UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2014
Commission File number 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1886144
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
14 North Main Street, Souderton, Pennsylvania	18964
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code
(215) 721-2400
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 the 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 x
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 Exchange Act). Yes ¨ No x

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $323,018,636 as of June 30, 2014 based on the June 30, 2014 closing price of the Registrant's Common Stock of $20.70 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	20,060,088
(Title of Class)	(Number of shares outstanding at January 31, 2015)

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 21, 2015.

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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 simil expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including 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). The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, the Bank. The Corporation's and the Bank's legal headquarters are located at 14 North Main Street, Souderton, PA 18964. The Corporation's former subsidiary, Univest Delaware, Inc., was dissolved during 2013.

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 is engaged in the general commercial and consumer 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, Univest Investments, Inc., a full-service broker-dealer and investment advisory firm and Girard Partners (Girard), a registered investment advisory firm acquired in January 2014. Univest Insurance has three offices in Pennsylvania and one in Maryland. Univest Investments has two offices in Pennsylvania. Girard is headquartered in King of Prussia, Pennsylvania with two satellite offices in Virginia and Florida. The Bank is also the parent company of Univest Capital, Inc., an equipment financing business, and TCG Investment Advisory, a registered investment advisor which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals, municipalities and businesses throughout its markets of operation. Univest Investments, Inc., Univest Insurance, Inc. and Univest Capital, Inc. were formed to enhance the traditional banking and trust services provided

by the Bank, as was the acquisition of Girard Partners.

At December 31, 2014, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines its segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. At December 31, 2014, these segments meet the quantitative thresholds for separate disclosure as a business segment. For more detailed discussion and financial information on the business segments, see Note 23 "Segment Reporting" included in the Notes to the Consolidated Financial Statements included herein under Item 8.

At December 31, 2014, the Corporation had total assets of $2.2 billion, net loans and leases of $1.6 billion, total deposits of $1.9 billion and total shareholders' equity of $284.6 million.

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Employees

At December 31, 2014, the Corporation and its subsidiaries employed six hundred and thirty-eight (638) persons. None of these employees are covered by collective bargaining agreements, 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-one Bank 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, GlaxoSmithKline, 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 2014 were 4% in both Montgomery and Bucks counties, slightly lower than Pennsylvania's state unemployment rate of 5% and the federal unemployment rate of 6%, 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 the Lehigh Valley and Chester County. 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, tenth in Bucks County with sixteen financial service centers; with 5% of total combined market share in the two counties according to data provided by SNL Financial. Montgomery County's population has grown 2% to 800,000 from the year 2010 to 2014, and is expected to grow another 2% through 2019, while Bucks County's population has grown .3% to 630,000 during the same period, and is expected to grow .5% through 2019, 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 United States of 37 years. County estimates project the median age to increase over the next two decades. The median yearly household income was $78,000 for Montgomery County and $73,000 for Bucks County during 2014 and is expected to increase 7% for Montgomery County and 4% for Bucks County through 2019, according to SNL Financial. The yearly median income for both counties is well above that of the Commonwealth of Pennsylvania and the United States with both at $53,000 during 2014.

Upon the acquisition of Valley Green Bank effective January 1, 2015, the Corporation began operating its three full-service branches and two administrative offices for loan production in the Philadelphia marketplace as Valley Green Bank - a Division of Univest Bank and Trust Co. This acquisition brings the Corporation its first physical presence in the Philadelphia marketplace. Philadelphia is a rapidly growing market which makes it very desirable for the Corporation to deliver its comprehensive financial solutions.

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 and Chester counties and the Lehigh Valley, 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 its 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 and insurance and wealth management services offered by the Bank and its operating segments.

Supervision and Regulation

The financial services 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.

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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.

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 2014. The Corporation must maintain effective internal controls, which requires 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. 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 increased 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 and increased the Securities Investor Protection Corporation protection from $100 thousand to $250 thousand;

- 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;

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

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- Provided for 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.

Basel III

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies' capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The July 2013 final rules generally implement higher minimum capital

requirements, add a new common equity Tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. The new minimum capital to risk-adjusted assets requirements include a common equity Tier 1 capital ratio of 4.5% (6.5% to be considered “well capitalized”) and a Tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered “well capitalized”); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered “well capitalized”). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The final rules permit institutions, other than certain large institutions, to elect to continue to treat certain components of accumulated other comprehensive income as permitted under the current general risk-based capital rules, and not reflect unrealized gains and losses on available-for-sale securities in common equity Tier 1 calculations. The new minimum capital requirements became effective on January 1, 2015. The capital conservation buffer requirements phase in over a three-year period beginning January 1, 2016. Management believes that, as of December 31, 2014, the Corporation and the Bank would have met the capital adequacy requirements under Basel III if such requirements had been in effect. The Corporation and the Bank expect to be well capitalized upon the adoption of BASEL III in 2015. The Corporation will continue to analyze the impact of the new rules as it grows and as the capital conservation buffer requirements are phased in.

Wealth Management and Insurance Businesses

The Corporation's wealth management and insurance businesses are subject to additional regulatory requirements. The securities brokerage activities of Univest Investments, Inc. are subject to regulation by the SEC, the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation. Girard Partners and TCG Investment Advisory are registered investment advisory firms which are subject to regulation by the SEC. Univest Insurance, Inc. is subject to Pennsylvania insurance laws and the regulations of the Pennsylvania Department of Insurance.

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. At December 31, 2014, the Bank owned $1.1 million in FHLB capital stock.

The deposits of the Bank are insured under the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. 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 Deposit Insurance Fund (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 operating segments provide financial solutions to individuals, businesses, municipalities and nonprofit organizations. The Corporation prides itself on being a financial organization that continues to increase

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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.

The acquisitions included:

- Valley Green Bank on January 1, 2015
- Sterner Insurance Associates on July 1, 2014
- Girard Partners on January 1, 2014
- John T. Fretz Insurance Agency, Inc. on May 1, 2013
- Javers Group on May 31, 2012

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. Information included on the Corporation's website is not part of this Annual Report on Form 10-K. The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2014 to each shareholder who requests one in writing after March 31, 2015. Requests should be directed to: Karen E. Tejkl, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 197, 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.

Uncertainty in the financial markets and concerns regarding general economic conditions have persisted over the past few years, including the higher level of unemployment and lower labor force participation rate, lower home prices and foreclosures in the housing market, financial difficulties experienced by consumers and businesses and the level of national debt. Although general economic trends and market conditions have shown some improvement, the continued economic pressures on consumers and businesses and continued higher unemployment rate and lower labor force

participation rate may adversely affect our business, financial condition, and results of operations.

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 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.

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 the 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 the 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.

Our customary sources of liquidity are, including, but not limited to, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. Such sources of liquidity 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 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 Bucks, Montgomery and Chester counties and the Lehigh Valley area of Pennsylvania. Because of our geographic concentration, continuation of a slow 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 economic recovery 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,

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compete with lending and deposit-gathering services and insurance and wealth management 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 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, 2014, 24% of our deposit base was comprised of noninterest-bearing deposits, of which 19% consisted of business deposits, which are primarily operating accounts for businesses, and 5% 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

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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.

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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. Increasing interest rates may also reduce the fair value of our fixed rate investment securities.

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 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, 2014, approximately 81% 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.

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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.

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. The Bank is subject to extensive regulation, supervision, and examination by our primary federal regulators, the Pennsylvania Department of Banking and Securities 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, the Bank must comply with applicable regulations of the Federal Housing Finance Agency 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. The Bank’s activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A large claim against the 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.

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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 the Wealth Management and Insurance Industries

Revenues and profitability from our wealth management business may be adversely affected by any reduction in assets under management and supervision as a result of either a decline in market value of such assets or net outflows, which could reduce trust, investment advisory and brokerage and other servicing fees earned.

The wealth management business derives the majority of its revenue from noninterest income which consists of trust, investment advisory and brokerage and other servicing fees. Substantial revenues are generated from investment management contracts with clients. Under these contracts, the investment advisory fees paid to us are typically based on the market value of assets under management. Assets under management and supervision may decline for various reasons including declines in the market value of the assets in the funds and accounts managed or supervised, which could be caused by price declines in the securities markets generally or by price declines in specific market segments. Assets under management may also decrease due to redemptions and other withdrawals by clients or termination of contracts. This could be in response to adverse market conditions or in pursuit of other investment opportunities.

The wealth management industry is subject to extensive regulation, supervision and examination by regulators, and any enforcement action or adverse changes in the laws or regulations governing our business could decrease our revenues and profitability.

The wealth management business is subject to regulation by a number of regulatory agencies that are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the event of non-compliance with an applicable regulation, governmental regulators, including the SEC, and FINRA, may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, the issuance of cease-and-desist orders or the deregistration or suspension of the non-compliant broker-dealer or investment adviser or other adverse consequences. The imposition of any such penalties or orders could have a material adverse effect on the wealth management segment's operating results and financial condition. We may be adversely affected as a result of new or revised legislation or regulations. Regulatory changes have imposed and may continue to impose additional costs, which could adversely impact our profitability.

Revenues and profitability from our insurance business may be adversely affected by market conditions, which could reduce insurance commissions and fees earned.

The revenues of our fee based insurance business are derived primarily from commissions from the sale of insurance policies, which commissions are generally calculated as a percentage of the policy premium. These insurance policy commissions can fluctuate as insurance carriers from time to time increase or decrease the premiums on the insurance products we sell. Due to the cyclical nature of the insurance market and the impact of other market and macro economic conditions on insurance premiums, commission levels may vary. The reduction of these commission rates, along with general volatility and/or declines in premiums, may adversely impact our profitability.

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.

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

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 sell 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 the 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 the 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.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

The Corporation owns its corporate headquarters buildings, which are shared with the Bank, Univest Investments, Inc., and Univest Insurance, Inc. in Souderton, Montgomery County. The Bank has a leased office used by Univest Investments, Inc., Univest Capital, Inc. and for loan production located in Allentown, Lehigh County. The Bank owns an office used by Univest Capital, Inc. and Univest Insurance, Inc. located in West Chester, Chester County. Univest Insurance, Inc. occupies five additional locations, of which one is owned by Univest Insurance, Inc. in Coopersburg, Lehigh County and one is owned by the Bank, in Lansdale, Montgomery County; and three are leased, one in North Beach, Calvert County in Maryland, one in Delran, Burlington County in New Jersey, and one in Wyomissing, Berks County. Univest Capital, Inc. occupies two additional leased locations, one in Bensalem, Bucks County, and one in Bloomington, Hennepin County in Minnesota. Girard occupies two leased offices, one located in King of Prussia, Montgomery County, and one located in Fort Meyers, Lee County in Florida. The Bank serves the area through its twenty-nine 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; sixteen banking offices are located in Bucks County, of which four are owned, ten are leased and two are buildings owned on leased land. The Bank has two additional regional leased offices, one primarily used for corporate banking and mortgage banking located in Doylestown, Bucks County and one used for corporate banking and wealth management located in West Chester, Chester County.

Additionally, the Bank provides banking and trust services for the residents and employees of twelve retirement home communities. The Bank has nine off-premise automated teller machines, four of which are located in Montgomery County, three in Bucks County, one in Lehigh County and one in Chester 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 be probable of occurring or probable of having a material adverse effect on the consolidated balance sheet or statement of income of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation. In addition, there are no material proceedings pending or known to be threatened or contemplated against the Corporation or the Bank by government authorities.

Item 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, 2014, the Corporation had 4,078 stockholders.

Broadridge Corporate Issuer Solutions, Inc. (Broadridge), serves as the Corporation’s transfer agent. Broadridge is located at 1155 Long Island Avenue, Edgewood, NY 11717. 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 high and low closing sale prices of the Corporation’s common stock. The table also presents the cash dividends declared per share for each quarter.

	Market Price		Cash Dividends
2014	High	Low	Declared per Share
January–March	$21.04	$17.67	$0.20
April–June	21.37	18.95	0.20
July–September	21.54	18.28	0.20
October–December	20.70	18.50	0.20
2013			
January–March	$18.00	$16.26	$0.20
April–June	19.18	16.10	0.20
July–September	20.98	18.50	0.20
October–December	21.48	18.41	0.20

For a description of regulatory restrictions on the ability of the Corporation and the Bank to pay dividends, see Note 21 “Regulatory Matters” included in the Notes to the Consolidated Financial Statements included herein under Item 8.

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, 2014, 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, 2009, 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.

Five Year Cumulative Total Return Summary

	2009	2010	2011	2012	2013	2014
Univest Corporation of Pennsylvania	100.00	114.26	91.96	112.53	141.92	144.54
NASDAQ Stock Market (US)	100.00	118.11	117.20	137.94	193.29	221.89
NASDAQ Banks	100.00	114.13	102.19	121.20	171.67	180.04

Equity Compensation Plan Information

The Corporation adopted the shareholder approved 2013 Long-Term Incentive Plan to replace the 2003 Long-Term Incentive Plan which expired during April 2013. Under the 2013 Long-Term Incentive Plan, the Corporation may grant options and share awards to employees and non-employee directors up to 2,000,000 shares of common stock. The number of shares of common stock available for issuance under the plan is subject to adjustment, as described in the plan. This includes, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the stock, substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the plan, in the number and option price of shares subject to outstanding options granted under the plan and in the number and price of shares subject to other awards, as described in the plan. As a result of the completion of the acquisition of Valley Green Bank on January 1, 2015, 473,483 additional shares are available for distribution under the 2013 Long-Term Incentive Plan. The following table sets forth information regarding outstanding options and shares under equity compensation plans at December 31, 2014:

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	673,216	$ 19.46	1,831,545
Equity compensation plan not approved by security holders	—	—	—
Total	673,216	$ 19.46	1,831,545

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2014, under its 2013 Board approved program.

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
October 1 - 31, 2014	—	$—	—	689,003
November 1 - 30, 2014	—	—	—	689,003
December 1 – 31, 2014	—	—	—	689,003
Total	—	$—	—	

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

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Item 6. Selected Financial Data

(Dollars in thousands, except per share data)	For the Years Ended December 31, 2014	2013	2012	2011	2010
Earnings					
Interest income	$75,885	$77,579	$80,654	$85,468	$91,003
Interest expense	3,996	5,117	8,174	10,728	17,469
Net interest income	71,889	72,462	72,480	74,740	73,534
Provision for loan and lease losses	3,607	11,228	10,035	17,479	21,565
Net interest income after provision for loan and lease losses	68,282	61,234	62,445	57,261	51,969
Noninterest income	48,651	46,784	40,260	34,407	34,418
Noninterest expense	87,254	81,133	76,282	68,010	67,349
Net income before income taxes	29,679	26,885	26,423	23,658	19,038
Income taxes	7,448	5,696	5,551	4,776	3,282
Net income	$22,231	$21,189	$20,872	$18,882	$15,756
Financial Condition at Year End					
Cash and interest-earning deposits	$38,565	$69,169	$146,112	$107,377	$29,187
Investment securities	368,630	402,284	499,579	471,165	467,024
Net loans and leases held for investment	1,605,963	1,516,990	1,457,116	1,416,536	1,440,288
Assets	2,235,321	2,191,559	2,304,841	2,206,839	2,133,893
Deposits	1,861,341	1,844,498	1,865,333	1,749,232	1,686,270
Borrowings	41,974	37,256	117,276	137,234	143,865
Shareholders' equity	284,554	280,506	284,277	272,979	266,224
Per Common Share Data					
Average shares outstanding (in thousands)	16,235	16,605	16,761	16,743	16,598
Earnings per share – basic	$1.37	$1.28	$1.25	$1.13	$0.95
Earnings per share – diluted	1.36	1.27	1.24	1.13	0.95
Dividends declared per share	0.80	0.80	0.80	0.80	0.80
Book value (at year-end)	17.54	17.22	16.95	16.34	15.99
Dividends declared to net income	58.40 %	62.70 %	64.25 %	70.87 %	84.31 %
Profitability Ratios					
Return on average assets	1.01 %	0.95 %	0.95 %	0.89 %	0.75 %
Return on average equity	7.74	7.53	7.39	6.91	5.82
Average equity to average assets	13.03	12.62	12.78	12.87	12.92
Asset Quality Ratios					
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) to loans and leases held for investment	1.07 %	1.51 %	2.17 %	2.64 %	3.07 %
Nonperforming loans and leases to loans and leases held for investment	1.43	2.05	3.11	2.94	3.16
Net charge-offs to average loans and leases outstanding	0.47	0.77	1.03	1.28	1.07
Allowance for loan and leases losses to total loans and leases held for investment	1.27	1.59	1.67	2.07	2.10
Allowance for loan and lease losses to nonaccrual loans and leases	119.18	105.42	77.01	78.18	68.31

Allowance for loan and leases losses to nonperforming loans and leases	88.84	77.53	53.76	70.34	66.48

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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 appl
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, 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

The discussion below outlines the Corporation's critical accounting policies. For further information regarding accounting policies, refer to Note 1, "Summary of Significant Accounting Policies" included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K.

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 balance sheet and statement of income 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 adjustments to either the balance sheet or statement of condition 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 for other-than-temporary impairment by considering 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. 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.

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

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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: The Corporation completed an impairment test for goodwill and other intangible assets during the fourth quarter of 2014. 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 Banking, Wealth Management and 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 Banking, 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 Banking 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 Banking 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 Wealth Management and Insurance, 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. Wealth Management and Insurance, 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 of identifiable intangibles recorded during 2014 or 2013. 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 income. 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.

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 net 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 mortgage servicing rights tends to shorten, as borrowers have increased incentive to refinance. Shortened mortgage servicing lives may require changes in the value of the servicing rights that have already been recorded to be marked down. This may cause a material change in reported results of 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.

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Future tax rate changes could occur that would require the recognition of income or expense in the statement of income 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 former executives. Determining the adequacy of the funding of these plans requires estimates of future salary rate increases, of long-term rates of investment return, mortality assumptions, 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 balance sheet or statement of income.

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 Corporation grants both fixed and variable (performance-based) restricted stock to employees and non-employee directors. The performance-based restricted stock awards vest based upon the Corporation's performance against selected peers with respect to certain financial measures over a three-year period. The fair value of fixed restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period. The fair value of the performance-based restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period adjusted for a probability factor of achieving the performance goals.

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 from the margins and fees it generates from the lending and depository services it provides as well as fee-based income from trust, insurance, mortgage banking and investment services to customers. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. Growth is pursued through expansion of current customer relationships and development of additional relationships with new offices and strategic 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 an asset sensitive position from a maturity perspective and in a liability sensitive position from a repricing perspective as interest rates remain at historically low levels; however, the Corporation anticipates interest rates to increase 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:

(Dollars in thousands, except per share data)	For the Years Ended December 31, 2014	2013	2012	Amount of Change 2014 to 2013	2013 to 2012	Percent Change 2014 to 2013	2013 to 2012
Net income	$22,231	$21,189	$20,872	$1,042	$317	5 %	2 %
Net income per share:							
Basic	$1.37	$1.28	$1.25	$0.09	$0.03	7	2
Diluted	1.36	1.27	1.24	0.09	0.03	7	2
Return on average assets	1.01 %	0.95 %	0.95 %	6 BP	0 BP	6	—
Return on average equity	7.74 %	7.53 %	7.39 %	21 BP	14 BP	3	2

2014 versus 2013

The 2014 results compared to 2013 include the following significant components:

- Net interest income on a tax-equivalent basis for 2014 was $76.9 million, a decrease of $321 thousand, or less than 1%, compared to 2013. The net interest margin on a tax-equivalent basis for 2014 was 3.87%, an increase of 6 basis points compared to 3.81% for 2013.

- The provision for loan and lease losses for 2014 was $3.6 million, a decrease of $7.6 million compared to 2013.

- Noninterest income for 2014 was $48.7 million, an increase of $1.9 million, or 4%, compared to 2013. Noninterest expense for 2014 was $87.3 million, an increase of $6.1 million, or 8% compared to 2013.

- Gross loans and leases held for investment grew $85.1 million, or 6% from December 31, 2013. Deposits increased $16.8 million, or 1% from December 31, 2013.

- Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, decreased$5.9 million to $17.3 million at December 31, 2014 from $23.2 million at December 31, 2013. Nonaccrual loans and leases as a percentage of total loans and leases held for investment was 1.07% at December 31, 2014 compared to 1.51% at December 31, 2013. Net loan and lease charge-offs of $7.4 million for 2014 were down $4.1 million compared to $11.5 million for 2013.

During 2014, the Corporation repurchased 110,997 shares of common stock at a cost of $2.0 million under its 2013 Board approved share repurchase program. At December 31, 2014, total shares outstanding were 16,221,607.

2013 versus 2012

The 2013 results compared to 2012 include the following significant components:

- Net interest income on a tax-equivalent basis of $77.2 million for 2013 was consistent with 2012. The net interest margin on a tax-equivalent basis decreased 8 basis points to 3.81% for 2013 from 3.89% for 2012.

- The provision for loan and lease losses for 2013 was $11.2 million, an increase of $1.2 million, or 12% compared to 2012.

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- Noninterest income for 2013 was $46.8 million, an increase of $6.5 million, or 16% compared to 2012. Noninterest expense for 2013 was $81.1 million, an increase of $4.9 million, or 6% compared to 2012.

- Gross loans and leases held for investment grew $59.6 million, or 4% from December 31, 2012. Deposits declined $20.8 million, or 1% from December 31, 2012.

- Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, decreased $8.9 million to $23.2 million at December 31, 2013 from $32.1 million at December 31, 2012. Nonaccrual loans and leases as a percentage of total loans and leases held for investment was 1.51% at December 31, 2013 compared to 2.17% at December 31, 2012. Net loan and lease charge-offs of $11.5 million for 2013 were down $3.7 million compared to $15.2 million for 2012.

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During 2013, the Corporation repurchased 540,285 shares of common stock at a cost of $9.9 million under its 2007 Board approved share repurchase program. At September 30, 2013, this share repurchase plan was substantially completed. On October 23, 2013, the Corporation's Board of Directors approved a new share repurchase program for the repurchase of up to 800,000 shares, or approximately 5% of the shares outstanding.

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

Acquisitions

Valley Green Bank
On June 17, 2014, the Corporation, the Bank and Valley Green Bank entered into an Agreement and Plan of Merger which provided for the merger of Valley Green Bank with and into the Bank in an all-stock transaction with an aggregate value of approximately $78.9 million. On January 1, 2015, the Corporation completed its acquisition of Valley Green Bank. See Note 26, "Subsequent Event" included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K for additional information. The transaction qualifies as a tax-free reorganization for federal income tax purposes. The transaction is anticipated to be accretive to the Corporation's earnings per share in the first combined year of operations, with earnings accretion expected to be greater than 10% in year two. Headquartered in the Mt. Airy neighborhood of Philadelphia, Pennsylvania, Valley Green Bank had approximately $425 million in assets, $386 million in loans, and $385 million in deposits at December 31, 2014 and operated three full-service banking offices and two administrative offices for loan production in the greater Philadelphia marketplace. With the assumption of Valley Green Bank's three branches and two administrative offices for loan production in the Philadelphia marketplace, the Corporation entered a new small business and consumer market and expanded its existing lending network within southeastern Pennsylvania.

Sterner Insurance Associates
On July 1, 2014, the Corporation and its insurance subsidiary, Univest Insurance, completed the acquisition of Sterner Insurance Associates (Sterner), a full service firm providing insurance and consultative risk management solutions to individuals and businesses throughout the Lehigh Valley, Berks, Bucks and Montgomery counties. The Corporation paid $3.9 million in cash and assumed liabilities of $940 thousand at closing with additional contingent consideration to be paid in annual installments over the three-year period ending June 30, 2017, based on the achievement of certain levels of revenue growth and EBITDA (earnings before interest, taxes, depreciation and amortization). At the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of $635 thousand in other liabilities. The potential cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $5.7 million cumulative over the next three years. As a result of the Sterner acquisition, the Corporation recorded goodwill of $3.4 million (inclusive of the contingent consideration) and customer related intangibles of $1.6 million.

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

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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, 2014 compared to 2013 and for the year ended December 31, 2013 compared to 2012. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders’ equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

2014 versus 2013
Net interest income on a tax-equivalent basis for the year ended December 31, 2014 was $76.9 million, a decrease of $321 thousand, or less than 1%, compared to the same period in 2013. The decline in year-to-date net interest income from the prior year was primarily attributable to a reduction in investment securities. This decline was partially offset by loan and lease growth which more than compensated for the reduction in loan rates. It was also offset by maturities of time deposits, reductions in time deposit rates and redemption of the Corporation's trust preferred securities in 2013. The tax-equivalent net interest margin for the year ended December 31, 2014 increased 6 basis points to 3.87% from 3.81% for 2013

2013 versus 2012
Net interest income on a tax-equivalent basis of $77.2 million for the year ended December 31, 2013 was consistent with 2012. The tax-equivalent net interest margin for the year ended December 31, 2013 decreased 8 basis points to 3.81% from 3.89% for 2012. The decline in net interest margin from the comparable period in the prior year was primarily due to lower rates on commercial and residential real estate loans due to re-pricing and the competitive environment. Additionally, the re-investment of maturing and called investment securities into lower yielding investments contributed to the decline. Favorable re-pricing of savings accounts and certificates of deposit, along with maturities of higher yielding certificates of deposit and the redemption of the trust preferred securities and termination of the related interest rate swap partially offset the decline in the net interest margin.

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Table 1—Average Balances and Interest Rates—Tax-Equivalent Basis

	For the Years Ended December 31,								
	2014			2013			2012		
(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	$33,482	$81	0.24 %	$46,469	$126	0.27 %	$52,387	$164	0.31 %
U.S. government obligations	128,487	1,287	1.00	172,414	1,870	1.08	154,715	2,038	1.32
Obligations of states and political subdivisions	106,365	5,554	5.22	118,235	6,263	5.30	119,993	6,669	5.56
Other debt and equity securities	137,900	2,702	1.96	189,040	3,562	1.88	195,765	3,913	2.00
Total interest-earning deposits and investments	406,234	9,624	2.37	526,158	11,821	2.25	522,860	12,784	2.45
Commercial, financial and agricultural loans	392,747	15,636	3.98	403,993	16,958	4.20	445,883	19,367	4.34
Real estate—commercial and construction loans	608,602	27,918	4.59	577,230	27,546	4.77	530,633	27,550	5.19
Real estate—residential loans	293,610	10,523	3.58	261,704	9,896	3.78	253,486	10,373	4.09
Loans to individuals	33,675	2,040	6.06	42,339	2,392	5.65	43,562	2,480	5.69
Municipal loans and leases	180,914	8,767	4.85	145,463	7,360	5.06	133,212	7,231	5.43
Lease financings	71,287	6,404	8.98	68,622	6,381	9.30	58,672	5,709	9.73
Gross loans and leases	1,580,835	71,288	4.51	1,499,351	70,533	4.70	1,465,448	72,710	4.96
Total interest-earning assets	1,987,069	80,912	4.07	2,025,509	82,354	4.07	1,988,308	85,494	4.30
Cash and due from banks	32,710			32,854			49,362		
Reserve for loan and lease losses	(24,287)			(25,519)			(30,771)		
Premises and equipment, net	35,099			33,197			34,079		
Other assets	171,656			165,292			167,515		
Total assets	$2,202,247			$2,231,333			$2,208,493		
Liabilities:									
Interest-bearing checking deposits	$314,784	172	0.05	$286,487	164	0.06	$230,031	177	0.08

Money market savings	295,209	373	0.13	319,958	314	0.10	330,839	509	0.15
Regular savings	535,346	317	0.06	536,701	313	0.06	510,005	790	0.15
Time deposits	264,591	3,102	1.17	299,792	3,795	1.27	363,225	5,162	1.42
Total time and interest-bearing deposits	1,409,930	3,964	0.28	1,442,938	4,586	0.32	1,434,100	6,638	0.46
Short-term borrowings	41,215	32	0.08	72,211	48	0.07	108,023	326	0.30
Long-term debt	—	—	—	—	—	—	109	4	3.67
Subordinated notes and capital securities	—	—	—	10,710	483	4.51	21,921	1,206	5.50
Total borrowings	41,215	32	0.08	82,921	531	0.64	130,053	1,536	1.18
Total interest-bearing liabilities	1,451,145	3,996	0.28	1,525,859	5,117	0.34	1,564,153	8,174	0.52
Noninterest-bearing deposits	435,058			390,420			327,576		
Accrued expenses and other liabilities	29,006			33,515			34,478		
Total liabilities	1,915,209			1,949,794			1,926,207		
Shareholders' Equity:									
Common stock	91,332			91,332			91,332		
Additional paid-in capital	65,464			64,874			64,517		
Retained earnings and other equity	130,242			125,333			126,437		
Total shareholders' equity	287,038			281,539			282,286		
Total liabilities and shareholders' equity	$2,202,247			$2,231,333			$2,208,493		
Net interest income		$76,916			$77,237			$77,320	
Net interest spread			3.79			3.73			3.78
Effect of net interest-free funding sources			0.08			0.08			0.11
Net interest margin			3.87 %			3.81 %			3.89 %
Ratio of average interest-earning assets to average interest-bearing liabilities	136.93 %			132.75 %			127.12 %		

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, 2014, 2013 and 2012 have been calculated using the Corporation's federal applicable rate of 35%.

Table 2—Analysis of Changes in Net Interest Income

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the year ended December 31, 2014 compared to 2013 and for the year ended December 31, 2013 compared to 2012, 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, 2014 Versus 2013			For the Years Ended December 31, 2013 Versus 2012		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$(32)	$(13)	$(45)	$(18)	$(20)	$(38)
U.S. government obligations	(452)	(131)	(583)	222	(390)	(168)
Obligations of states and political subdivisions	(616)	(93)	(709)	(97)	(309)	(406)
Other debt and equity securities	(1,004)	144	(860)	(128)	(223)	(351)
Interest on deposits and investments	(2,104)	(93)	(2,197)	(21)	(942)	(963)
Commercial, financial and agricultural loans	(458)	(864)	(1,322)	(1,793)	(616)	(2,409)
Real estate—commercial and construction loans	1,446	(1,074)	372	2,318	(2,322)	(4)
Real estate—residential loans	1,167	(540)	627	328	(805)	(477)
Loans to individuals	(517)	165	(352)	(71)	(17)	(88)
Municipal loans and leases	1,724	(317)	1,407	640	(511)	129
Lease financings	245	(222)	23	933	(261)	672
Interest and fees on loans and leases	3,607	(2,852)	755	2,355	(4,532)	(2,177)
Total interest income	1,503	(2,945)	(1,442)	2,334	(5,474)	(3,140)
Interest expense:						
Interest-bearing checking deposits	24	(16)	8	39	(52)	(13)
Money market savings	(27)	86	59	(17)	(178)	(195)
Regular savings	4	—	4	35	(512)	(477)
Time deposits	(415)	(278)	(693)	(852)	(515)	(1,367)
Interest on time and interest-bearing deposits	(414)	(208)	(622)	(795)	(1,257)	(2,052)
Short-term borrowings	(23)	7	(16)	(84)	(194)	(278)
Long-term debt	—	—	—	(4)	—	(4)
Subordinated notes and capital securities	(483)	—	(483)	(535)	(188)	(723)
Interest on borrowings	(506)	7	(499)	(623)	(382)	(1,005)
Total interest expense	(920)	(201)	(1,121)	(1,418)	(1,639)	(3,057)
Net interest income	$2,423	$(2,744)	$(321)	$3,752	$(3,835)	$(83)

2014 versus 2013

Net interest income on a tax-equivalent basis was $76.9 million for the year ended December 31, 2014, a decrease of $321 thousand from 2013. The tax-equivalent net interest margin for the year ended December 31, 2014 increased 6 basis points to 3.87% from 3.81% for 2013. The decline in year-to-date net interest income from the prior year was primarily attributable to a reduction in investment securities. This decline was partially offset by loan and lease growth which more than compensated for the reduction in loan rates. It was also offset by maturities of time deposits, reductions in time deposit rates and redemption of the Corporation's trust preferred securities in 2013.

2013 versus 2012

Net interest income on a tax-equivalent basis of $77.2 million for the year ended December 31, 2013 was consistent with 2012. The tax-equivalent net interest margin for the year ended December 31, 2013 decreased 8 basis points to 3.81% from 3.89% for 2012. The decline in net interest margin from the comparable period in the prior year was

primarily due to lower rates on commercial and residential real estate loans due to re-pricing and the competitive environment. Additionally, the re-investment of maturing and called investment securities into lower yielding investments contributed to the decline. Favorable re-pricing of savings accounts and certificates of deposit, along with maturities of higher yielding certificates of deposit and the redemption of the trust preferred securities and termination of the related interest rate swap partially offset the decline in the net interest margin.

Interest Income

2014 versus 2013

Interest income on a tax-equivalent basis for the year ended December 31, 2014 was $80.9 million, a decrease of $1.4 million, or 2% from 2013. The decrease was primarily due to a reduction in investment securities. This decline was partially offset as loan and lease growth more than compensated for the reduction in loan rates. The growth in loans for the year ended December 31, 2014, occurred mainly in commercial real estate, residential real estate and municipal loans and leases. The lower rates on loans were primarily in the business, commercial real estate and residential real estate loan categories due to re-pricing and the competitive environment. The average rate earned on loans decreased 19 basis points for the year ended December 31, 2014 from 2013.

2013 versus 2012

Interest income on a tax-equivalent basis for the year ended December 31, 2013 was $82.4 million, a decrease of $3.1 million, or 4% from 2012. The decrease was primarily due to lower rates on business, commercial real estate and residential real estate loans due to re-pricing and the competitive environment, along with lower commercial business loan outstandings. The average rate earned on loans decreased 26 basis points for the year ended December 31, 2013 from 2012. In addition, the re-investment of maturing and called investment securities into lower yielding investments contributed to the decline in interest income. The average rate earned on investment securities and deposits at other banks decreased 20 basis points for the year ended December 31, 2013 compared to 2012. These unfavorable variances were partially offset by growth in lease financings and commercial real estate loans.

Interest Expense

2014 versus 2013

Interest expense for the year ended December 31, 2014 was $4.0 million, a decrease of $1.1 million, or 22% from 2013. The decrease was mainly attributable to maturities of time deposits, reduction in time deposit rates and redemption of the Corporation’s trust preferred securities during 2013. For the year ended December 31, 2014, the average rate paid on time deposits declined by 10 basis points and the average rate paid on borrowings declined by 56 basis points. For the year ended December 31, 2014, the Corporation experienced decreases in average time deposits of $35.2 million and money market savings of $24.7 million partially offset by increases in average interest-bearing checking of $28.3 million. The increase in interest-bearing checking deposits was primarily due to a product change for existing business and municipal customers which resulted in customer repurchase agreements, classified as borrowings, being transferred to interest-bearing demand deposits during the the second quarter of 2013.

2013 versus 2012

Interest expense for the year ended December 31, 2013 was $5.1 million, a decrease of $3.1 million, or 37% from 2012. This decrease was mainly due to a decrease in the Corporation’s average cost of deposits of 14 basis points for the year ended December 31, 2013 from the same period in 2012. This was largely attributable to an overall decline in rates paid on time and interest-bearing deposits along with maturities of higher yielding certificates of deposits. In addition, the average rate paid on borrowings declined by 54 basis points for the year ended December 31, 2013. This decline primarily resulted from the Corporation’s decision in the second quarter of 2013 to redeem its trust preferred securities and terminate the related interest rate swap. For the year ended December 31, 2013, the Corporation experienced increases in average interest-bearing checking of $56.5 million and regular savings of $26.7 million partially offset by decreases in average time deposits of $63.4 million and money market savings of $10.9 million. The lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings and interest-bearing checking accounts.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various

types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans are also reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans' initial effective interest rates. Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2014, 2013, and 2012 was $3.6 million, $11.2 million, and $10.0 million, respectively. The decrease in the provision during 2014 was mainly due to improvements in historical loss factors utilized to calculate the allowance for loan and lease loss requirement and improved asset quality compared to a decline in collateral value for a commercial real estate borrower in 2013 and updated assessments of residential building lots for a commercial real estate developer in 2013.

Noninterest Income

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

The following table presents noninterest income for the periods indicated:

	For the Years Ended December 31,			$ Change		% Change	
(Dollars in thousands)	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012
Trust fee income	$7,835	$7,303	$6,777	$532	$526	7 %	8 %
Service charges on deposit accounts	4,230	4,451	4,429	(221)	22	(5)	—
Investment advisory commission and fee income	11,904	7,642	6,128	4,262	1,514	56	25
Insurance commission and fee income	11,543	9,395	7,766	2,148	1,629	23	21
Other service fee income	7,189	7,390	5,855	(201)	1,535	(3)	26
Bank owned life insurance income	1,628	2,968	2,670	(1,340)	298	(45)	11
Other-than-temporary impairment on equity securities	—	—	(13)	—	13	—	N/M
Net gain on sales of investment securities	635	3,389	305	(2,754)	3,084	(81)	N/M
Net gain on mortgage banking activities	2,182	4,523	6,088	(2,341)	(1,565)	(52)	(26)
Net gain (loss) on sales and dispositions of fixed assets	40	(6)	1,257	46	(1,263)	N/M	N/M
Net gain (loss) on sales and write-downs of other real estate owned	195	626	(1,904)	(431)	2,530	(69)	N/M
Loss on termination of interest rate swap	—	(1,866)	—	1,866	(1,866)	N/M	N/M
Other	1,270	969	902	301	67	31	7
Total noninterest income	$48,651	$46,784	$40,260	$1,867	$6,524	4 %	16 %

2014 versus 2013

Noninterest income for the year ended December 31, 2014 was $48.7 million, an increase of $1.9 million or 4% compared to 2013. Investment advisory commission and fee income increased $4.3 million for the year ended December 31, 2014, primarily due to the acquisition of Girard effective January 1, 2014. Insurance commission and fee income increased $2.1 million for the year ended December 31, 2014, primarily due to the Sterner acquisition on July 1, 2014, an increase in contingent commission income and the Fretz acquisition on May 1, 2013.

These favorable increases were partially offset for the year ended December 31, 2014 by a $2.3 million decline in net gain on mortgage banking activities. In 2014, higher interest rates led to a decline in refinance activity while new

home purchase activity remained below historical norms. These factors led to a 51% decline in funded first mortgage volume for the year ended December 31, 2014 compared to 2013. However, funded first mortgage volume during the fourth quarter of 2014 was up 39% from the fourth quarter of 2013 due to an increase in purchase volume. In addition, there was a $2.8 million decline in net gain on sales of securities for the year ended December 31, 2014 from the prior year. The sale of available-for-sale investment securities during 2014 amounted to $33.0 million and consisted primarily of residential mortgage-backed securities. The sale of available-for-sale investment securities during 2013 amounted to $76.4 million and consisted primarily of U.S. government agency bonds.

Excess proceeds from bank owned life insurance death benefits of $1.1 million were recognized in 2013. Lastly, the year ended December 31, 2013 included a $1.9 million loss on the termination of an interest rate swap which was used as a hedge of trust preferred securities.

2013 versus 2012
Noninterest income for the year ended December 31, 2013 was $46.8 million, an increase of $6.5 million, or 16% compared to 2012. Insurance commission and fee income increased $1.6 million for the year ended December 31, 2013, 2013, primarily a result of the Fretz acquisition on May 1, 2013 and the Javers acquisition on May 31, 2012. Investment advisory commission and fee income increased $1.5 million as assets under supervision increased 22%, predominately market driven, over December 31, 2012. Mortgage servicing income (included in other service fee income) increased $1.5 million mainly due to a 24% increase in loans serviced for others from December 31, 2012. The increase in loans serviced for others resulted from mortgage banking funded loans exceeding paydowns. The net gain on sales of other real estate owned was $626 thousand for the year ended December 31, 2013. This compares favorably to a net loss on sales and write-downs of other real estate owned of $1.9 million for the year ended December 31, 2012. The net gain on sales of securities increased $3.1 million for the year ended December, 31 2013. The increase in the gain was primarily due to favorable market conditions which led to higher treasury rates in 2013. The sale of available-for-sale investment securities during the year ended December 31, 2013 and 2012 amounted to $76.4 million and $57.2 million, respectively, and consisted primarily of U.S. government agency bonds.

These favorable increases were partially offset by a $1.9 million loss on the termination of an interest rate swap during 2013, which was used as a hedge of trust preferred securities. In addition, the net gain on mortgage banking activities decreased $1.6 million for the year ended December 31, 2013. The increase in interest rates beginning in the second quarter of 2013 contributed to a significant decline in refinance activity and lowered gain on sale margins. Mortgage banking funded loan volume declined 18% for the year ended December 31, 2013, from 2012.

Noninterest Expense
The operating costs of the Corporation are known as noninterest expense, and include, but are not limited to, salaries and benefits, commissions, occupancy, equipment, professional services and intangible expenses. Expense control is very important to the management of the Corporation, and every effort is made to contain and minimize the growth of operating expenses, and to provide technological innovation whenever practical, as operations change or expand.
The following table presents noninterest expense for the periods indicated:

	For the Years Ended December 31,			$ Change		% Change	
(Dollars in thousands)	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012
Salaries and benefits	$42,245	$39,522	$37,306	$2,723	$2,216	7 %	6 %
Commissions	7,637	8,512	6,981	(875)	1,531	(10)	22
Net occupancy	7,023	5,869	5,716	1,154	153	20	3
Equipment	5,645	4,865	4,486	780	379	16	8
Professional fees	3,164	3,471	2,702	(307)	769	(9)	28
Marketing and advertising	1,880	1,948	1,725	(68)	223	(3)	13
Deposit insurance premiums	1,561	1,553	1,689	8	(136)	1	(8)
Intangible expenses	2,167	157	899	2,010	(742)	N/M	(83)
Acquisition-related costs	1,270	87	36	1,183	51	N/M	N/M
Restructuring and integration charges	8	534	—	(526)	534	(99)	N/M
Other	14,654	14,615	14,742	39	(127)	—	(1)
Total noninterest expense	$87,254	$81,133	$76,282	$6,121	$4,851	8 %	6 %

2014 versus 2013
Noninterest expense for the year ended December 31, 2014 was $87.3 million, an increase of $6.1 million or 8% compared to 2013. Salaries and benefit expense increased $2.7 million for the year ended December 31, 2014, primarily attributable to the Girard and Sterner acquisitions and lower deferred loan origination costs which were partially offset by reduced pension plan expense. Intangible expenses increased by $2.0 million for the year ended December 31, 2014, mainly due to the Girard acquisition and the reduction to the contingent consideration liability related to the Javers acquisition which resulted in a reduction of expense of $959 thousand during 2013. Premises and

equipment expenses increased $1.9 million for the year ended December 31, 2014, mainly due to increased costs related to computer equipment and software, our new leased office location in the Lehigh Valley which opened in December 2013 and the Girard and Sterner acquisitions. Acquisition-related costs for the year ended December 31, 2014 were $1.3 million, mainly attributable to the completed acquisition of Valley Green Bank. These unfavorable variances were partially

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offset by a decrease in commission expense of $875 thousand for the year ended December 31, 2014, mainly due to the decline in mortgage banking activity. In addition, non-interest expense in 2013 included restructuring charges of $534 thousand.

2013 versus 2012
Noninterest expense for the year ended December 31, 2013 was $81.1 million, an increase of $4.9 million or 6% compared to 2012. Salaries and benefits expense increased $2.2 million primarily attributable to the Fretz and Javers acquisitions, higher health insurance costs and performance-based salary and incentive increases. Commission expense increased $1.5 million mainly due to increased production activity and revenues generated in the Corporation's equipment finance, investment and insurance businesses. Additionally, non-interest expense increased due to restructuring charges of $534 thousand recognized during 2013 consisting of severance and fixed asset retirement expenses.

Tax Provision
The provision for income taxes was $7.4 million, $5.7 million and $5.6 million for the years ended December 31, 2014, 2013, and 2012, respectively, at effective rates of 25%, 21%, and 21%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The higher effective rate for the year ended December 31, 2014 is primarily due to the absence of tax-exempt proceeds from bank-owned life insurance death benefits which were received in 2013 and 2012.

Financial Condition
ASSETS
The following table presents assets at the dates indicated:

	At December 31,			
(Dollars in thousands)	2014	2013	$ Change	% Change
Cash and interest-earning deposits	$38,565	$69,169	$(30,604)	(44)%
Investment securities	368,630	402,284	(33,654)	(8)
Loans held for sale	3,302	2,267	1,035	46
Loans and leases held for investment	1,626,625	1,541,484	85,141	6
Reserve for loan and lease losses	(20,662)	(24,494)	3,832	16
Premises and equipment, net	37,009	34,129	2,880	8
Goodwill and other intangibles, net	79,897	65,695	14,202	22
Bank owned life insurance	62,265	60,637	1,628	3
Accrued interest receivable and other assets	39,690	40,388	(698)	(2)
Total assets	$2,235,321	$2,191,559	$43,762	2%

Cash and Interest-earning Deposits
Cash and interest-earning deposits at December 31, 2014 decreased $30.6 million from December 31, 2013 and investment securities decreased $33.7 million from December 31, 2013 primarily due to the growth in loans and leases of $85.1 million.

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

Total investments at December 31, 2014 decreased $33.7 million from December 31, 2013. Sales of $33.0 million, maturities and pay-downs of $52.1 million and calls of $17.7 million were partially offset by purchases of $65.2

million and increases in the fair value of available-for-sale investment securities of $4.9 million. The increases in fair value of available-for-sale investment securities were primarily due to the decrease in long-term interest rates during the first quarter of 2014.

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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)	2014	2013	2012
U.S. treasuries	$4,845	$4,708	$4,938
U.S. government corporations and agencies	121,844	128,148	172,142
State and political subdivisions	102,774	107,657	122,168
Residential mortgage-backed securities	13,643	35,480	90,740
Collateralized mortgage obligations	3,725	7,201	27,012
Corporate bonds	108,787	99,843	74,859
Money market mutual funds	11,675	16,900	4,878
Equity securities	1,337	2,347	2,842
Total investment securities	$368,630	$402,284	$499,579

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 and money market mutual funds 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)	2014 Amount	2014 Yield	2013 Amount	2013 Yield	2012 Amount	2012 Yield
1 Year or less	$18,710	2.45 %	$18,740	2.04 %	$9,234	2.00 %
After 1 Year to 5 Years	214,664	1.33	190,574	1.32	225,632	1.40
After 5 Years to 10 Years	75,988	3.13	82,271	2.61	85,282	2.36
After 10 Years	46,256	3.77	91,452	3.42	171,711	3.27
No stated maturity	13,012	0.25	19,247	0.18	7,720	0.76
Total	$368,630	2.03 %	$402,284	2.04 %	$499,579	2.21 %

Loans and Leases

Gross loans and leases held for investment at December 31, 2014 grew $85.1 million, or 6% from December 31, 2013. Commercial-related real estate loans increased $28.1 million, commercial business loans increased $35.0 million and residential real estate loans increased $30.2 million as economic conditions continued to improve. During the third quarter of 2014, the Corporation sold its credit card loan portfolio with a principal balance of $8.5 million for a pre-tax gain of $479 thousand. The sale of the credit card loan portfolio was completed due to our lack of scale necessary to justify the increased expense and focus associated with the increasing complexity of the risk management and compliance environment related to credit cards.

At December 31, 2014, 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:

	At December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Commercial, financial and agricultural	$457,827	$422,816	$468,421	$477,662	$457,671
Real estate-commercial	628,478	600,353	530,122	514,953	496,357
Real estate-construction	79,887	90,493	91,250	90,397	139,958
Real estate-residential	312,032	281,828	264,432	245,204	251,057
Loans to individuals	29,941	40,000	43,780	44,965	44,087
Lease financings	118,460	105,994	83,857	73,225	82,056
Total loans and leases held for investment, net of deferred income	$1,626,625	$1,541,484	$1,481,862	$1,446,406	$1,471,186

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, 2014:

(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	$457,827	$266,126	$121,629	$70,072
Real estate-commercial	628,478	170,599	333,651	124,228
Real estate-construction	79,887	41,033	10,444	28,410
Real estate-residential	312,032	141,300	38,062	132,670
Loans to individuals	29,941	12,220	9,824	7,897
Lease financings	118,460	43,123	75,042	295
Total gross loans and leases held for investment	$1,626,625	$674,401	$588,652	$363,572
Loans and leases with fixed predetermined interest rates	$815,334	$132,367	$447,414	$235,553
Loans and leases with variable or floating interest rates	811,291	542,034	141,238	128,019
Total gross loans and leases held for investment	$1,626,625	$674,401	$588,652	$363,572

The commercial mortgages and tax-exempt loans 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 lending officers. A number of factors regarding the borrower, such as overall financial strength, collateral values and repayment ability, are considered in deciding what actions should be taken when determining the collectability of interest for accrual purposes.

When a loan or lease, including a loan or lease that is impaired, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease is typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan or lease is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on

nonaccrual status, unpaid interest credited to income is reversed. Interest payments received on nonaccrual loans and leases are either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal.

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

At December 31, 2014, the recorded investment in loans held for investment that were considered to be impaired was $56.2 million. The related reserve for loan losses was $998 thousand. At December 31, 2013, the recorded investment in loans that were considered to be impaired was $58.3 million. The related reserve for loan losses was $3.0 million. Impaired loans include nonaccrual

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loans and leases, accruing troubled debt restructured loans and lease modifications and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management's judgments about the ultimate outcome of these credits. For the years ended December 31, 2014, 2013, and 2012, additional interest income that would have been recognized under the original terms for impaired loans was $1.2 million, $1.7 million and $2.2 million. Interest income recognized on impaired loans for the years ended December 31, 2014, 2013 and 2012 was $1.9 million, $1.2 million and $552 thousand respectively.

The impaired loan balances consisted mainly of commercial real estate, construction and business loans. Impaired loans at December 31, 2014 included one large credit which went on nonaccrual during the third quarter of 2009 and was comprised of three separate facilities to a local commercial real estate developer/home builder, aggregating to a December 31, 2014 balance of $5.3 million. During the second quarter of 2014, one of the facilities was transferred to loans held for sale for $532 thousand and was sold during the third quarter of 2014 for a pre-tax loss of $7 thousand. This credit incurred charge-offs of $3.8 million during 2014 primarily attributable to updated assessments of residential building lots securing the loans. There is no specific allowance on the remaining credit as the credit was secured with sufficient estimated collateral. The borrower does not have the resources to develop these properties; therefore, the properties must be sold.

Other real estate owned was $955 thousand at December 31, 2014, down from $1.7 million at December 31, 2013. During the third quarter of 2014, a commercial real estate owned property with a carrying amount $696 thousand was sold for a gain of $195 thousand. On December 23, 2014, an agreement of sale was entered into for the remaining real estate owned property.

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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 information pertaining to the Corporation's non-performing assets at the dates indicated:

	At December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*:					
Commercial, financial and agricultural	$5,002	$4,253	$2,842	$4,614	$7,627
Real estate—commercial	4,413	8,091	14,340	18,085	17,750
Real estate—construction	5,931	9,159	13,588	14,479	17,307
Real estate—residential	1,611	1,402	976	191	1,625
Loans to individuals	—	—	—	—	21
Lease financings	380	330	386	838	902
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications*	17,337	23,235	32,132	38,207	45,232
Accruing troubled debt restructured loans and lease modifications not included in the above	5,469	7,943	13,457	3,893	550
Accruing loans and leases 90 days or more past due:					
Commercial, financial and agricultural	—	12	—	—	—
Real estate—residential	31	23	54	117	314
Loans to individuals	365	319	347	204	382
Lease financings	55	59	40	44	—
Total accruing loans and leases, 90 days or more past due	451	413	441	365	696
Total non-performing loans and leases	23,257	31,591	46,030	42,465	46,478
Other real estate owned	955	1,650	1,607	6,600	2,438
Total nonperforming assets	$24,212	$33,241	$47,637	$49,065	$48,916
Nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) / loans and leases held for investment	1.07 %	1.51 %	2.17 %	2.64 %	3.07 %
Nonperforming loans and leases / loans and leases held for investment	1.43	2.05	3.11	2.94	3.16
Nonperforming assets / total assets	1.09	1.52	2.07	2.22	2.29
Allowance for loan and lease losses / loans and leases held for investment	1.27	1.59	1.67	2.07	2.10
Allowance for loan and lease losses / nonaccrual loans and leases	119.18	105.42	77.01	78.18	68.31
Allowance for loan and lease losses / nonperforming loans and leases	88.84	77.53	53.76	70.34	66.48
Allowance for loan and lease losses	$20,662	$24,494	$24,746	$29,870	$30,898
* Nonaccrual troubled debt restructured loans and lease modifications included in nonaccrual loans and leases in the above table	$3,104	$1,583	$579	$8,551	$1,155

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

	At December 31,			
(Dollars in thousands)	2014	2013	2012	2011
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications	$17,337	$23,235	$32,132	$38,207
Nonaccrual loans and leases with partial charge-offs	6,465	8,958	8,834	9,399
Life-to-date partial charge-offs on nonaccrual loans and leases	1,831	9,120	8,999	10,040
Charge-off rate of nonaccrual loans and leases with partial charge-offs	22.1 %	50.4 %	50.5 %	51.6 %
Specific reserves on impaired loans	$998	$2,963	$208	$1,253

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is appropriate at December 31, 2014 to absorb probable losses in the loan and lease portfolio. Management’s methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

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The reserve for loan and lease loss analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Impaired loans, including nonaccrual loans and leases, troubled debt restructured loans and other accruing impaired loans are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience and qualitative factors, loss factors are determined giving consideration to the areas noted in the preceding paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve.

The reserve for loan and lease losses is determined at the end of each quarter, and more frequently for management review purposes. Calculating the Corporation's reserve for loan and lease losses considers the Bank's loan portfolio utilizing historical loss data as a starting point, while evaluating the impact of environmental factors in a quantitative manner as they relate to the collectability of outstanding loan obligations. The Corporation utilizes a rolling eight-quarter migration analysis and loss emergence period analysis to determine the annualized net expected loan loss experience.

Each quarter, the conditions that exist within the look-back period are compared to current conditions to support a conclusion as to which qualitative adjustments are (or are not) deemed necessary for each loan portfolio segment. These factors are evaluated subjectively based on management's experience and supported by the Corporation's defined analytical metrics/drivers relative to the historical look-back period. Factors include, but are not limited to, asset quality trends, portfolio growth trends, changes in lending policies and management, economic trends, concentrations of credit risk and the impact of collateral dependent lending.

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

The reserve for loan and lease losses consists of an allocated reserve and unallocated reserve categories. The allocated reserve is comprised of reserves established on specific loans and leases and class reserves based on historical loan and lease loss experience and qualitative factors, current trends, and management assessments. The unallocated reserve supports other risk considerations not readily quantifiable through the allocated reserve metrics outlined above, as well as the inherent imprecision of the reserve for loan and lease losses model complexity. These considerations include, but are not limited to, fair value instability within the non-performing category, and the improving credit risk profile of performing loans individually measured for impairment.

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

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

The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience. The reserve for these off-balance sheet credits was $338 thousand and $319 thousand at December 31, 2014 and 2013, respectively.

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Table 8—Summary of Loan and Lease Loss Experience

The following table presents average loans and leases and summarizes loan and lease loss experience for the periods indicated.

	For the Years Ended December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Average amount of loans and leases outstanding	$1,580,835	$1,499,351	$1,465,448	$1,448,079	$1,442,085
Loan and lease loss reserve at beginning of period	$24,494	$24,746	$29,870	$30,898	$24,798
Charge-offs:					
Commercial, financial and agricultural loans	2,834	3,213	9,974	6,784	3,436
Real estate loans	4,644	8,974	4,959	10,435	10,573
Loans to individuals	796	641	578	968	883
Lease financings	576	791	1,224	1,516	2,213
Total charge-offs	8,850	13,619	16,735	19,703	17,105
Recoveries:					
Commercial, financial and agricultural loans	247	320	484	318	129
Real estate loans	618	1,130	401	213	772
Loans to individuals	265	174	130	174	227
Lease financings	281	515	561	491	512
Total recoveries	1,411	2,139	1,576	1,196	1,640
Net charge-offs	7,439	11,480	15,159	18,507	15,465
Provision to loan and lease loss reserve	3,607	11,228	10,035	17,479	21,565
Loan and lease loss reserve at end of period	$20,662	$24,494	$24,746	$29,870	$30,898
Ratio of net charge-offs to average loans and leases	0.47 %	0.77 %	1.03 %	1.28 %	1.07 %

The decrease in charge-offs during 2014 compared to 2013 was mainly due to improvements in asset quality resulting in decreased charge-off activity for commercial real estate loans. The decrease in charge-offs during 2013 compared to 2012 was mainly due to decreased charge-offs for commercial, financial and agricultural loans partially offset by increased charge-off activity for commercial real estate 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)	2014		2013		2012		2011		2010	
Commercial, financial and agricultural loans	$6,920	28 %	$9,789	27 %	$11,594	31 %	$11,262	33 %	$9,630	31 %
Real estate loans	10,830	63	11,126	63	9,126	60	14,875	59	17,165	60
Loans to individuals	360	2	694	3	679	3	730	3	734	3
Lease financings	985	7	1,285	7	1,326	6	1,344	5	1,950	6
Unallocated	1,567	N/A	1,600	N/A	2,021	N/A	1,659	N/A	1,419	N/A
Total	$20,662	100 %	$24,494	100 %	$24,746	100 %	$29,870	100 %	$30,898	100 %

The allowance for loan and lease losses to nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and lease modifications, was 119.18% at December 31, 2014, 105.42% at December 31, 2013 and 77.01% at December 31, 2012. At December 31, 2014, the specific allowance on impaired loans was $998 thousand, or 1.8% of the balance of impaired loans of $56.2 million. At December 31, 2013, the specific allowance on impaired loans was $3.0 million, or 5.1% of the balance of impaired loans of $58.3 million. 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.

The ratio of the reserve for loan and lease losses to total loans and leases was 1.27% at December 31, 2014 compared to 1.59% at December 31, 2013. Allocated reserves at December 31, 2014 decreased by $3.8 million compared to December 31, 2013. The allocated reserves for commercial, financial and agricultural loans decreased by $2.9 million at December 31, 2014 compared to December 31, 2013 mainly due to improvements in historical loss factors for non-criticized and criticized loans in this loan category and a decrease in the specific allowance on impaired loans.

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The ratio of the reserve for loan and lease losses to total loans and leases was 1.59% at December 31, 2013 compared to 1.67% at December 31, 2012. Allocated reserves at December 31, 2013 increased by $169 thousand compared to December 31, 2012. The allocated reserves for commercial, financial and agricultural loans decreased by $1.8 million at December 31, 2013 compared to December 31, 2012 mainly due to lower loan volume and a decrease in the level of criticized loans, partially offset by an increase in the specific allowance on impaired loans. The allocation of the allowance for real estate loans increased by $2.0 million at December 31, 2013 compared to December 31, 2012 mainly due to higher loan volume and 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, 2014, 2013 and 2012 was $3.3 million, $2.3 million and $2.4 million, respectively. The Corporation also has goodwill with a net carrying value of $67.7 million at December 31, 2014 and $57.5 million at December 31, 2013, which is deemed to be an indefinite intangible asset and is not amortized. The increase in goodwill of $10.2 million was related to the Girard and Sterner 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 impairment test for other identifiable intangible assets on an annual basis or more often if events and circumstances indicate there may be impairment. The Corporation completed an annual impairment test for goodwill and other intangibles during the fourth quarter of 2014. There was no impairment of goodwill and no material impairment of identifiable intangibles recorded during 2012 through 2014. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Other Assets

At December 31, 2014 and 2013, the Bank held $3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is a member of the FHLB, and as such, is required to hold FHLB stock as a condition of membership as determined by the FHLB. The Bank is required to hold additional stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $1.1 million and $3.3 million at December 31, 2014 and 2013, respectively. Additionally, the FHLB might require its members to increase its capital stock requirement. Changes in the credit ratings of the U.S. government and federal agencies, including the FHLB, could increase the borrowing costs of the FHLB and possibly have a negative impact on its operations and long-term performance. It is possible this could have an adverse effect on the value of the Corporation’s investment in FHLB stock. The Corporation determined there was no other-than-temporary impairment of its investment in FHLB stock. Therefore, at December 31, 2014, the FHLB stock is recorded at cost.

LIABILITIES

The following table presents liabilities at the dates indicated:

	At December 31,				
(Dollars in thousands)	2014	2013	$ Change	% Change	
Deposits	$1,861,341	$1,844,498	$16,843	1	%
Short-term borrowings	41,974	37,256	4,718	13	
Accrued interest payable and other liabilities	47,452	29,299	18,153	62	
Total liabilities	$1,950,767	$1,911,053	$39,714	2	%

Deposits

Total deposits increased $16.8 million or 1% from December 31, 2013. Deposits, excluding public funds, grew $31.2 million from December 31, 2013, primary due to increases in non-interest bearing and interest bearing demand

deposits partially offset by decreases in savings and time deposits.

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Table 10—Deposits

The following table summarizes the average amount of deposits for the periods indicated:

(Dollars in thousands)	For the Years Ended December 31,		
	2014	2013	2012
Noninteresting-bearing deposits	$435,058	$390,420	$327,576
Interest-bearing checking deposits	314,784	286,487	230,031
Money market savings	295,209	319,958	330,839
Regular savings	535,346	536,701	510,005
Time deposits	264,591	299,792	363,225
Total average deposits	$1,844,988	$1,833,358	$1,761,676

The following table summarizes the maturities of time deposits with balances of $100 thousand or more:

(Dollars in thousands)	At December 31, 2014
Due Three Months or Less	$20,367
Due Over Three Months to Six Months	9,969
Due Over Six Months to Twelve Months	11,508
Due Over Twelve Months	34,982
Total	$76,826

Borrowings

Short-term borrowings at December 31, 2014, consisted of customer repurchase agreements on an overnight basis totaling $42.0 million. During 2013, the Corporation submitted a redemption notice to the trustee resulting in the redemption of all of the trust preferred securities, with an aggregate principal balance of $20.0 million, issued by Univest Capital Trust I. The Corporation redeemed the trust preferred securities effective July 7, 2013 with settlement on July 8, 2013. The redemption also included $619 thousand in common securities issued by Univest Capital Trust I and related to the Trust Preferred Securities. At December 31, 2014 and 2013, the Bank had outstanding short-term letters of credit with the FHLB totaling $55.0 million and $35.0 million, respectively, which were utilized to collateralize public funds deposits.

Table 11—Short Term Borrowings

The following table details key information pertaining to customer repurchase agreements on an overnight basis at the dates indicated:

(Dollars in thousands)	2014		2013		2012	
Balance at December 31	$41,974		$37,256		$96,282	
Weighted average interest rate at year end	0.06	%	0.07	%	0.07	%
Maximum amount outstanding at any month's end	$43,266		$110,228		$117,291	
Average amount outstanding during the year	41,048		72,211		106,206	
Weighted average interest rate during the year	0.06	%	0.06	%	0.13	%

Other Liabilities

Total accrued interest payable and other liabilities increased $18.2 million at December 31, 2014 from December 31, 2013. The increase was primarily due to an increase in the pension plan liability resulting from an increase in the unrecognized actuarial loss of $12.0 million. The increase in the actuarial loss was mostly due to a decrease in the discount rate of 97 basis points and the adoption of a new mortality assumption based on the most recent study by the Society of Actuaries (RP-2014 mortality table) which increased the average life expectancy of plan participants by 2 years.

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SHAREHOLDERS' EQUITY

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

(Dollars in thousands)	At December 31,			
	2014	2013	$ Change	% Change
Common stock	$91,332	$91,332	$—	— %
Additional paid-in capital	62,980	62,417	563	1
Retained earnings	181,851	172,602	9,249	5
Accumulated other comprehensive loss	(14,462)	(9,955)	(4,507)	(45)
Treasury stock	(37,147)	(35,890)	(1,257)	(4)
Total shareholders' equity	$284,554	$280,506	$4,048	1 %

Retained earnings at December 31, 2014, were impacted by net income of $22.2 million, partially offset by cash dividends declared of $13.0 million. Accumulated other comprehensive income, net of tax benefit, related to available-for-sale investment securities was $1.7 million at December 31, 2014 compared to accumulated other comprehensive loss, net of tax, of $1.5 million at December 31, 2013. The increase of $3.2 million was primarily due to increases in the fair value of available-for-sale securities. Accumulated other comprehensive loss, net of tax benefit, related to pension and other post-retirement benefits was $16.0 million and $8.5 million at December 31, 2014 and 2013, respectively. The increase of $7.5 million was mainly due to an increase in the actuarial pension loss resulting from a decrease in the discount rate of 97 basis points and the adoption of a new mortality assumption based on the most recent study by the Society of Actuaries (RP-2014 mortality table) which increased the average life expectancy of plan participants by 2 years. Treasury stock increased primarily due to the purchase of 110,997 treasury shares, totaling $2.0 million, during 2014 under the 2013 Board approved share repurchase program partially offset by the issuance of restricted stock.

Capital Adequacy

Capital guidelines which banking regulators have adopted assign minimum capital requirements for categories of assets depending on their assigned risks. The components of risk-based capital for the Corporation are Tier 1 and Tier 2. Minimum required total risk-based capital is 8.00%. At December 31, 2014, the Corporation had a Tier 1 capital ratio of 11.79% and total risked-based capital ratio of 12.91%. At December 31, 2013, the Corporation had a Tier 1 capital ratio of 12.63% and total risked-based capital ratio of 13.90%. The Corporation continues to be in the "well-capitalized" category under regulatory standards. Details on the capital ratios can be found in Note 21 "Regulatory Matters," included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K along with a discussion on dividend and other restrictions.

In July 2013, the federal bank regulatory agencies adopted final rules revising the agencies' capital adequacy guidelines and prompt corrective action rules, designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The rules are discussed in Note 21 "Regulatory Matters," included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K.

Asset/Liability Management

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

The Corporation uses both interest-sensitivity gap analysis and simulation modeling to quantify its exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year and two-year horizon.

The simulation uses existing portfolio rate and re-pricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayment speeds on loans, and the discretionary pricing of non-maturity assets and liabilities. The Corporation is in an asset sensitive position from a maturity perspective and in a liability sensitive position from a repricing perspective, as interest rates remain at historically low levels; however, the Corporation anticipates increases in interest rates over the longer term, which it expects would benefit its net interest margin.

Credit Risk

Extending credit exposes the Corporation to credit risk, which is the risk that the principal balance of a loan and any related interest will not be collected due to the inability of the borrower to repay the loan. The Corporation manages credit risk in the loan

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portfolio through adherence to consistent standards, guidelines and limitations established by the Board of Directors. Written loan policies establish underwriting standards, lending limits and other standards or limits as deemed necessary and prudent.

The loan review department conducts ongoing, independent reviews of the lending process to ensure adherence to established policies and procedures, monitors compliance with applicable laws and regulations, provides objective measurement of the risk inherent in the loan portfolio, and ensures that proper documentation exists.

The Corporation focuses on both assessing the borrower’s capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower’s assets and by personal guarantees. Commercial real estate loans are originated primarily within the Southeastern Pennsylvania market area at conservative loan-to-value ratios and are often supported by a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

The Corporation originates fixed-rate and adjustable-rate real estate-residential mortgage loans that are secured by the underlying 1- to 4-family residential properties for personal purposes. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

Credit risk in the direct consumer loan portfolio is controlled by strict adherence to conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. In the home equity loan portfolio, combined loan-to-value ratios are generally limited to 80%, but increased to 85% for the Corporation’s strongest profile borrower. Other credit considerations and compensating factors may warrant higher combined loan-to-value ratios.

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

The Corporation closely monitors delinquencies as another means of maintaining high asset quality. Collection efforts begin after a loan payment is missed, by attempting to contact all borrowers. If collection attempts fail, the Corporation will proceed to gain control of any and all collateral in a timely manner in order to minimize losses. While liquidation and recovery efforts continue, officers continue to work with the borrowers, if appropriate, to recover all monies owed to the Corporation. The Corporation monitors delinquency trends and past due reports which are submitted to the Board of Directors.

Liquidity

The Corporation, in its role as a financial intermediary, is exposed to certain liquidity risks. Liquidity refers to the Corporation’s ability to ensure that sufficient cash flow and liquid assets are available to satisfy demand for loans and deposit withdrawals. The Corporation manages its liquidity risk by measuring and monitoring its liquidity sources and

estimated funding needs. The Corporation has a contingency funding plan in place to address liquidity needs in the event of an institution-specific or a systemic financial crisis.

Sources of Funds

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

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

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The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $518.7 million. At December 31, 2014 and 2013, there were no outstanding borrowings with the FHLB. At December 31, 2014 and 2013, the Bank had outstanding short-term letters of credit with the FHLB totaling $55.0 million and $35.0 million, respectively, which were utilized to collateralize public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB's internal credit rating of the Bank, and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Bank maintains federal fund lines with several correspondent banks totaling $82.0 million at December 31, 2014 and 2013. At December 31, 2014, the Corporation had no outstanding federal funds purchased. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At December 31, 2014 and 2013, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The following contractual obligations and commitments table presents, at December 31, 2014, significant fixed and determinable contractual obligations and commitments to third parties. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its branch network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market.

The table also shows the amounts and expected maturities of significant commitments at December 31, 2014. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Commitments to extend credit are the Bank's most significant commitment in both the under and over one year time periods.

Contractual Obligations and Commitments

The Corporation enters into contractual obligations in the normal course of business as a source of funds for its asset growth and its asset/liability management, to fund acquisitions and to meet required capital needs. These obligations require the Corporation to make cash payments over time as detailed in the table below.

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to manage the Corporation's exposure to fluctuation in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters of credit and forward loan sale contracts. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of these financial instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Corporation does not require and is not required to pledge collateral or other security to support financial instruments with credit risk. These commitments expire over time as detailed in Table 12.

The Corporation also had possible future commitments on risk participation agreements, totaling $1.2 million at December 31, 2014. For further information regarding the Corporation’s commitments, refer to Note 16, “Commitments and Contingencies” of the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K.

Table 12—Contractual Obligations and Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows, including interest payable, at December 31, 2014. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

	Payments Due by Period				
(Dollars in thousands)	Total	Due in One Year or Less	Due after One Year to Three Years	Due after Three Years to Five Years	Due in Over Five Years
Customer repurchase agreements (a)	$41,974	$41,974	—	—	