680,514	$ 574,490	$ 226,858
Loans and leases with fixed predetermined interest rates	$ 681,390	$ 94,192	$ 448,525	$ 138,673
Loans and leases with variable or floating interest rates	800,472	586,322	125,965	88,185
Total gross loans and leases held for investment	$ 1,481,862	$ 680,514	$ 574,490	$ 226,858

The commercial mortgages and Industrial Development Authority mortgages that are presently being written at both fixed and floating rates of interest primarily include loans typically written for five-year terms with a monthly payment based on up to a twenty-year amortization schedule. At each five-year anniversary date of the mortgage, the Bank usually has the right to require payment in full. If the loan is extended, the interest rate is renegotiated and the term of the loan is extended for an additional five years. These mortgages are included in the Due in One to Five Years category in the table above.

Asset Quality

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

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

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

At December 31, 2012, the recorded investment in loans that were considered to be impaired was $45.2 million, all of which were on a nonaccrual basis or accruing troubled debt restructured. The related reserve for loan losses was $208 thousand. At December 31, 2011, the recorded investment in loans that were considered to be impaired was $41.2 million, all of which were on a nonaccrual basis or accruing troubled debt restructured. The related reserve for loan losses was $1.3 million. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits. The impaired loan balances consisted mainly of commercial real estate and construction loans. Impaired loans increased $4.0 million during 2012 mainly due to an increase in impaired commercial real estate loans. Impaired loans at December 31, 2012 included one large Shared National Credit to a theatre with an outstanding balance of $6.0 million. During the third quarter of 2012, this credit was returned to accruing troubled debt restructured status as the borrower made six consecutive principal and interest payments. At December 31, 2012, the credit was secured with sufficient estimated collateral and therefore, there was no specific reserve on this credit. The theatre continues to be open and operating. In addition, impaired loans at December 31, 2012 included one large credit which went on non-accrual during the third quarter of 2009 and is comprised of four separate facilities to a local commercial real estate developer/home builder, aggregating to $13.9 million at December 31, 2012. There is no specific allowance on this credit as the credit was secured with sufficient estimated collateral. The borrower does not have the resources to develop these properties; therefore, the properties must be sold. For the years ended December 31, 2012, 2011, and 2010, interest income that would have been recognized under the original terms for impaired loans was $2.2 million, $2.6 million, and $2.2 million, respectively. Interest income recognized in the years ending December 31, 2012, 2011 and 2010, was $552 thousand, $261 thousand and $122 thousand, respectively.

Other real estate owned decreased to $1.6 million, consisting of two properties, at December 31, 2012, down from $6.6 million at December 31, 2011. The year-to-date decrease was primarily due to write-downs on properties of $2.0 million to their updated appraised values, and the sale of three commercial properties for $3.0 million which had a total carrying value of $2.9 million, resulting in a gain on sale of $97 thousand. For the years ended December, 31, 2012, 2011 and 2010, the net loss on sales and write-downs of other real estate owned was $1.9 million, $798 thousand and $377 thousand, respectively.

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Table 7 Nonaccrual and Past Due Loans and Leases; Troubled Debt Restructured Loans and Lease Modifications; Other Real Estate Owned; and Related Ratios

The following table details the aggregate principal balance of loans and leases classified as nonaccrual (including nonaccrual troubled debt restructured loans and lease modifications), past due loans and leases, accruing troubled debt restructured loans and lease modifications, other real estate owned and related ratios.

	At December 31,				
(Dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:					
Commercial, financial and agricultural	**$ 2,842**	$ 4,614	$ 7,627	$ 3,275	$ 520
Real estate commercial	**14,340**	18,085	17,750	3,482	1,758
Real estate construction	**13,588**	14,479	17,307	25,395	1,640
Real estate residential	**976**	191	1,625	572	813
Loans to individuals			21		
Leases financings	**386**	838	902	774	298
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	**32,132**	38,207	45,232	33,498	5,029
Accruing troubled debt restructured loans and lease modifications, not included above	**13,457**	3,893	550	3,611	380
Total impaired loans and leases	**$ 45,589**	$ 42,100	$ 45,782	$ 37,109	$ 5,409
Accruing loans and leases 90 days or more past due:					
Commercial, financial and agricultural	**$**	$	$	$ 134	$ 315
Real estate commercial					299
Real estate residential	**54**	117	314	273	175
Loans to individuals	**347**	204	382	319	356
Leases financings	**40**	44			
Total accruing loans and leases, 90 days or more past due	**$ 441**	$ 365	$ 696	$ 726	$ 1,145
Total non-performing loans and leases	**$ 46,030**	$ 42,465	$ 46,478	$ 37,835	$ 6,554
Other real estate owned	**$ 1,607**	$ 6,600	$ 2,438	$ 3,428	$ 346
Total non-performing assets	**$ 47,637**	$ 49,065	$ 48,916	$ 41,263	$ 6,900
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) to loans and leases held for investment	**2.17%**	2.64%	3.07%	2.35%	0.35%
Nonperforming loans and leases to loans and leases held for investment	**3.11%**	2.94%	3.16%	2.65%	0.45%
Nonperforming assets to total assets	**2.07%**	2.22%	2.29%	1.98%	0.33%
Allowance for loan and lease losses to loans and leases held for investment	**1.67%**	2.07%	2.10%	1.74%	0.90%
Allowance for loan and lease losses to nonaccrual loans and leases	**77.01%**	78.18%	68.31%	74.03%	260.85%
Allowance for loan and lease losses to nonperforming loans and leases	**53.76%**	70.34%	66.48%	65.54%	200.15%
Allowance for loan and lease losses	**$ 24,746**	$ 29,870	$ 30,898	$ 24,798	$ 13,118
* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table	**$ 579**	$ 8,551	$ 1,155	$ 575	$ 807

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

(Dollars in thousands)	At December 31, 2012	2011	2010
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	**$ 32,132**	$ 38,207	$ 45,232
Nonaccrual loans and leases with partial charge-offs	**8,834**	9,399	10,527
Life-to-date partial charge-offs on nonaccrual loans and leases	**8,999**	10,040	5,497
Charge-off rate of nonaccrual loans and leases with partial charge-offs	**50.5%**	51.6%	34.3%
Specific reserves on impaired loans	**208**	1,253	1,623

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is adequate to absorb known and inherent losses in the loan and lease portfolio. Management s methodology to determine the adequacy of and the provision to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends and the volume, growth, and composition of the loan portfolio.

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

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

The reserve for loan and lease losses consists of allocated reserve and unallocated reserve categories. The allocated reserve is comprised of reserves established on specific loans and leases, and class reserves based on historical loan and lease loss experience, current trends, and management assessments. The unallocated reserve is based on both general economic conditions and other risk factors in the Corporation s individual markets and portfolios and is to account for a level of imprecision in management s estimation process and the potential volatility in the aforementioned markets and portfolios.

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

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

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The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with loss experience.

Table 8 Summary of Loan and Lease Loss Experience

The following table presents average loans and leases and summarizes loan and lease loss experience at the dates indicated:

	For the Years Ended December 31,				
(Dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Average amount of loans and leases outstanding	**$ 1,465,448**	$ 1,448,079	$ 1,442,085	$ 1,453,174	$ 1,401,971
Loan and lease loss reserve at beginning of period	**$ 29,870**	$ 30,898	$ 24,798	$ 13,118	$ 13,086
Charge-offs:					
Commercial, financial and agricultural loans	**9,974**	6,784	3,436	4,116	6,194
Real estate loans	**4,959**	10,435	10,573	2,167	1,392
Loans to individuals	**578**	968	883	1,470	1,217
Lease financings	**1,224**	1,516	2,213	2,695	502
Total charge-offs	**16,735**	19,703	17,105	10,448	9,305
Recoveries:					
Commercial, financial and agricultural loans	**484**	318	129	332	134
Real estate loans	**401**	213	772	33	28
Loans to individuals	**130**	174	227	434	315
Lease financings	**561**	491	512	443	91
Total recoveries	**1,576**	1,196	1,640	1,242	568
Net charge-offs	**15,159**	18,507	15,465	9,206	8,737
Provisions to loan and lease loss reserve	**10,035**	17,479	21,565	20,886	8,769
Loan and lease loss reserve at end of period	**$ 24,746**	$ 29,870	$ 30,898	$ 24,798	$ 13,118
Ratio of net charge-offs to average loans and leases	**1.03%**	1.28%	1.07%	0.63%	0.62%

The decrease in charge-offs during 2012 compared to 2011 was mainly due to decreased charge-offs for commercial real estate loans partially offset by increased charge-off activity for commercial, financial and agricultural loans. The increase in charge-offs during 2011 compared to 2010 was mainly due to the increased charge-off activity for commercial, financial and agricultural loans.

Table 9 Allocated, Other Loan and Lease Loss Reserves

The following table summarizes the allocation of the allowance for loan and lease losses and the percentage of loans and leases in each major loan category to total loans and leases held for investment at the dates indicated.

	At December 31,									
(Dollars in thousands)	**2012**		**2011**		**2010**		**2009**		**2008**	
Commercial, financial and agricultural loans	**$ 11,594**	**31%**	$ 11,262	33%	$ 9,630	31%	$ 12,148	32%	$ 6,432	29%
Real estate loans	**9,126**	**60**	14,875	59	17,165	60	9,534	59	4,800	60
Loans to individuals	**679**	**3**	730	3	734	3	887	3	581	4
Lease financings	**1,326**	**6**	1,344	5	1,950	6	1,175	6	574	7
Unallocated	**2,021**	**N/A**	1,659	N/A	1,419	N/A	1,054	N/A	731	N/A

Total	**$ 24,746**	**100%**	$ 29,870	100%	$ 30,898	100%	$ 24,798	100%	$ 13,118	100%

The allowance for loan and lease losses to nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, was 77.01% at December 31, 2012, 78.18% at December 31, 2011 and 68.31% at December 31, 2010. At December 31, 2012, the specific allowance on impaired loans was $208 thousand, or 0.5% of the balance of impaired loans of $45.2 million. At December 31, 2011, the specific allowance on impaired loans was $1.3 million, or 3.0% of the balance of impaired loans of $41.2 million. At December 31, 2010, the specific allowance on impaired loans was $1.6 million, or 3.6% of the balance of impaired loans of $44.7 million. Management closely monitors the credit worthiness and the value of underlying collateral as a commercial credit becomes past-due. These factors along with historical and economic trends, and management s assumptions, are taken into consideration in providing the allowance for loan and lease losses. When the loan becomes impaired and is placed on non-accrual, a specific allowance is created for the impaired loan.

The ratio of the reserve for loan and lease losses to total loans and leases was 1.67% at December 31, 2012 compared to 2.07% at December 31, 2011. Allocated reserves at December 31, 2012 decreased by $5.5 million compared to December 31, 2011. The allocation of the allowance for real estate loans decreased by $5.7 million at December 31, 2012 compared to December 31, 2011 mainly due to a decrease in the historical loss factors for criticized and non-criticized commercial real estate/construction loans and a decrease in the level of criticized commercial real estate/construction loans resulting from the migration and resolution of loans through the loan workout process. The decrease in loss factors for commercial real estate/construction loans was primarily due to the lower level of charge-offs during 2012 in this loan category. The allocated reserves for commercial, financial and agricultural loans increased by $332 thousand at December 31, 2012 compared to December 31, 2011 mainly due to an increase in historical loss factors for criticized and non-criticized loans due to the higher level of charge-offs during 2012 in this loan category.

The ratio of the reserve for loan and lease losses to total loans and leases was 2.07% at December 31, 2011 compared to 2.10% at December 31, 2010. Allocated reserves at December 31, 2011 decreased by $1.3 million compared to December 31, 2010. The allocation of the allowance for real estate loans decreased by $2.3 million at December 31, 2011 compared to December 31, 2010 mainly due to lower construction loan volume, a decrease in the level of criticized commercial real estate/construction loans resulting from the migration and resolution of loans through the loan workout process, a decrease in the historical loss factor for non-criticized commercial real estate/construction loans partially offset by an increase in the historical loss factor for criticized commercial real estate/construction loans. The changes in the historical loss factors for commercial real estate/construction loans were primarily due to the migration of loans with losses from the non-criticized to criticized category during 2011. These previously discussed changes for commercial real estate/construction loans resulted in a lower total reserve on non-criticized real estate loans partially offset by a higher total reserve on criticized real estate loans at December 31, 2011 compared to December 31, 2010. The allocated reserves for commercial, financial and agricultural loans increased by $1.6 million at December 31, 2011 compared to December 31, 2010 mainly due an increase in the volume of non-criticized loans and to a lesser degree, an increase in the level of criticized loans.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of these intangible assets for the years ended December 31, 2012, 2011 and 2010 was $2.5 million, $1.6 million and $1.5 million, respectively. The Corporation also has goodwill of $56.2 million at December 31, 2012, which is deemed to be an indefinite intangible asset and is not amortized. The Corporation completes a goodwill analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation completes an annual impairment test for other intangible assets, or more often, if events and circumstances indicate a possible impairment. There was no goodwill impairment and no material impairment to identifiable intangibles recorded during 2010 through 2012. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Other Assets

At December 31, 2012 and 2011, the Bank held $3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $4.1 million and $5.8 million at December 31, 2012 and 2011, respectively. Additionally, the FHLB might require its members to increase its capital stock requirement. Effective February 28, 2011, the FHLB entered into a Joint Capital Enhancement Agreement with the other 11 Federal Home Loan Banks (collectively, the FHLBanks). The agreement calls for a plan for each FHLBank to build additional retained earnings and enhance capital. On August 5, and August 8, 2011, the Standard & Poor s Rating Services downgraded the credit ratings of the U.S government and federal agencies, including the FHLB, respectively, from AAA to AA+, with a negative outlook. These downgrades, and any future downgrades in the credit ratings of the U.S. government and the FHLB could increase the borrowing costs of the FHLB and possibly have a negative impact on its operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation s investment in the FHLB stock. However, based on current information from the FHLB, management believes that if there is any impairment in the FHLB stock it is temporary. Therefore, at December 31, 2012, the FHLB stock is recorded at cost.

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LIABILITIES

The following table presents liabilities at the dates indicated:

	At December 31,			
(Dollars in thousands)	2012	2011	$ Change	% Change
Deposits	$ 1,865,333			