

UNIVEST CORP OF PENNSYLVANIA

Form 10-K

March 04, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**Form 10-K**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2010**  
**Commission File number 0-7617**  
**Univest Corporation of Pennsylvania**  
*(Exact name of registrant as specified in its charter)*

**Pennsylvania**  
*(State or other jurisdiction of incorporation of organization)*

**23-1886144**  
*(IRS Employer Identification No.)*

**14 North Main Street**  
**Souderton, Pennsylvania**  
*(Address of principal executive offices)*

**18964**  
*(Zip Code)*

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

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

**Title of Class**

**Number of shares outstanding at 1/31/11**

Common Stock, \$5 par value

16,714,152

Securities registered pursuant to Section 12(b) of the Act: None

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

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 ☒

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 ☐ 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 ☐ NO ☒

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, a non-accelerated file 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 ☒

Non-accelerated filer ☐  
(Do not check if a smaller

Smaller reporting  
company ☐

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒  
The approximate aggregate market value of voting stock held by non-affiliates of the registrant is \$272,075,723 as of June 30, 2010 based on the June 30, 2010 closing price of the Registrant's Common Stock of \$17.32 per share.

**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 19, 2011.

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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, 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 elected to become a Financial Holding Company in 2000 as provided under Title I of the Gramm-Leach-Bliley Act. The Corporation decided to terminate its Financial Holding Company status which became effective in February 2011; this had no material impact on the Corporation. The Corporation owns all of the capital stock of Univest National Bank and Trust Co. (the Bank), Univest Delaware, Inc., and Univest Reinsurance Corporation. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation's and the Bank's legal headquarters are located at 14 North Main Street, Souderton, PA 18964.

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

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

Univest Reinsurance Corporation, as a reinsurer, offers life and disability insurance to individuals in connection with credit extended to them by the Bank.

The Corporation's former subsidiary, Univest Realty Corporation, which was established to obtain, hold and operate properties for the holding company and its subsidiaries, was liquidated during the fourth quarter of 2010 and the net assets were transferred to the Corporation.

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

As of December 31, 2010, the Corporation had total assets of \$2.1 billion, net loans and leases of \$1.4 billion, total deposits of \$1.7 billion and total shareholders' equity of \$266.2 million.

### **Employees**

As of December 31, 2010, the Corporation and its subsidiaries employed five hundred and fifty-one (551) persons. None of these employees are covered by a collective bargaining agreement and the Corporation believes it enjoys good relations with its personnel.

### **Market Area**

The Corporation is headquartered in Souderton, Pennsylvania, which is located in southeastern Pennsylvania, approximately thirty-five miles north of Philadelphia. The highest concentration of our deposits and loans are in Montgomery and Bucks counties where all of our thirty-two retail financial service centers are located. These are two of the wealthiest counties in Pennsylvania. Significant types of employment industries include pharmaceuticals, health care, electronics, computer services, insurance, industrial machinery, retailing and meat processing. Major companies throughout the two counties include Merck and Company, Jefferson Health Care, Prudential Insurance, Glaxo Smith Kline, Lockheed Martin, Aetna/U.S. Healthcare, Unisys Corporation, St. Mary Medical Center, Healthcare Services, Giant Food Stores LLC, Doylestown Hospital and Northtec LLC. Unemployment rates as of December 2010 were 6.7% and 7.1% in Montgomery and Bucks counties, respectively, significantly lower than Pennsylvania's state unemployment rate of 8.1% and the federal unemployment rate of 9.1%, according to the Bureau of Labor Statistics. In addition to our hub in Montgomery and Bucks counties, we have commercial lending and insurance offices in Lehigh and Chester counties. These areas currently represent a small segment of the Corporation's market area. The Corporation ranks sixth in market share in Montgomery County with fifteen financial service centers and 5.73% of total market share, and fourteenth in Bucks County with seventeen financial service centers and 2.48% of total market share according to data provided by SNL Financial. Montgomery County's population has grown 4.8% to 786,000 since the year 2000, and is expected to grow 1.3% through 2015, while Bucks County's population has grown 5.4% to 630,000 during the same period, and is expected to grow .6% through 2015, according to SNL Financial. The median age is 39.9 years and 40.7 years in Montgomery and Bucks counties, respectively, consistent with the median age of 39.6 years in Pennsylvania and slightly higher than the median age in the United States of 36.5 years. County estimates project the median age to increase over the next two decades. Median yearly household income of \$81,000 during 2010 for Montgomery County has increased 32.3% since 2000, and is expected to increase 16.6% through 2015; median yearly household income of \$79,000 during 2010 for Bucks County has increased 31.9% since 2000 and is expected to increase 15.8% through 2015, according to SNL Financial. The yearly median income for both counties is well above that of both the state of Pennsylvania and the United States of \$53,000 thousand and \$54,000 during 2010, respectively.

### **Competition**

The Corporation's service areas are characterized by intense competition for banking business among commercial banks, savings and loan associations, savings banks and other financial institutions. The Corporation's subsidiary bank actively competes with such banks and financial institutions for local retail and commercial accounts, in Bucks, Montgomery, Chester and Lehigh counties, as well as other financial institutions outside its primary service area. In competing with other banks, savings and loan associations, and other financial institutions, the Bank seeks to provide personalized services through management's knowledge and awareness of their service area, customers and borrowers.



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

### **Supervision and Regulation**

The Bank is subject to supervision and is regularly examined by the Office of the Comptroller of the Currency. Also, the Bank is 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 was enacted to address corporate and accounting fraud. SOX adopts new standards of corporate governance and imposes additional requirements on the board of directors and management of public companies. SOX law 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 controls over financial reporting, identify any material weaknesses in its internal controls over financial reporting and assert that such internal controls are effective. The Corporation has continued to be in compliance with SOX 404 during 2010. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation's Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

In October 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted and in February 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted. Under these laws, the Treasury was granted authority to provide a financial stability plan intended to provide for the government to invest additional capital into banks and otherwise facilitate bank capital formation; increase the limits on federal deposit insurance; and provide for various forms of economic stimulus, including to assist homeowners restructure and lower mortgage payments on qualifying loans. We did not participate in the U.S. Treasury's Capital Purchase Program.

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

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

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

- Provides for an increase in the FDIC assessment for depository institutions with assets of \$10 billion or more, increases the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% and changes the basis for determining FDIC premiums from insured deposits to consolidated assets less tangible capital;

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

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



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

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

Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;

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

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

## **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 in an amount equal to: 1) not less than 4.5% and not more than 6.0% of its outstanding FHLB loans and 2) at least a certain percentage of its unused borrowing capacity, not to exceed 1.5%. In December 2008, the FHLB suspended its dividends and the repurchase of capital stock due to capital compliance requirements. On October 29, 2010, the FHLB repurchased a limited amount of excess capital stock. The FHLB will make decisions on future repurchases of excess capital stock on a quarterly basis. At December 31, 2010, the Bank owned \$7.1 million in FHLB capital stock.

The deposits of the Bank are insured under the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. Under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default the other banks may be assessed for the FDIC's loss, subject to certain exceptions. Presently, the Bank has affiliates but none of them is a separate banking institution. On September 28, 2009, the FDIC Board implemented an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund (DIF) which was finalized in the Fourth Quarter of 2009. The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. This assessment was based on an estimated 5% annual growth rate in deposits during 2010, 2011 and 2012; and a 3 basis-point increase in the base assessment rate at September 30, 2009 to be applied in 2011 and 2012. The Bank paid \$9.0 million to the FDIC on December 30, 2009. At December 31, 2010 \$6.1 million remained in a prepaid asset account. The prepaid amount of \$6.1 million has a zero percent risk-weighting for risk-based capital ratio calculations. The remaining prepaid amount will be expensed over the 2011 through 2012 period as the actual FDIC assessment is determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform 3-basis point increase in initial assessment rates scheduled to take place on January 1, 2011 as previously discussed and maintain the current schedule of assessment rates for all depository institutions. At least semi-annually,

the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

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In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

In February 2011, the FDIC issued a final rule regarding deposit insurance assessments. The rule changes the assessment base as required by the Dodd-Frank Act from domestic deposits to average consolidated total assets minus average tangible equity, adopts a new large-bank pricing assessment scheme, and sets a target size for the DIF. The changes will go into effect beginning with the second quarter 2011 and will be payable at the end of September 2011. The rule, as mandated by the Dodd-Frank Act, finalizes a target size for the DIF at 2 percent of insured deposits. It also implements a lower assessment rate schedule when the fund reaches 1.15 percent (so that the average rate over time should be about 8.5 basis points) and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. The rule lowers 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. The assessment rates in total would be between 2.5 and 9 basis points on the broader base for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category. Nearly all institutions with assets less than \$10 billion will pay smaller assessments as a result of this rule. The rule eliminates the adjustment to the rate paid for secured liabilities, including Federal Home Loan Bank advances, since these will be part of the new assessment base. It also creates a new depository institution debt adjustment that increases the assessment rate of an institution that holds long-term unsecured debt issued by another insured depository institution. This adjustment amounts to 50 basis points for every dollar of long-term unsecured debt held in excess of 3 percent of Tier 1 capital. The final rule also creates 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.

## **Statistical Disclosure**

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

B. G. Balmer and Co. on July 28, 2006

Liberty Benefits, Inc. on December 29, 2008

Trollinger Consulting Group (commencing in January 2011, Trollinger Consulting Group is operating under the trade name of Univest Municipal Pension Services)

TC Group Securities Company, Inc. on December 31, 2008

Allied Benefits Group, LLC on December 31, 2008

TCG Investment Advisory Inc. on December 31, 2008

In addition to these acquisitions, in May 2006, the Bank entered into the small ticket commercial leasing business through its newly formed subsidiary Vanguard Leasing, Inc., which is incorporated under Pennsylvania law. In February 2008, Vanguard Leasing, Inc. changed its name to Univest Capital, Inc.

## **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](http://www.univest.net). The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2010 to each shareholder who requests one in writing after March 31, 2011. Requests should be directed to: Karen E. Tejkl, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 64197, Souderton, PA 18964.



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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](http://www.sec.gov).

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

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

#### **Risks Relating to Recent Economic Conditions and Governmental Response Efforts**

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

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

The U.S. economy entered into one of the longest economic recessions in December 2007. The capital and credit markets experienced extreme volatility and disruption for an extended period of time. The volatility and disruption in the capital and credit markets have produced downward pressure on stock prices of, and credit availability to, certain companies without regard to those companies' underlying financial strength. This resulted in significant write-downs of asset values by financial institutions, including government sponsored entities and major commercial and investment banks. Uncertainty in the financial markets and downturn in general economic conditions, including dramatic declines in the housing market, with falling home prices and increased foreclosures and continued high levels of unemployment, has persisted over the past few years. Although general economic trends and market conditions have since stabilized to some degree, the continued economic pressures on consumers and businesses 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, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Included is the creation of a new federal agency to administer and enforce consumer and fair lending laws, a function that is now performed by the depository institution regulators. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations. Other changes to statutes, regulations or regulatory policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer, limit the fees we may charge, increase the ability of non-banks to offer competing financial services and products and limit our ability to attract and maintain our executive officers, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

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



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***The recent repeal of Federal Prohibitions on payment of interest on business demand deposits could increase the Corporation's interest expense.***

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

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

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

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

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

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

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

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**Risks Related to Our Market and Business**

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

Unlike larger national or regional banks that operate in large geographies, the Corporation provides banking and financial services to customers primarily in Bucks, Montgomery, Chester and Lehigh Counties in Pennsylvania. Because of our geographic concentration, continuation of the economic downturn 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 economic downturn continues or a prolonged economic recession occurs in the economy as a whole, borrowers will be less likely to repay their loans as scheduled. A continued economic downturn 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 and loan associations, mutual savings banks, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit-gathering services offered by us. Increased competition in our markets may result in reduced loans and deposits.

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

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

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

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

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

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

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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, resulting in management's attention being diverted from the operation of our existing business;

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

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

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

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

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

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

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

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

Our profitability depends in part on our success in attracting and retaining a stable base of low-cost deposits. As of December 31, 2010, 16.1% of our deposit base was comprised of noninterest bearing deposits, of which 12.8% consisted of business deposits, which are primarily operating accounts for businesses, and 3.3% consisted of consumer deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and customers are increasingly seeking investments that are safe, including the purchase of U.S. Treasury securities and other government-guaranteed obligations, as well as the establishment of accounts at the largest, most-well capitalized banks. If we were to lose a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

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

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

### ***The Corporation continually encounters technological change.***

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

### ***The Corporation is subject to claims and litigation.***

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



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### ***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. Our management has established disaster recovery policies and procedures that are expected to mitigate events related to natural or man-made disasters; however, the impact of an overall economic decline resulting from such a disaster could have a material adverse effect on the Corporation's financial condition.

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

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

### **Risks Related to the Banking Industry**

#### ***The Corporation is subject to interest rate risk.***

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

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

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

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

#### ***The Corporation is subject to lending risk.***

Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans, and impact the value of the associated collateral. Various laws and regulations also affect our lending activities and failure to comply with such applicable laws and regulations could subject the Corporation to enforcement actions and civil monetary penalties.

As of December 31, 2010, approximately 80.3% of our loan and lease portfolio consisted of commercial, financial and agricultural, commercial real estate and construction loans and leases; these 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 will increase if the economy worsens.

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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 project to be higher than the builder projected, negatively impacting the builder's profit and cash flow and, therefore, their ability to make principal and interest payments.

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

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

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

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

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

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

The loan and lease provision for the year ended December 31, 2010 was \$21.6 million as opposed to \$20.9 million for the same period of 2009. The increase in the provision for loan and lease losses was due to the deterioration of underlying collateral and economic factors. This resulted in the migration of loans to a higher risk category and increased specific reserves on impaired loans to \$1.6 million at December 31, 2010 from \$1.4 million at December 31, 2009. Additionally, nonaccrual loans and leases and troubled debt restructured loans increased to \$45.8 million at December 31, 2010 from \$37.1 million at December 31, 2009. Economic conditions may not improve in the near term and our provision for loan and lease losses could increase in the future.



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

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America and the General Assembly of the Commonwealth of Pennsylvania. New financial reform legislation has been enacted by Congress that will change the bank regulatory framework, create an independent consumer protection bureau that will assume the consumer protection responsibilities of the various federal banking agencies, and establish more stringent capital standards for financial institutions and their holding companies. The legislation will also result in new regulations affecting the lending, funding, trading and investment activities of financial institutions and their holding companies. Such additional regulation and oversight could have a material and adverse impact on us.

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

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

### ***Risks Related to Our Common Stock and Common Stock Offerings***

#### ***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 has broad discretion in applying the net proceeds from offerings and the failure to apply these funds effectively could adversely affect its business.***

The Corporation intends to use the net proceeds from offerings for general corporate purposes, which may include the funding of additional contributions to the capital of the Bank. We will have significant flexibility in applying the net proceeds of offerings. Our failure to apply these funds effectively could adversely affect our business by reducing its return on equity and inhibiting our abilities to expand and/or raise additional capital in the future.

***The Corporation's stock price can be volatile.***

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

- our past and future dividend practice;

- our financial condition, performance, creditworthiness and prospects;

- quarterly variations in our operating results or the quality of our assets;

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

- changes in expectations as to our future financial performance;

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

- future sales of our equity or equity-related securities;

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

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

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

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

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

***Anti-takeover provisions could negatively impact our shareholders.***

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.

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

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

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

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

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

Univest Corporation may receive written comments from the staff of the SEC regarding its periodic or current reports under the Exchange Act. There are no comments that remain unresolved that Univest Corporation received not less than 180 days before the end of its fiscal year to which this report relates.

### **Item 2. Properties**

The Corporation and its subsidiaries occupy forty-one properties in Montgomery, Bucks, Chester and Lehigh counties in Pennsylvania and Prince Georges County in Maryland, which are used principally as banking offices. Business locations and hours are available on the Corporation's website at [www.univest.net](http://www.univest.net).

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

Additionally, the Bank provides banking and trust services for the residents and employees of twelve retirement home communities, offers a payroll check cashing service at one work site office and offers merchants an express banking center located in the Montgomery Mall. The work site office and the express banking center are located in Montgomery County. The Bank has eight off-premise automated teller machines located in Montgomery County. The Bank provides banking services nationwide through the internet via its website [www.univestdirect.com](http://www.univestdirect.com).

### **Item 3. Legal Proceedings**

Management is not aware of any litigation that would have a material adverse effect on the consolidated financial position 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. *Removed and Reserved***

**Table of Contents****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, 2010, Univest had 4,495 stockholders.

StockTrans, a Broadridge Company serves as the Corporation's transfer agent to assist shareholders in managing their stock. StockTrans, Inc. is located at 44 West Lancaster Avenue, Ardmore, PA. Shareholders can contact a representative by calling 610-649-7300.

**Range of Market Prices of Common Stock and Cash Dividends**

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

|                  | Market Price |          | Cash                        |
|------------------|--------------|----------|-----------------------------|
|                  | High         | Low      | dividends<br>paid per share |
| <b>2010</b>      |              |          |                             |
| January March    | \$ 19.90     | \$ 16.64 | \$ 0.20                     |
| April June       | 21.86        | 17.08    | 0.20                        |
| July September   | 18.25        | 15.71    | 0.20                        |
| October December | 20.41        | 17.08    | 0.20                        |

|                  | Market Price |          | Cash                        |
|------------------|--------------|----------|-----------------------------|
|                  | High         | Low      | dividends<br>paid per share |
| <b>2009</b>      |              |          |                             |
| January March    | \$ 33.50     | \$ 16.19 | \$ 0.20                     |
| April June       | 21.99        | 17.50    | 0.20                        |
| July September   | 26.87        | 19.00    | 0.20                        |
| October December | 21.85        | 15.14    | 0.20                        |

**Table of Contents****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, 2010, 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, 2005, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

**Comparison of Cumulative Total Return on  
\$100 Investment Made on December 31, 2005  
Five Year Cumulative total return Summary**

|                                 | <b>2005</b>   | <b>2006</b>   | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Univest Corporation</b>      | <b>100.00</b> | <b>151.86</b> | <b>109.16</b> | <b>170.34</b> | <b>97.15</b>  | <b>110.67</b> |
| <b>NASDAQ Stock Market (US)</b> | <b>100.00</b> | <b>184.35</b> | <b>203.94</b> | <b>122.77</b> | <b>178.10</b> | <b>210.16</b> |
| <b>NASDAQ Banks</b>             | <b>100.00</b> | <b>164.19</b> | <b>131.98</b> | <b>103.99</b> | <b>86.92</b>  | <b>99.09</b>  |

**Table of Contents****Equity Compensation Plan Information**

The following table sets forth information regarding outstanding options and shares under the equity compensation plan, Univest 2003 Long-term Incentive Plan, as of December 31, 2010:

| <b>Plan Category</b>                                       | <b>(a)<br/>Number of<br/>Securities to<br/>be Issued<br/>Upon<br/>Exercise of<br/>Outstanding<br/>Options,<br/>Warrants<br/>and<br/>Rights</b> | <b>(b)<br/>Weighted-<br/>Average<br/>Exercise<br/>Price of<br/>Outstanding<br/>Options,<br/>Warrants<br/>and<br/>Rights</b> | <b>(c)<br/>Number of<br/>Securities<br/>Remaining<br/>Available for<br/>Future<br/>Issuance<br/>Under Equity<br/>Compensation<br/>Plans<br/>(Excluding<br/>Securities<br/>Reflected in<br/>Column (a))</b> |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plan approved by security holders      | 428,032                                                                                                                                        | \$ 23.07                                                                                                                    | 877,157                                                                                                                                                                                                    |
| Equity compensation plans not approved by security holders |                                                                                                                                                |                                                                                                                             |                                                                                                                                                                                                            |
| <b>Total</b>                                               | <b>428,032</b>                                                                                                                                 | <b>\$ 23.07</b>                                                                                                             | <b>877,157</b>                                                                                                                                                                                             |

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2010:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>                | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total<br/>Number<br/>of Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum<br/>Number of<br/>Shares<br/>that May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|------------------------------|---------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Oct. 1, 2010 – Oct. 31, 2010 |                                                         | \$                                          |                                                                                                                         | 643,782                                                                                                               |
| Nov. 1, 2010 – Nov. 30, 2010 |                                                         |                                             |                                                                                                                         | 643,782                                                                                                               |
| Dec. 1, 2010 – Dec. 31, 2010 |                                                         |                                             |                                                                                                                         | 643,782                                                                                                               |
| <b>Total</b>                 |                                                         |                                             |                                                                                                                         |                                                                                                                       |

1. Transactions are reported as of settlement dates.

2.

The Corporation's current stock repurchase program was approved by its Board of Directors and announced on 8/22/2007. The repurchased shares limit is net of normal Treasury activity such as purchases to fund the Dividend Reinvestment Program, Employee Stock Purchase Program and the equity compensation plan.

3. The number of shares approved for repurchase under the Corporation's current stock repurchase program is 643,782.
4. The Corporation's current stock repurchase program does not have an expiration date.
5. No stock repurchase plan or program of the Corporation expired during the period covered by the table.
6. The Corporation has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further purchases. The plans are restricted during certain blackout periods in conformance with the Corporation's Insider Trading Policy.

**Table of Contents****Item 6. Selected Financial Data**

| (Dollars in thousands, except per share data)                 | Years Ended December 31, |           |            |            |            |
|---------------------------------------------------------------|--------------------------|-----------|------------|------------|------------|
|                                                               | 2010                     | 2009      | 2008       | 2007       | 2006       |
| <b>Earnings</b>                                               |                          |           |            |            |            |
| Interest income                                               | \$ 91,003                | \$ 96,359 | \$ 108,057 | \$ 116,144 | \$ 104,853 |
| Interest expense                                              | 17,469                   | 28,723    | 42,310     | 54,127     | 43,651     |
| Net interest income                                           | 73,534                   | 67,636    | 65,747     | 62,017     | 61,202     |
| Provision for loan and lease losses                           | 21,565                   | 20,886    | 8,769      | 2,166      | 2,215      |
| Net interest income after provision for loan and lease losses | 51,969                   | 46,750    | 56,978     | 59,851     | 58,987     |
| Noninterest income                                            | 34,418                   | 29,917    | 26,615     | 27,268     | 25,730     |
| Noninterest expense                                           | 67,349                   | 65,324    | 57,225     | 52,211     | 49,958     |
| Income before income taxes                                    | 19,038                   | 11,343    | 26,368     | 34,908     | 34,759     |
| Applicable income taxes                                       | 3,282                    | 563       | 5,778      | 9,351      | 9,382      |
| Net income                                                    | \$ 15,756                | \$ 10,780 | \$ 20,590  | \$ 25,557  | \$ 25,377  |
| <b>Financial Condition at Year End</b>                        |                          |           |            |            |            |
| Cash, interest-earning deposits and federal funds sold        | \$ 29,187                | \$ 68,597 | \$ 40,066  | \$ 59,385  | \$ 70,355  |
| Investment securities                                         | 467,024                  | 420,045   | 432,266    | 415,465    | 374,814    |
| Net loans and leases                                          | 1,440,288                | 1,401,182 | 1,436,774  | 1,342,356  | 1,340,398  |
| Assets                                                        | 2,133,893                | 2,085,421 | 2,084,797  | 1,972,505  | 1,929,501  |
| Deposits                                                      | 1,686,270                | 1,564,257 | 1,527,328  | 1,532,603  | 1,488,545  |
| Borrowings                                                    | 143,865                  | 214,063   | 312,736    | 208,729    | 225,066    |
| Shareholders' equity                                          | 266,224                  | 267,807   | 203,207    | 198,726    | 185,385    |
| <b>Per Common Share Data</b>                                  |                          |           |            |            |            |
| Average shares outstanding (in thousands)                     | 16,645                   | 14,347    | 12,873     | 12,885     | 12,960     |
| Earnings per share - basic                                    | \$ 0.95                  | \$ 0.75   | \$ 1.60    | \$ 1.98    | \$ 1.96    |
| Earnings per share - diluted                                  | 0.95                     | 0.75      | 1.60       | 1.98       | 1.95       |
| Dividends declared per share                                  | 0.80                     | 0.80      | 0.80       | 0.80       | 0.78       |
| Book value (at year-end)                                      | 15.99                    | 16.27     | 15.71      | 15.49      | 14.25      |
| Dividend payout ratio                                         | 84.32%                   | 109.33%   | 50.03%     | 40.40%     | 40.00%     |
| <b>Profitability Ratios</b>                                   |                          |           |            |            |            |
| Return on average assets                                      | 0.75%                    | 0.52%     | 1.02%      | 1.32%      | 1.38%      |
| Return on average equity                                      | 5.82                     | 4.68      | 10.09      | 13.44      | 14.04      |
| Average equity to average assets                              | 12.92                    | 11.06     | 10.08      | 9.84       | 9.81       |
| <b>Asset Quality Ratios</b>                                   |                          |           |            |            |            |
| Nonperforming loans and leases to total loans and leases      | 3.16%                    | 2.65%     | 0.45%      | 0.65%      | 0.68%      |

|                                                                        |              |       |        |        |        |
|------------------------------------------------------------------------|--------------|-------|--------|--------|--------|
| Net charge-offs to average loans and leases outstanding                | <b>1.07</b>  | 0.63  | 0.62   | 0.17   | 0.17   |
| Allowance for loan and leases losses to total loans and leases         | <b>2.10</b>  | 1.74  | 0.90   | 0.97   | 0.98   |
| Allowance for loan and leases losses to nonperforming loans and leases | <b>66.48</b> | 65.54 | 200.15 | 148.79 | 144.33 |

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

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

#### ***Critical Accounting Policies***

Management, in order to prepare the Corporation's financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that affect the amounts reported in the Corporation's financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the fair value measurement of investment securities available for sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies.

The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment in the statement of operations and statement of financial condition for market value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management's intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that either statement of financial position or statement of operations adjustments may be required. Management evaluates debt securities, which comprise of U. S. Government, Government Sponsored Agencies, municipalities and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are highly rated as investment grade and Management believes that it will not incur any losses. The unrealized losses on the Corporation's investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that certain equity securities will not regain market value equivalent 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.

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



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Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. Goodwill and other intangible assets are reviewed for potential impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation employs general industry practices in evaluating the fair value of its goodwill and other intangible assets. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units, which are generally the Bank, Univest Investments and Univest Insurance. After this allocation is completed, a two-step valuation process is applied. For the Bank, in Step 1, fair value is determined based on a market approach, which measures fair value based on trading multiples of independent publicly traded entities of comparable sizes. A second fair value analysis is performed using the income approach. The Corporation utilizes 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. If the fair value of the Bank exceeds its adjusted book value, no write-down of goodwill is necessary. If the fair value of any reporting unit is less than its adjusted book value, a Step 2 valuation procedure is required to assess the proper carrying value of the goodwill. The valuation procedures applied in a Step 2 valuation 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 current market value does not exceed the net book value, impairment exists which requires an impairment charge to noninterest expense.

In its analysis of goodwill for Univest Insurance, Inc. and Univest Investments, Inc., the Corporation utilizes 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. A second fair value analysis is performed using the market approach which measures fair value based on trading multiples of independent publicly traded entities of comparable sizes. The fair value that is calculated is compared to the net book value of each company. If the fair value exceeds the net book value, no impairment exists. If the fair value of any reporting unit is less than its adjusted book value, a Step 2 valuation procedure is required to assess the proper carrying value of the goodwill. The valuation procedures applied in a Step 2 valuation 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 current market value does not exceed the net book value, impairment exists which requires an impairment charge to noninterest expense.

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

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

The Corporation recognizes deferred tax assets and liabilities for the future effects of temporary differences, net operating loss carryforwards, and tax credits. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the statement of operations in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in

management's judgment it is more likely than not that some portion of the asset will not be realized. Management may need to modify their judgments in this regard from one period to another should a material change occur in the business environment, tax legislation, or in any other business factor that could impair the Corporation's ability to benefit from the asset in the future.

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

***Executive Overview***

Univest Corporation of Pennsylvania (the Corporation) earns its revenues primarily through its subsidiaries, from the margins and fees it generates from the loan and lease and depository services it provides as well as from trust fees and insurance and investment commissions. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. Growth is pursued through expansion of current customer relationships and development of additional relationships with new offices and strategically related acquisitions. The Corporation has also taken steps in recent years to reduce its dependence on net interest income by intensifying its focus on fee based income from trust, insurance, 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 has shifted to a more asset sensitive position; although interest rates are expected to remain low for the foreseeable future, it anticipates increasing interest rates over the longer term, which it expects would benefit its net interest margin. The Corporation seeks to maintain a steady net interest margin and consistent growth of net interest income.

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

| Dollars in thousands, (except per share data) | For the Years Ended December 31, |           |           |
|-----------------------------------------------|----------------------------------|-----------|-----------|
|                                               | 2010                             | 2009      | 2008      |
| Net income                                    | \$ 15,756                        | \$ 10,780 | \$ 20,590 |
| Net income per share:                         |                                  |           |           |
| Basic                                         | 0.95                             | 0.75      | 1.60      |
| Diluted                                       | 0.95                             | 0.75      | 1.60      |
| Return on average assets                      | 0.75%                            | 0.52%     | 1.02%     |
| Return on average equity                      | 5.82%                            | 4.68%     | 10.09%    |

The higher return on average assets during 2010 compared to 2009 was mostly attributable to a higher level of net income. The higher return on average equity during 2010 compared to 2009 was mainly attributable to a higher level

of net income which was partially offset by the issuance of common stock totaling \$55.7 million in August 2009. The lower return on average assets during 2009 compared to 2008 was mostly due to the lower net income during 2009. The lower return on average equity during 2009 compared to 2008 was mainly attributable to the lower level of net income during 2009 and the issuance of common stock totaling \$55.7 million in August 2009.

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### ***2010 versus 2009***

The 2010 results compared to 2009 include the following significant pretax components:

Net interest income and the net interest margin increased during 2010 mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation has continued to experience core deposit growth which has allowed the Corporation to not replace or renew its maturing FHLB advances. The net interest margin on a tax-equivalent basis increased 32 basis points to 4.11% from 3.79%.

The provision for loan and lease losses increased by \$679 thousand primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors.

Total non-interest income increased \$4.5 million, or 15.0% primarily due to increased income from trust fees, investment advisory commissions and fees, insurance commissions and fees, other service fee income, a higher net gain of mortgage banking activities and a litigation settlement. Additionally, 2009 was impacted by other-than-temporary impairments of \$1.7 million on equity securities and \$500 thousand on other long-lived assets compared to \$62 thousand of other-than-temporary impairments recorded during 2010.

These favorable variances were partially offset by a decline in service charges on deposit accounts in part due to Regulation E which was implemented in the third quarter of 2010 (requires customers to opt-in for overdraft protection on debit card and point of sale transactions), a reduction in the net gain on sales of securities and a net loss on the interest rate swap of \$1.1 million during 2010 compared to a net gain of \$641 thousand during 2009.

Total non-interest expense increased \$2.0 million, or 3.1%. Salaries and benefits increased \$612 thousand for the year ended December 31, 2010 as compared to the same period in the prior year mainly due to additional personnel to grow the commercial lending and mortgage banking businesses, higher restricted stock expense and increased incentive awards partially offset by reduced pension plan expenses. Equipment expense increased \$373 thousand primarily as a result of increased computer software contract expenses. Marketing and advertising expenses increased \$478 thousand mainly to support a major brand campaign to position the Corporation to take advantage of the disruption in its markets. Other expenses increased \$875 thousand primarily due to increased director fees resulting mainly from fair value adjustments on directors deferred fees, increased legal fees resulting from non-performing loan activity, increased audit expenses and increased interchange expenses.

### ***2009 versus 2008***

The 2009 results compared to 2008 include the following significant pretax components:

Net interest income increased due to volume increases on average interest-earning assets and decreases in rates on interest-bearing liabilities. This growth was partially offset by volume increases on interest-bearing liabilities along with decreases in rate on interest-earning assets. The net interest margin on a tax-equivalent basis increased slightly to 3.79% from 3.75%.

The provision for loan and lease losses increased by \$12.1 million primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors.

Total noninterest income increased by \$3.3 million or 12.4% due primarily to increased mortgage-banking activities, increased investment advisory commission and fee income and insurance commission and fee income resulting from the Trollinger and Liberty acquisitions, a higher net gain on sales of securities and a net gain on the interest rate swap. These increases were partially offset by decreases in bank owned life insurance income, trust fees and increases in other than temporary impairments on equity securities and other long-lived assets.

Total noninterest expense increased \$8.1 million or 14.2% primarily due to increases in salaries and benefits expense resulting from growing the mortgage-banking business and the Trollinger and Liberty acquisitions, and higher deposit insurance premiums.



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### ***Acquisitions***

On December 29, 2008, the Corporation completed the acquisition of Liberty Benefits, Inc., a full service employee benefits brokerage and consulting firm specializing in providing comprehensive employee benefits packages to businesses both large and small. The Corporation recorded \$2.8 million in goodwill and \$740 thousand in customer related intangibles as a result of the Liberty Benefits, Inc. acquisition. On December 31, 2008, the Corporation completed the acquisition of the Trollinger Consulting Group and related entities, an independent actuarial, administrative, consulting/compliance, and investment counseling firm that exclusively serves Municipal Pension Plan clients. The Corporation recorded \$2.9 million in goodwill and \$3.0 million in customer related intangibles as a result of the Trollinger Consulting Group acquisition. The Corporation recorded additional goodwill of \$925 thousand at December 31, 2010 for an earn-out payment related to the acquisition of Trollinger Consulting Group for meeting minimum operating results. The Corporation recorded additional goodwill of \$157 thousand in 2009 related to its 2008 acquisition of Trollinger Consulting Group.

### ***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 years ended December 31, 2010 compared to 2009 and for the years ended December 31, 2009 compared to 2008. 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.

**Table of Contents****Table 1 Average Balances and Interest Rates Tax-Equivalent Basis**

| (Dollars in thousands)                                              | For the Years Ended December 31, |                                |       |                    |                    |                 |                    |                    |                 |
|---------------------------------------------------------------------|----------------------------------|--------------------------------|-------|--------------------|--------------------|-----------------|--------------------|--------------------|-----------------|
|                                                                     | 2010                             |                                |       | 2009               |                    |                 | 2008               |                    |                 |
|                                                                     | Average<br>Balance               | Income/Average<br>Expense Rate |       | Average<br>Balance | Income/<br>Expense | Average<br>Rate | Average<br>Balance | Income/<br>Expense | Average<br>Rate |
| <b>Assets:</b>                                                      |                                  |                                |       |                    |                    |                 |                    |                    |                 |
| Interest-earning deposits with other banks                          | \$ 24,790                        | \$ 72                          | 0.29% | \$ 5,645           | \$ 16              | 0.28%           | \$ 1,040           | \$ 16              | 1.54%           |
| U.S. Government obligations                                         | 151,725                          | 3,160                          | 2.08  | 110,781            | 3,608              | 3.26            | 99,547             | 4,617              | 4.64            |
| Obligations of states and political subdivisions                    | 108,694                          | 7,006                          | 6.45  | 104,481            | 6,890              | 6.59            | 94,549             | 6,305              | 6.67            |
| Other debt and equity securities                                    | 172,763                          | 7,217                          | 4.18  | 218,660            | 10,406             | 4.76            | 232,715            | 12,145             | 5.22            |
| Federal funds sold                                                  |                                  |                                |       | 58                 |                    |                 | 14,714             | 394                | 2.68            |
| Total interest-earning deposits, investments and federal funds sold | 457,972                          | 17,455                         | 3.81  | 439,625            | 20,920             | 4.76            | 442,565            | 23,477             | 5.30            |
| Commercial, financial and agricultural loans                        | 422,401                          | 20,315                         | 4.81  | 410,729            | 18,838             | 4.59            | 385,652            | 23,849             | 6.18            |
| Real estate commercial and construction loans                       | 534,573                          | 30,834                         | 5.77  | 521,029            | 30,549             | 5.86            | 481,016            | 31,741             | 6.60            |
| Real estate residential loans                                       | 256,427                          | 11,124                         | 4.34  | 291,229            | 13,520             | 4.64            | 309,307            | 16,019             | 5.18            |
| Loans to individuals                                                | 45,287                           | 2,698                          | 5.96  | 49,930             | 3,440              | 6.89            | 62,813             | 4,422              | 7.04            |
| Municipal loans and leases                                          | 107,524                          | 6,409                          | 5.96  | 90,065             | 5,444              | 6.04            | 82,563             | 5,209              | 6.31            |
| Lease financings                                                    | 75,873                           | 6,690                          | 8.82  | 90,192             | 7,655              | 8.49            | 80,620             | 6,843              | 8.49            |
| Gross loans and leases                                              | 1,442,085                        | 78,070                         | 5.41  | 1,453,174          | 79,446             | 5.47            | 1,401,971          | 88,083             | 6.28            |
| Total interest-earning assets                                       | 1,900,057                        | 95,525                         | 5.03  | 1,892,799          | 100,366            | 5.30            | 1,844,536          | 111,560            | 6.05            |
| Cash and due from banks                                             | 35,612                           |                                |       | 33,514             |                    |                 | 35,507             |                    |                 |
| Reserve for loan and lease losses                                   | (28,688)                         |                                |       | (18,200)           |                    |                 | (13,843)           |                    |                 |
| Premises and equipment, net                                         | 34,914                           |                                |       | 33,170             |                    |                 | 31,475             |                    |                 |
| Other assets                                                        | 151,527                          |                                |       | 142,164            |                    |                 | 127,385            |                    |                 |
| Total assets                                                        | \$ 2,093,422                     |                                |       | \$ 2,083,447       |                    |                 | \$ 2,025,060       |                    |                 |

**Liabilities:**

|                                                |              |        |      |              |        |      |              |        |      |
|------------------------------------------------|--------------|--------|------|--------------|--------|------|--------------|--------|------|
| Interest-bearing checking deposits             | \$ 178,679   | 242    | 0.14 | \$ 162,615   | 257    | 0.16 | \$ 144,415   | 463    | 0.32 |
| Money market savings                           | 303,012      | 1,060  | 0.35 | 305,113      | 1,724  | 0.57 | 409,586      | 8,861  | 2.16 |
| Regular savings                                | 445,721      | 2,555  | 0.57 | 353,748      | 2,955  | 0.84 | 276,908      | 4,348  | 1.57 |
| Time deposits                                  | 432,919      | 10,054 | 2.32 | 508,337      | 17,371 | 3.42 | 483,872      | 20,894 | 4.32 |
| Total time and interest-bearing deposits       | 1,360,331    | 13,911 | 1.02 | 1,329,813    | 22,307 | 1.68 | 1,314,781    | 34,566 | 2.63 |
| Securities sold under agreements to repurchase | 97,667       | 390    | 0.40 | 91,390       | 544    | 0.60 | 84,254       | 943    | 1.12 |
| Other short-term borrowings                    | 42,109       | 1,726  | 4.10 | 92,209       | 2,937  | 3.19 | 40,889       | 801    | 1.96 |
| Long-term debt                                 | 5,363        | 190    | 3.54 | 48,979       | 1,640  | 3.35 | 100,527      | 4,266  | 4.24 |
| Subordinated notes and capital securities      | 24,927       | 1,252  | 5.02 | 26,427       | 1,295  | 4.90 | 27,950       | 1,734  | 6.20 |
| Total borrowings                               | 170,066      | 3,558  | 2.09 | 259,005      | 6,416  | 2.48 | 253,620      | 7,744  | 3.05 |
| Total interest-bearing liabilities             | 1,530,397    | 17,469 | 1.14 | 1,588,818    | 28,723 | 1.81 | 1,568,401    | 42,310 | 2.70 |
| Demand deposits, non-interest bearing          | 259,303      |        |      | 224,417      |        |      | 223,353      |        |      |
| Accrued expenses and other liabilities         | 33,232       |        |      | 39,817       |        |      | 29,211       |        |      |
| Total liabilities                              | 1,822,932    |        |      | 1,853,052    |        |      | 1,820,965    |        |      |
| <b>Shareholders' Equity:</b>                   |              |        |      |              |        |      |              |        |      |
| Common stock                                   | 91,332       |        |      | 80,969       |        |      | 74,370       |        |      |
| Additional paid-in capital                     | 61,420       |        |      | 37,844       |        |      | 22,643       |        |      |
| Retained earnings and other equity             | 117,738      |        |      | 111,582      |        |      | 107,082      |        |      |
| Total shareholders equity                      | 270,490      |        |      | 230,395      |        |      | 204,095      |        |      |
| Total liabilities and shareholders' equity     | \$ 2,093,422 |        |      | \$ 2,083,447 |        |      | \$ 2,025,060 |        |      |
| Net interest income                            | \$ 78,056    |        |      | \$ 71,643    |        |      | \$ 69,250    |        |      |
| Net interest spread                            |              | 3.89   |      |              |        | 3.49 |              |        | 3.35 |
| Effect of net interest-free funding            |              | 0.22   |      |              |        | 0.30 |              |        | 0.40 |

sources

|                                                                                              |                 |         |         |
|----------------------------------------------------------------------------------------------|-----------------|---------|---------|
| Net interest margin                                                                          | <b>4.11 %</b>   | 3.79%   | 3.75%   |
| Ratio of average<br>interest-earning assets<br>to average<br>interest-bearing<br>liabilities | <b>124.15 %</b> | 119.13% | 117.61% |

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, 2010, 2009 and 2008 have been calculated using the Corporation's federal applicable rate of 35.0%.

**Table of Contents****Table 2 Analysis of Changes in Net Interest Income**

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest for the years ended December 31, 2010 compared to 2009 and for the years ended December 31, 2009 compared to 2008, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

| (Dollars in thousands)                                   | The Years Ended December 31,<br>2010 Versus 2009 |                |         | The Years Ended December 31,<br>2009 Versus 2008 |                |          |
|----------------------------------------------------------|--------------------------------------------------|----------------|---------|--------------------------------------------------|----------------|----------|
|                                                          | Volume<br>Change                                 | Rate<br>Change | Total   | Volume<br>Change                                 | Rate<br>Change | Total    |
| Interest income:                                         |                                                  |                |         |                                                  |                |          |
| Interest-earning deposits with other banks               | \$ 55                                            | \$ 1           | \$ 56   | \$ 13                                            | \$ (13)        | \$       |
| U.S. Government obligations                              | 1,094                                            | (1,542)        | (448)   | 365                                              | (1,374)        | (1,009)  |
| Obligations of states and political subdivisions         | 268                                              | (152)          | 116     | 661                                              | (76)           | 585      |
| Other debt and equity securities                         | (2,018)                                          | (1,171)        | (3,189) | (669)                                            | (1,070)        | (1,739)  |
| Federal funds sold                                       |                                                  |                |         | (394)                                            |                | (394)    |
| Interest on deposits, investments and federal funds sold | (601)                                            | (2,864)        | (3,465) | (24)                                             | (2,533)        | (2,557)  |
| Commercial, financial and agricultural loans and leases  | 550                                              | 927            | 1,477   | 1,121                                            | (6,132)        | (5,011)  |
| Real estate commercial and construction loans            | 769                                              | (484)          | 285     | 2,368                                            | (3,560)        | (1,192)  |
| Real estate residential loans                            | (1,555)                                          | (841)          | (2,396) | (829)                                            | (1,670)        | (2,499)  |
| Loans to individuals                                     | (303)                                            | (439)          | (742)   | (888)                                            | (94)           | (982)    |
| Municipal loans and leases                               | 1,038                                            | (73)           | 965     | 458                                              | (223)          | 235      |
| Lease financings                                         | (1,254)                                          | 289            | (965)   | 812                                              |                | 812      |
| Interest and fees on loans and leases                    | (755)                                            | (621)          | (1,376) | 3,042                                            | (11,679)       | (8,637)  |
| Total interest income                                    | (1,356)                                          | (3,485)        | (4,841) | 3,018                                            | (14,212)       | (11,194) |
| Interest expense:                                        |                                                  |                |         |                                                  |                |          |
| Interest-bearing checking deposits                       | 22                                               | (37)           | (15)    | 25                                               | (231)          | (206)    |
| Money market savings                                     | (12)                                             | (652)          | (664)   | (625)                                            | (6,512)        | (7,137)  |
| Regular savings                                          | 675                                              | (1,075)        | (400)   | 628                                              | (2,021)        | (1,393)  |
| Time deposits                                            | (2,309)                                          | (5,008)        | (7,317) | 832                                              | (4,355)        | (3,523)  |
| Interest on time and interest-bearing deposits           | (1,624)                                          | (6,772)        | (8,396) | 860                                              | (13,119)       | (12,259) |
| Securities sold under agreement to repurchase            | 36                                               | (190)          | (154)   | 39                                               | (438)          | (399)    |

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|                                           |                 |                 |                 |                 |               |                 |
|-------------------------------------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|
| Other short-term borrowings               | <b>(1,894)</b>  | <b>683</b>      | <b>(1,211)</b>  | 1,633           | 503           | 2,136           |
| Long-term debt                            | <b>(1,538)</b>  | <b>88</b>       | <b>(1,450)</b>  | (1,731)         | (895)         | (2,626)         |
| Subordinated notes and capital securities | <b>(75)</b>     | <b>32</b>       | <b>(43)</b>     | (76)            | (363)         | (439)           |
| Interest on borrowings                    | <b>(3,471)</b>  | <b>613</b>      | <b>(2,858)</b>  | (135)           | (1,193)       | (1,328)         |
| Total interest expense                    | <b>(5,095)</b>  | <b>(6,159)</b>  | <b>(11,254)</b> | 725             | (14,312)      | (13,587)        |
| Net interest income                       | <b>\$ 3,739</b> | <b>\$ 2,674</b> | <b>\$ 6,413</b> | <b>\$ 2,293</b> | <b>\$ 100</b> | <b>\$ 2,393</b> |

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, 2010, 2009 and 2008 have been calculated using the Corporation's federal applicable rate of 35.0%.

**2010 versus 2009**

Net interest income on a tax-equivalent basis for the year ended December 31, 2010 increased \$6.4 million, or 9.0% compared to 2009. The tax-equivalent net interest margin for the year ended December 31, 2010 increased 32 basis points to 4.11% from 3.79% for 2009. The increase in net interest income and the net interest margin during 2010 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation has continued to experience core deposit growth which has allowed the Corporation to not replace or renew its maturing FHLB advances reducing FHLB advances from \$92.0 million at December 31, 2009 to \$5.0 million at December 31, 2010.

**Table of Contents*****2009 versus 2008***

Net interest income on a tax-equivalent basis for the year ended December 31, 2009 increased \$2.4 million, or 3.5% compared to 2008 primarily due to increased volume in commercial real estate and construction loans, commercial business loans and lease financings, along with decreased rates on money market savings, time deposits and savings accounts. These increases were partially offset by decreased rates on commercial business loans and commercial real estate and commercial construction loans. The tax-equivalent net interest margin was 3.79% and 3.75% for the years ended December 31, 2009 and 2008, respectively. The tax-equivalent net interest spread was 3.49% for the year ended December 31, 2009 compared to 3.35% for the same period in 2008.

***Interest Income******2010 versus 2009***

Interest income on a tax-equivalent basis for the year ended December 31, 2010 decreased \$4.8 million, or 4.8% from 2009. This decrease was mainly due to a 95 basis point decrease in the average rate earned on investment securities and deposits at other banks, a 6 basis point decrease in the average rate earned on loans and an \$11.1 million decrease in average loan volume. The decline in interest income on investment securities and deposits at other banks of \$3.5 million for the year ended December 31, 2010 compared to 2009 was mostly due to the lower interest rate environment during 2010. The decline in interest and fees earned on loans and leases of \$1.4 million for the year ended December 31, 2010 compared to 2009 was primarily due to decreases in the average rates on residential real estate loans, commercial real estate and construction loans and loans to individuals as well as decreases in average volume for residential real estate loans and lease financings. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity as well as reduced lease origination volume. These unfavorable variances were partially offset by growth and higher average rates of commercial business loans as well as growth in commercial real estate and construction loans and municipal loans and leases.

***2009 versus 2008***

Interest income on a tax-equivalent basis for the year ended December 31, 2009 decreased \$11.2 million, or 10.0% from 2008. The decrease was primarily due to an 81 basis point decrease in the average rate earned on loans as well as a 54 basis point decrease in the average rate earned on investments securities, deposits at other banks and federal funds sold partially offset by a \$51.2 million increase in average loan volume. Interest income on U. S. Government obligations decreased during the year ended December 31, 2009 compared to 2008 due to a decline in average rates that was partially offset by an increase in average volume. Interest income on obligations of state and political subdivisions increased due to average volume increases that were partially offset by a decline in average rates. Interest income on other debt and equity securities decreased primarily due to average volume and rate decreases on mortgage-backed securities. Interest income decreased on federal funds sold primarily due to decreases in the average volume. The decline in interest and fees on loans and leases during the year ended December 31, 2009 compared to 2008 was due primarily to average rate decreases on commercial business loans and real estate commercial and construction loans. The rate decreases were attributable to the declines in the average prime rate, and one-month and three-month U.S. London Interbank Borrowing Rate (LIBOR). The average interest yield on the commercial business loan portfolio decreased 159 basis points for the year ended December 31, 2009 in comparison to 2008; this was partially offset by a \$25.1 million increase in volume resulting in a \$5.0 million decrease in interest income. The average interest yield on the commercial and construction real estate loan portfolios decreased 74 basis points; this was partially offset by a \$40.0 million increase in volume resulting in a \$1.2 million decline in interest income. The average volume decline on real estate residential of \$18.1 million and average interest yield declines of 54 basis points contributed to a \$2.5 million decrease in interest income.

**Table of Contents*****Interest Expense  
2010 versus 2009***

Interest expense for the year ended December 31, 2010 decreased \$11.3 million, or 39.2% from 2009. This decrease was mainly due to a 66 basis point decrease in the Corporation's average cost of deposits and an \$88.9 million decrease in average borrowings. The decrease in the Corporation's cost of deposits was largely attributable to maturities of higher yielding time deposit accounts. For the year ended December 31, 2010, interest expense on time deposits decreased \$7.3 million. For the year ended December 31, 2010, average deposits increased by \$30.5 million with increases in average regular savings of \$92.0 million and interest-bearing checking of \$16.1 million partially offset by decreases in average time deposits of \$75.4 million. The Corporation's focus on growing low cost core deposits and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts. In addition, the average balance of time deposits decreased, in part, from a reduction of brokered deposits due to the Corporation's reduced reliance on wholesale funding sources. Interest on other short-term borrowings mainly includes interest paid on federal funds purchased and short-term FHLB borrowings. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account. Interest expense on other short-term borrowings decreased \$1.2 million for the year ended December 31, 2010 compared to 2009 due to a decrease in average volume of \$50.1 million partially offset by an average rate increase of 91 basis points. Interest on long-term debt, which consists of long-term FHLB borrowings, decreased by \$1.5 million mainly due to a decline in average volume of \$43.6 million, resulting from reclasses from long-term FHLB debt to short-term borrowings as the remaining term to maturity became one year or less.

***2009 versus 2008***

Interest expense for the year ended December 31, 2009 decreased \$13.6 million, or 32.1% from 2008 primarily due to a 95 basis point decrease in the Corporation's average cost of deposits. The average rate paid on money market savings decreased 159 basis points and the average volume decreased \$104.5 million; contributing to a \$7.1 million decrease in interest expense. The decrease in money market savings was primarily due to a \$92.6 million short-term deposit received from one customer during the first six months of 2008, and migration to higher yielding savings accounts. Interest expense on regular savings decreased \$1.4 million due to an average rate decrease of 73 basis-points; partially offset by an average volume increase of \$76.8 million. Interest on time deposits decreased \$3.5 million, due to a 90 basis-point decrease in average rate, partially offset by a \$24.5 million average increase in volume.

Interest on other short-term borrowings increased \$2.1 million primarily due to volume increases of \$51.3 million. Interest on long-term debt decreased \$2.6 million due to an average volume decrease of \$51.5 million and an 89 basis-point decrease in the average rate paid. Interest expense on Subordinated Capital Notes and Trust Preferred Securities decreased \$439 thousand mainly due to pay-downs on the Subordinated Capital Notes.

***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 and leases are also reviewed for impairment based on discounted cash flows using the loans' initial effective interest rates or the fair value of the collateral for certain collateral dependent loans. Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2010, 2009 and 2008 was \$21.6 million, \$20.9 million and \$8.8 million, respectively. The increase in provision was primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors that began to manifest in June 2009.

***Noninterest Income***

Non-interest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities and loans, net gains (losses) on mortgage banking activities, net gains (losses) on interest rate swaps 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 interchange 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. Other non-interest income includes gains (losses) on investments in partnerships, gains (losses) on sales of other real estate owned, reinsurance income and other miscellaneous income.

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

| (Dollars in thousands)                                     | For the Years Ended December |             |           | \$ Change       |                 | % Change        |                 |
|------------------------------------------------------------|------------------------------|-------------|-----------|-----------------|-----------------|-----------------|-----------------|
|                                                            | 2010                         | 31,<br>2009 | 2008      | 2010 to<br>2009 | 2009 to<br>2008 | 2010 to<br>2009 | 2009 to<br>2008 |
| Trust fee income                                           | \$ 6,080                     | \$ 5,536    | \$ 6,004  | \$ 544          | \$ (468)        | 9.8%            | (7.8)%          |
| Service charges on deposit accounts                        | 6,693                        | 7,036       | 6,808     | (343)           | 228             | (4.9)           | 3.3             |
| Investment advisory commission and fee income              | 4,626                        | 3,427       | 2,374     | 1,199           | 1,053           | 35.0            | 44.4            |
| Insurance commission and fee income                        | 7,694                        | 7,081       | 5,723     | 613             | 1,358           | 8.7             | 23.7            |
| Other service fee income                                   | 5,046                        | 3,410       | 3,484     | 1,636           | (74)            | 48.0            | (2.1)           |
| Bank owned life insurance income                           | 1,270                        | 1,321       | 2,791     | (51)            | (1,470)         | (3.9)           | (52.7)          |
| Other-than-temporary impairment on equity securities       | (62)                         | (1,708)     | (1,251)   | 1,646           | (457)           | 96.4            | (36.5)          |
| Other-than-temporary impairment on other long lived assets |                              | (500)       |           | 500             | (500)           | N/M             | N/M             |
| Net gain on sales of securities                            | 432                          | 1,150       | 280       | (718)           | 870             | (62.4)          | N/M             |
| Net gain on mortgage banking activities                    | 2,960                        | 2,378       | 82        | 582             | 2,296           | 24.5            | N/M             |
| Net (loss) gain on interest rate swap                      | (1,072)                      | 641         |           | (1,713)         | 641             | N/M             | N/M             |
| Net loss on dispositions of fixed assets                   | (11)                         | (144)       | (40)      | 133             | (104)           | 92.4            | N/M             |
| Other                                                      | 762                          | 289         | 360       | 473             | (71)            | N/M             | (19.7)          |
| Total noninterest income                                   | \$ 34,418                    | \$ 29,917   | \$ 26,615 | \$ 4,501        | \$ 3,302        | 15.0            | 12.4            |

**2010 versus 2009**

Total non-interest income increased \$4.5 million, or 15.0% for the year ended December 31, 2010 compared to 2009 primarily due to increased income from trust fees, investment advisory commissions and fees, insurance commissions and fees, other service fee income, a higher net gain of mortgage banking activities and a litigation settlement. Additionally, the year ended December 31, 2009 was impacted by other-than-temporary impairments of \$1.7 million on equity securities and \$500 thousand on other long-lived assets compared to \$62 thousand of other-than-temporary impairments recorded in the year ended December 31, 2010. These favorable variances were partially offset by a decline in service charges on deposit accounts in part due to Regulation E, a reduction in the net gain on sales of securities and a net loss on the interest rate swap of \$1.1 million during 2010 compared to a net gain of \$641 thousand during the same period in the prior year.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased \$1.2 million for the year December 31, 2010 over 2009 primarily due to an increase in the market value of client assets as well as higher business volume. Insurance commission and fee income, the primary source of income

for Univest Insurance, Inc., increased by \$613 thousand during the year ended December 31, 2010 primarily attributable to increased volume. Other service fee income increased during the year ended December 31, 2010 primarily attributable to increases in Mastermoney interchange fees and mortgage servicing fee income.

Service charges on deposit accounts decreased \$343 thousand during the year ended December 31, 2010 over 2009 mainly due to decreased levels of insufficient fund charges. In November 2009, the Federal Reserve Board issued a final rule that, effective July 1, 2010, in accordance with Regulation E, prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Consumers must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. The Corporation implemented the provisions of Regulation E in the third quarter of 2010.

The Corporation realized other-than-temporary impairment charges of \$62 thousand on its equity portfolio during the year ended December 31, 2010 as compared to \$1.7 million for the same period in the prior year. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other under-water securities, at this time, as the financial performance and near-term prospects of the underlying companies are not indicative of the market deterioration of their stock. The Corporation has the positive intent and ability to hold these securities until recovery to the Corporation's cost basis occurs.

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During the year ended December 31, 2010, approximately \$14.6 million of available for sale securities were sold recognizing a net gain of \$432 thousand. During the year ended December 31, 2009, approximately \$50.8 million of securities were sold recognizing a net gain of \$1.2 million.

For the year ended December 31, 2010, the Corporation recognized a net gain on mortgage banking activities of \$3.0 million compared to a net gain of \$2.4 million for the same period in 2009. These gains consist of gains on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan commitments. The increase in the net gain was primarily due to an increase in volume.

For the year ended December 31, 2010, the Corporation recognized a loss of \$1.1 million related to fair value adjustments on an interest rate swap for a commercial real estate loan, due to the decline in interest rates during 2010. This interest rate swap was terminated during the third quarter of 2010 due to the forecasted low interest rate environment. The underlying commercial loan had a positive fair value adjustment at the termination date of \$859 thousand which is being amortized through a reduction of interest income over the life of the loan. Fair value adjustments on the interest rate swap for the year ended December 31, 2009 resulted in a net gain of \$641 thousand.

Other income increased by \$473 thousand for the year ended December 31, compared to the same period in the prior year mostly as a result of a litigation settlement during the first quarter of 2010.

### ***2009 versus 2008***

Total noninterest income increased \$3.3 million, or 12.4% during the year ended December 31, 2009 compared to 2008 primarily due to increased mortgage-banking activities, and increased investment advisory commission and fee income and insurance commission and fee income resulting from the Trollinger and Liberty acquisitions. These increases were partially offset by decreases in bank owned life insurance income, trust fees and increases in other than temporary impairments on securities and other long-lived assets.

Trust fee income decreased for the year ended December 31, 2009 over 2008 primarily due to a decrease in the market value of managed accounts. Service charges on deposit accounts increased primarily due to non-sufficient funds fees. Investment advisory commissions and fee income increased by \$1.1 million in 2009 over 2008 due to the acquisition of the Trollinger Consulting Group in December 2008. Insurance commissions and fee income increased by \$1.4 million during the year ended December 31, 2009 over the same period in 2008 primarily due to the acquisitions of Liberty Benefits, Inc. and Trollinger Consulting Group in December 2008. Bank owned life insurance income decreased by \$1.5 million during 2009 primarily due to additional income resulting from death benefit claims of \$1.9 million received in 2008 partially offset by positive changes in the cash surrender value of the underlying investments due to market conditions.

The Corporation realized impairment charges of \$1.7 million on its equity portfolio during the year ended December 31, 2009 as compared to \$1.3 million for the same period in the prior year. The Corporation determined that there was an increased severity and duration of the decline in fair values during 2009 due to a decline in the financial stability of the underlying companies. At December 31, 2009, the Corporation held certain equity investments for which it was restricted from trading and had been carried at cost. During 2009, the Corporation recorded other-than-temporary impairments on these long-lived assets of \$500 thousand. The Corporation determined that it was probable that these long-lived assets would not regain market value equivalent to the Corporation's cost basis within a reasonable period of time due to a decline in the financial stability of the underlying company.

During the year ended December 31, 2009, approximately \$50.8 million of securities were sold recognizing a net gain of \$1.2 million. During the year ended December 31, 2008, approximately \$58.9 million of securities were sold recognizing a net gain of \$280 thousand.

The net gain on mortgage banking activities increased by \$2.3 million during the year ended December 31, 2009 due to increased volume. Sales of \$142.5 million in loans held for sale during the year ended December 31, 2009 resulted in gains of \$2.2 million compared to sales of \$4.4 million with gains of \$82 thousand for the year ended December 31, 2008.

**Table of Contents*****Noninterest Expense***

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

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

|                            | <b>For the Years Ended December</b> |                     |             | <b>\$ Change</b>        |                         | <b>% Change</b>         |                         |
|----------------------------|-------------------------------------|---------------------|-------------|-------------------------|-------------------------|-------------------------|-------------------------|
| (Dollars in thousands)     | <b>2010</b>                         | <b>31,<br/>2009</b> | <b>2008</b> | <b>2010 to<br/>2009</b> | <b>2009 to<br/>2008</b> | <b>2010 to<br/>2009</b> | <b>2009 to<br/>2008</b> |
| Salaries and benefits      | <b>\$ 38,034</b>                    | \$ 37,422           | \$ 32,413   | <b>\$ 612</b>           | \$ 5,009                | <b>1.6%</b>             | 15.5%                   |
| Net occupancy              | <b>5,476</b>                        | 5,274               | 5,230       | <b>202</b>              | 44                      | <b>3.8</b>              | 0.8                     |
| Equipment                  | <b>3,811</b>                        | 3,438               | 3,247       | <b>373</b>              | 191                     | <b>10.8</b>             | 5.9                     |
| Marketing and advertising  | <b>2,318</b>                        | 1,840               | 1,499       | <b>478</b>              | 341                     | <b>26.0</b>             | 22.7                    |
| Deposit insurance premiums | <b>2,670</b>                        | 3,185               | 767         | <b>(515)</b>            | 2,418                   | <b>(16.2)</b>           | N/M                     |
| Other                      | <b>15,040</b>                       | 14,165              | 14,069      | <b>875</b>              | 96                      | <b>6.2</b>              | 0.7                     |
| Total noninterest expense  | <b>\$ 67,349</b>                    | \$ 65,324           | \$ 57,225   | <b>\$ 2,025</b>         | \$ 8,099                | <b>3.1</b>              | 14.2                    |

***2010 versus 2009***

Total non-interest expense increased \$2.0 million, or 3.1% for the year ended December 31, 2010 compared to 2009. Salaries and benefits increased \$612 thousand for the year ended December 31, 2010 as compared to the same period in the prior year mainly due to additional personnel to grow the commercial lending and mortgage banking businesses, higher restricted stock expense and increased incentive awards partially offset by reduced pension plan expenses and higher deferred loan origination costs. The reduction in pension plan expenses was primarily a result of the Corporation's conversion to a cash balance plan effective December 31, 2009 as well as a change in the valuation of the Corporation non-qualified pension plans associated with projecting future changes in the Consumer Price Index. The Corporation implemented higher deferred loan origination costs commencing during the fourth quarter of 2010 based upon an in-depth study performed which incorporated management's additional review time spent on loan credits as a result of increased scrutiny of loan credits. Additionally, as more loan approvals are currently being approved at the Committee level as opposed to individual relationship managers, as the Corporation proactively manages its credit risk given the current economic environment, a higher level of costs are being incurred in connection with the loan approval process and as a result a higher level of costs are being deferred. Equipment expense increased \$373 thousand primarily as a result of increased computer software contract expenses. Marketing and advertising expenses increased \$478 thousand mainly to support a major brand campaign to position the Corporation to take advantage of the disruption in its markets. Deposit insurance premiums decreased \$515 thousand primarily due to the FDIC special assessment which affected all banks and resulted in an additional charge of \$947 thousand to the Corporation in the second quarter of 2009 partially offset by higher deposit insurance premiums in 2010 due to the growth in deposits. Other expenses increased \$875 thousand primarily due to increased director fees resulting mainly from fair value adjustments on directors' deferred fees, increased legal fees resulting from non-performing loan activity, increased audit expenses and increased interchange expenses.

***2009 versus 2008***

Total non-interest expense increased \$8.1 million, or 14.2% during the year ended December 31, 2009 compared to 2008. Salaries and benefits increased \$5.0 million primarily due to salary and benefit expenses associated with the acquisitions of Liberty Benefits, Inc. and the Trollinger Consulting Group in December 2008, additional personnel to grow the mortgage banking business, normal base pay increases and pension plan expense of \$1.2 million. Net occupancy costs and equipment expense increased due to expansion of the Corporation's mortgage banking business,

the acquisition of Liberty and Trollinger, and new equipment purchases and upgrades. Marketing and advertising expenses increased mainly due to increased brand advertising. Deposit insurance premiums increased \$2.4 million due to a special assessment of five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of June 30, 2009, which equated to \$947 thousand, credits that were utilized by the Corporation in 2008 and a 7 basis point increase in rates. Other expenses increased primarily due to an increase in the amortization of customer-related intangibles of \$759 thousand as a result of the acquisitions stated above, partially offset by expenses associated with a claim under a rent-a-captive arrangement of \$349 thousand and fee expense of \$257 thousand associated with student loans, both recognized in the 2008 period and which were not recurring in nature.

**Table of Contents*****Tax Provision***

The provision for income taxes was \$3.3 million, \$563 thousand and \$5.8 million for the years ended December 31, 2010, 2009 and 2008, respectively at effective rates of 17.2%, 5.0% and 21.9%, respectively. The effective tax rates reflect tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. Additionally 2009 and 2008 reflect the benefits of tax credits generated from investments in low-income housing projects. The increase in the effective tax rate between the years of 2010 and 2009 was primarily due to a larger percentage of tax-exempt income to pre-tax income in 2009. The decrease in the effective tax rate between the years of 2009 and 2008 was primarily due to a larger percentage of tax-exempt income to pre-tax income in 2009.

***Financial Condition***

During 2010, total assets increased primarily due to growth in investment securities and loans and leases partially offset by a reduction in cash and other short-term interest-earning deposits. Detailed explanations of these fluctuations are discussed below.

***ASSETS***

The following table presents assets as of the dates indicated:

| (Dollars in thousands)              | 2010         | At December 31, |             |          |
|-------------------------------------|--------------|-----------------|-------------|----------|
|                                     |              | 2009            | \$ Change   | % Change |
| Cash and interest-earning deposits  | \$ 29,187    | \$ 68,597       | \$ (39,410) | (57.5)%  |
| Investment securities               | 467,024      | 420,045         | 46,979      | 11.2     |
| Loans held for sale                 | 4,178        | 1,693           | 2,485       | N/M      |
| Total loans and leases              | 1,471,186    | 1,425,980       | 45,206      | 3.2      |
| Reserve for loan and lease losses   | (30,898)     | (24,798)        | (6,100)     | (24.6)   |
| Premises and equipment, net         | 34,605       | 34,201          | 404         | 1.2      |
| Goodwill and other intangibles, net | 56,797       | 55,970          | 827         | 1.5      |
| Bank owned life insurance           | 48,010       | 46,740          | 1,270       | 2.7      |
| Accrued interest and other assets   | 53,804       | 56,993          | (3,189)     | (5.6)    |
| Total assets                        | \$ 2,133,893 | \$ 2,085,421    | \$ 48,472   | 2.3      |

***Cash and Interest-earning Deposits***

Cash and interest-earning deposits decreased as of December 31, 2010 as compared to December 31, 2009 primarily due to a decrease in cash maintained at the Federal Reserve Bank which was utilized to purchase investment securities held for sale.

***Investment Securities***

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

**Table of Contents****Table 3 Investment Securities**

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

| (Dollars in thousands)                    | At December 31,   |            |            |
|-------------------------------------------|-------------------|------------|------------|
|                                           | 2010              | 2009       | 2008       |
| U.S. treasury                             | \$                | \$         | \$ 5,862   |
| U.S. government corporations and agencies | <b>188,100</b>    | 119,992    | 98,844     |
| State and political subdivisions          | <b>108,048</b>    | 107,566    | 100,350    |
| Residential mortgage-backed securities    | <b>85,116</b>     | 101,376    | 131,261    |
| Commercial mortgage obligations           | <b>73,091</b>     | 79,454     | 80,205     |
| Asset-backed securities                   |                   | 573        | 1,211      |
| Other securities                          | <b>9,684</b>      | 9,160      | 11,625     |
| Equity securities                         | <b>2,985</b>      | 1,924      | 2,908      |
| Total investment securities               | <b>\$ 467,024</b> | \$ 420,045 | \$ 432,266 |

**Table 4 Investment Securities (Yields)**

The following table shows the maturity distribution and weighted average yields of the investment securities as of 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; hence the stated yield may not be recognized in future periods. Equity securities have no stated maturity and the current dividend yields may not be recognized in future periods. The weighted average yield is calculated by dividing income, which has not been tax equated on tax-exempt obligations, within each contractual maturity range by the outstanding amount of the related investment. Held-to-maturity and available-for-sale portfolios are combined.

| (Dollars in thousands)    | 2010              |              | At December 31, |       | 2008       |       |
|---------------------------|-------------------|--------------|-----------------|-------|------------|-------|
|                           | Amount            | Yield        | Amount          | Yield | Amount     | Yield |
| 1 Year or less            | <b>\$ 12,205</b>  | <b>1.58%</b> | \$ 14,495       | 1.91% | \$ 10,626  | 0.67% |
| After 1 Year to 5 Years   | <b>195,127</b>    | <b>1.89</b>  | 125,349         | 3.01  | 113,380    | 4.43  |
| After 5 Years to 10 Years | <b>38,812</b>     | <b>4.12</b>  | 54,795          | 4.48  | 37,888     | 4.80  |
| After 10 Years            | <b>217,895</b>    | <b>4.10</b>  | 223,482         | 4.48  | 267,464    | 5.07  |
| No stated maturity        | <b>2,985</b>      | <b>1.39</b>  | 1,924           | 2.42  | 2,908      | 4.76  |
| Total                     | <b>\$ 467,024</b> | <b>3.10</b>  | \$ 420,045      | 3.94  | \$ 432,266 | 4.77  |

**Loans and Leases**

Total gross loans and leases increased at December 31, 2010 as compared to December 31, 2009 primarily due to increases of \$16.0 million in commercial, financial and agricultural loans, \$28.9 million in commercial real estate and \$27.9 million in construction loans. These increases were partially offset by a decrease of \$21.4 million in residential real estate loans. Loans to individuals decreased by \$2.7 million and lease financings, net of unearned income, decreased \$3.5 million.

At December 31, 2010 there were no concentrations of loans or leases exceeding 10% of total loans and leases other than as disclosed in Table 5.



**Table of Contents****Table 5 Loan and Lease Portfolio**

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

| (Dollars in thousands)                 | At December 31, |              |              |              |              |
|----------------------------------------|-----------------|--------------|--------------|--------------|--------------|
|                                        | 2010            | 2009         | 2008         | 2007         | 2006         |
| Commercial, financial and agricultural | \$ 463,518      | \$ 447,495   | \$ 424,649   | \$ 381,826   | \$ 442,182   |
| Real estate commercial                 | 516,546         | 487,688      | 399,003      | 393,686      | 352,596      |
| Real estate construction               | 119,769         | 91,891       | 153,506      | 134,448      | 136,331      |
| Real estate residential                | 245,210         | 266,622      | 316,039      | 310,571      | 305,306      |
| Loans to individuals                   | 44,087          | 46,761       | 54,212       | 72,476       | 89,217       |
| Lease financings                       | 92,617          | 95,678       | 110,095      | 68,100       | 30,186       |
| Total gross loans and leases           | 1,481,747       | 1,436,135    | 1,457,504    | 1,361,107    | 1,355,818    |
| Less: Unearned income                  | (10,561)        | (10,155)     | (7,612)      | (5,665)      | (2,137)      |
| Total loans and leases                 | \$ 1,471,186    | \$ 1,425,980 | \$ 1,449,892 | \$ 1,355,442 | \$ 1,353,681 |

**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, 2010:

| (Dollars in thousands)                                    | Total        | Due in One   | Due after One      | Due after  |
|-----------------------------------------------------------|--------------|--------------|--------------------|------------|
|                                                           |              | Year or Less | Year to Five Years |            |
| Commercial, financial and agricultural                    | \$ 463,518   | \$ 319,619   | \$ 123,947         | \$ 19,952  |
| Real estate commercial                                    | 516,546      | 202,080      | 285,678            | 28,788     |
| Real estate construction                                  | 119,769      | 83,798       | 30,757             | 5,214      |
| Real estate residential                                   | 245,210      | 97,044       | 46,036             | 102,130    |
| Loans to individuals                                      | 44,087       | 14,665       | 10,084             | 19,338     |
| Leases financings                                         | 82,056       | 36,235       | 45,773             | 48         |
| Total gross loans and leases                              | \$ 1,471,186 | \$ 753,441   | \$ 542,275         | \$ 175,470 |
| Loans and leases with fixed predetermined interest rates  | \$ 736,573   | \$ 168,643   | \$ 416,187         | \$ 151,743 |
| Loans and leases with variable or floating interest rates | 734,613      | 584,798      | 126,088            | 23,727     |
| Total gross loans and leases                              | \$ 1,471,186 | \$ 753,441   | \$ 542,275         | \$ 175,470 |

The commercial mortgages and Industrial Development Authority mortgages that are presently being written at both fixed and floating rates of interest primarily include loans written for three or five-year terms with a monthly payment based on a fifteen-year amortization schedule. At each three-year or five-year anniversary date of the mortgages, the interest rate is renegotiated and the term of the loan is extended for an additional three or five years. At each three-year or five-year anniversary date of the mortgages, the Bank also has the right to require payment in full. These

are included in the Due in One to Five Years category in the table above.

***Asset Quality***

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

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

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

Total cash basis, troubled debt restructured and nonaccrual loans and leases totaled \$45.8 million at December 31, 2010, \$37.1 million at December 31, 2009, and \$5.4 million at December 31, 2008; the balance at December 31, 2010 and 2009 primarily consisted of commercial real estate, construction and commercial, financial and agricultural loans. For the years ended December 31, 2010, 2009, and 2008, nonaccrual loans and leases resulted in lost interest income of \$2.1 million, \$969 thousand, and \$685 thousand, respectively. The Corporation's ratio of nonperforming assets to total loans and leases and other real estate owned was 3.32% as of December 31, 2010, 2.89% as of December 31, 2009, and 0.48% as of December 31, 2008. The ratio of nonperforming assets to total assets was 2.29% at December 31, 2010, 1.98% at December 31, 2009, and 0.33% at December 31, 2008.

At December 31, 2010, the recorded investment in loans and leases that are considered to be impaired was \$45.8 million, all of which were on a nonaccrual basis or troubled debt restructured. The related reserve for loan and lease losses for those loans was \$1.6 million. At December 31, 2009, the recorded investment in loans and leases that were considered to be impaired was \$37.1 million, all of which were on a nonaccrual basis or troubled debt restructured. The related reserve for loan and lease losses for those loans was \$1.4 million. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management's judgments about the ultimate outcome of these credits. Impaired loans and leases increased \$8.7 million during 2010 mainly consisting of increases in commercial real estate of \$12.8 million, commercial, financial and agricultural of \$4.3 million partially offset by a decrease in construction loans of \$8.0 million. The increase in impaired loans was primarily due to the migration of five relationships to non-accrual status during the third and fourth quarters of 2010. These relationships were not concentrated in any one industry and consisted of hotel/office space; investment commercial real estate; a construction company; and a manufacturing company. The related specific reserve for these credits was \$460 thousand at December 31, 2010 to cover deficiencies in the underlying real estate value under current market conditions. The decrease in impaired construction loans during 2010 was largely due to a payoff of a \$6.7 million construction loan during the second quarter of 2010. Impaired loans at December 31, 2009 included two large commercial/construction real estate credits which went on non-accrual during the third quarter of 2009. One credit was a Shared National Credit to a continuing care retirement community in which the Corporation participated. The parent company of the community came under financial difficulty and as a result, the parent company and all communities declared bankruptcy. This credit was paid off in the second quarter of 2010 as discussed previously. The second credit is for four separate facilities to a local commercial real estate developer/home builder which aggregated to \$14.6 million at December 31, 2010. There is a specific allowance on this credit of \$177 thousand at December 31, 2010 to cover deficiencies in the underlying real estate value under current market conditions. The borrower does not have the resources to develop these properties themselves; therefore, the properties must be sold. The Corporation will continue to closely monitor this credit relationship and may have to provide additional reserve in future quarters related to this credit.

During 2009, the Corporation acquired five other real estate owned properties, four of which were sold during 2010. Two other real estate owned properties were acquired in 2010, one of which was sold during the fourth quarter of 2010. At December 31, 2010, the Corporation owned two other real estate owned properties which were commercial properties. One of the commercial properties was written down by \$359 thousand during the first quarter of 2010. The other real estate owned balance was \$2.4 million and \$3.4 million at December 31, 2010 and 2009, respectively.

**Table of Contents****Table 7 Nonaccrual, Past Due and Troubled Debt Restructured Loans and Leases, and Other Real Estate Owned**

The following table details the aggregate principal balance of loans and leases classified as nonaccrual, past due and troubled debt restructured as of the dates indicated:

| (Dollars in thousands)                                          | At December 31, |           |          |          |          |
|-----------------------------------------------------------------|-----------------|-----------|----------|----------|----------|
|                                                                 | 2010            | 2009      | 2008     | 2007     | 2006     |
| Nonaccruing loans and leases:                                   |                 |           |          |          |          |
| Commercial, financial and agricultural                          | \$ 7,627        | \$ 3,275  | \$ 520   | \$ 3,473 | \$ 4,480 |
| Real estate commercial                                          | 28,183          | 14,005    | 1,758    | 1,036    | 1,794    |
| Real estate construction                                        | 6,874           | 14,872    | 1,640    | 2,308    | 2,169    |
| Real estate residential                                         | 1,625           | 572       | 813      |          |          |
| Loans to individuals                                            | 21              |           |          |          |          |
| Leases financings                                               | 902             | 774       | 298      | 61       |          |
| Total nonaccruing loans and leases                              | 45,232          | 33,498    | 5,029    | 6,878    | 8,443    |
| Troubled debt restructured loans and leases, not included above | 550             | 3,611     | 380      |          |          |
| Total impaired loans and leases                                 | \$ 45,782       | \$ 37,109 | \$ 5,409 | \$ 6,878 | \$ 8,443 |
| Accruing loans and leases 90 days or more past due:             |                 |           |          |          |          |
| Commercial, financial and agricultural                          | \$              | \$ 134    | \$ 315   | \$ 1,147 | \$ 48    |
| Real estate commercial                                          |                 |           | 299      | 243      |          |
| Real estate residential                                         | 314             | 273       | 175      | 401      | 227      |
| Loans to individuals                                            | 382             | 319       | 356      | 126      | 485      |
| Total accruing loans and leases, 90 days or more past due       | \$ 696          | \$ 726    | \$ 1,145 | \$ 1,917 | \$ 760   |
| Total non-performing loans and leases                           | \$ 46,478       | \$ 37,835 | \$ 6,554 | \$ 8,795 | \$ 9,203 |
| Other real estate owned                                         | \$ 2,438        | \$ 3,428  | \$ 346   | \$       | \$       |
| Total non-performing assets                                     | \$ 48,916       | \$ 41,263 | \$ 6,900 | \$ 8,795 | \$ 9,203 |

***Reserve for Loan and Lease Losses***

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

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current

economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Nonaccrual loans and leases, and those which are troubled debt restructured, are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience, loss factors are determined giving consideration to the areas noted in the first paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve. Loans are also reviewed for impairment based on discounted cash flows using the loans' initial effective interest rate or the fair value of the collateral for certain collateral-dependent loans. Management also reviews the activity within the reserve to determine what actions, if any, should be taken to address differences between estimated and actual losses. Any of the above factors may cause the provision to fluctuate.

Wholesale leasing portfolios are purchased by the Bank's subsidiary, Univest Capital. Credit losses on these purchased portfolios are largely the responsibility of the seller up to pre-set dollar amounts initially equal to 10 to 20 percent of the portfolio purchase amount. The dollar amount of recourse for purchased portfolios is inclusive of cash holdbacks and purchase discounts. Purchased wholesale leasing portfolios outstanding equaled \$9.4 million at December 31, 2010.

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

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

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

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

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

**Table 8 Allocated, Other Loan and Lease Loss Reserves**

The reserve for loan and lease losses is made up of the allocated reserve and the unallocated portion. The following table summarizes the two categories as of the dates indicated:

| (Dollars in thousands) | At December 31, |           |           |
|------------------------|-----------------|-----------|-----------|
|                        | 2010            | 2009      | 2008      |
| Allocated              | \$ 29,479       | \$ 23,744 | \$ 12,387 |
| Unallocated            | 1,419           | 1,054     | 731       |
| Total                  | \$ 30,898       | \$ 24,798 | \$ 13,118 |

Allocated reserves at December 31, 2010 increased by \$5.7 million compared to December 31, 2009 primarily due to an increase in the historical loss factor related to non-criticized commercial real estate/construction loans partially offset by a decrease in the allocated reserves for commercial, financial and agricultural loans resulting from a decrease in the level of criticized loans and a decrease in the adjusted historical loss factor related to criticized loans. Allocated reserves at December 31, 2009 increased by \$11.4 million compared to December 31, 2008 mainly due to the migration of commercial, financial, agricultural loans and commercial real estate/construction loans to higher-risk ratings including criticized and non-performing loan categories as a result of deterioration of underlying collateral and economic factors. Unallocated reserves increased in 2010 by \$365 thousand and in 2009 by \$323 thousand primarily due to economic volatility. As a result, the allowance for loan and lease losses as a percentage of total loans and leases increased to 2.10% at December 31, 2010 from 1.74% at December 31, 2009 and from 0.90% at December 31, 2008. The allowance for loan and lease losses to nonperforming loans and leases equaled 66.48% at December 31, 2010, 65.54% at December 31, 2009, and 200.15% at December 31, 2008. At December 31, 2010 the specific allowance on

impaired loans was \$1.6 million, or 3.5% of the balance of impaired loans of \$45.8 million. At December 31, 2009, the specific allowance on impaired loans was \$1.4 million, or 3.8% of the impaired loan balance of \$37.1 million. At December 31, 2008 the specific allowance on impaired loans was \$36 thousand, or 0.64% of the balance of impaired loans of \$5.4 million. Management closely monitors the credit worthiness and the value of underlying collateral as a commercial credit becomes past-due. These factors along with historical and economic trends, and management's assumptions, are taken into consideration in providing the allowance for loan and lease losses. When the loan becomes impaired and is placed on non-accrual, a specific allowance is created for the impaired loan.

**Table of Contents****Table 9 Summary of Loan and Lease Loss Experience**

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

| (Dollars in thousands)                               | <b>For the Years Ended December 31,</b> |              |              |              |              |
|------------------------------------------------------|-----------------------------------------|--------------|--------------|--------------|--------------|
|                                                      | <b>2010</b>                             | <b>2009</b>  | <b>2008</b>  | <b>2007</b>  | <b>2006</b>  |
| Average amount of loans and leases outstanding       | <b>\$ 1,442,085</b>                     | \$ 1,453,174 | \$ 1,401,971 | \$ 1,367,017 | \$ 1,317,711 |
| Loan and lease loss reserve at beginning of period   | <b>\$ 24,798</b>                        | \$ 13,118    | \$ 13,086    | \$ 13,283    | \$ 13,363    |
| Charge-offs:                                         |                                         |              |              |              |              |
| Commercial, financial and agricultural loans         | <b>3,436</b>                            | 4,116        | 6,194        | 1,143        | 2,034        |
| Real estate loans                                    | <b>10,565</b>                           | 2,167        | 1,392        | 499          |              |
| Loans to individuals                                 | <b>891</b>                              | 1,470        | 1,217        | 1,272        | 959          |
| Lease financings                                     | <b>2,213</b>                            | 2,695        | 502          | 106          |              |
| Total charge-offs                                    | <b>17,105</b>                           | 10,448       | 9,305        | 3,020        | 2,993        |
| Recoveries:                                          |                                         |              |              |              |              |
| Commercial, financial and agricultural loans         | <b>129</b>                              | 332          | 134          | 225          | 171          |
| Real estate loans                                    | <b>772</b>                              | 33           | 28           | 95           | 168          |
| Loans to individuals                                 | <b>227</b>                              | 434          | 315          | 337          | 359          |
| Lease financings                                     | <b>512</b>                              | 443          | 91           |              |              |
| Total recoveries                                     | <b>1,640</b>                            | 1,242        | 568          | 657          | 698          |
| Net charge-offs                                      | <b>15,465</b>                           | 9,206        | 8,737        | 2,363        | 2,295        |
| Provisions to loan and lease loss reserve            | <b>21,565</b>                           | 20,886       | 8,769        | 2,166        | 2,215        |
| Loan and lease loss reserve at end of period         | <b>\$ 30,898</b>                        | \$ 24,798    | \$ 13,118    | \$ 13,086    | \$ 13,283    |
| Ratio of net charge-offs to average loans and leases | <b>1.07%</b>                            | 0.63%        | 0.62%        | 0.17%        | 0.17%        |

The increase in charge-offs during 2010 compared to 2009 was primarily due to the increase in real estate loans charge-offs due to the prolonged down economic cycle and were not concentrated in any one industry. The increase in charge-offs during 2009 compared to 2008 was mainly due to the increase in lease financings charge-offs due to the deterioration in the economy impacting small businesses, the primary customer base of the leasing portfolio. These increases were offset by a reduction of charge-off activity for commercial, financial and agricultural loans. Loans and leases that are charged-off are considered to be permanently impaired.

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 as of the dates indicated:

| (Dollars in thousands) | <b>At December 31,</b> |             |             |             |             |
|------------------------|------------------------|-------------|-------------|-------------|-------------|
|                        | <b>2010</b>            | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |

|                                              |                  |               |           |        |           |        |           |        |           |        |
|----------------------------------------------|------------------|---------------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|
| Commercial, financial and agricultural loans | <b>\$ 9,630</b>  | <b>31.5%</b>  | \$ 12,148 | 31.4%  | \$ 6,432  | 29.3%  | \$ 6,295  | 28.2%  | \$ 6,963  | 32.6%  |
| Real estate loans                            | <b>17,165</b>    | <b>59.9</b>   | 9,534     | 59.3   | 4,800     | 59.9   | 4,836     | 61.9   | 4,266     | 58.7   |
| Loans to individuals                         | <b>734</b>       | <b>3.0</b>    | 887       | 3.3    | 581       | 3.7    | 730       | 5.3    | 1,005     | 6.6    |
| Lease financings                             | <b>1,950</b>     | <b>5.6</b>    | 1,175     | 6.0    | 574       | 7.1    | 356       | 4.6    | 171       | 2.1    |
| Unallocated                                  | <b>1,419</b>     | <b>N/A</b>    | 1,054     | N/A    | 731       | N/A    | 869       | N/A    | 878       | N/A    |
| <b>Total</b>                                 | <b>\$ 30,898</b> | <b>100.0%</b> | \$ 24,798 | 100.0% | \$ 13,118 | 100.0% | \$ 13,086 | 100.0% | \$ 13,283 | 100.0% |

The ratio of the reserve for loan and lease losses to total loans and leases was 2.10% at December 31, 2010. The allocation of the allowance for real estate loans increased by \$7.6 million at December 31, 2010 compared to December 31, 2009 mainly due to an increase in the historical loss factor related to non-criticized commercial real estate/construction loans which incorporated the Corporation's higher level of net charge-offs during 2010 relative to its previous historical average for these types of loans. In addition, the allowance was impacted slightly by increased volume of non-criticized commercial real estate/construction loans. Allocated reserves for lease financings increased by \$775 thousand at December 31, 2010 compared to December 31, 2009 mainly due to an increase in the historical loss factor based upon the Corporation's continued higher level of net charge-offs. Allocated reserves for commercial, financial and agricultural loans decreased by \$2.5 million at December 31, 2010 from December 31, 2009 primarily due to a decrease in the level of criticized loans as well as a decrease in the adjusted historical loss factor related to criticized loans.

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The ratio of the reserve for loan and lease losses to total loans and leases was 1.74% at December 31, 2009. The allocation of the allowance for commercial, financial and agricultural loans increased by \$5.7 million at December 31, 2009 compared to December 31, 2008 mainly due to the migration of loans to higher risk categories including criticized and non-performing loan categories as a result of deterioration of underlying collateral and economic factors. Allocated reserves for real estate loans increased by \$4.7 million at December 31, 2009 compared to December 31, 2008 primarily due to the migration of commercial real estate/construction loans to higher-risk ratings including criticized and non-performing loan categories as a result of deterioration of underlying collateral and economic factors. Allocated reserves for lease financings increased by \$601 thousand at December 31, 2009 from December 31, 2008 mostly due to an increase in the historical loss factor which incorporated the Corporation's higher level of net charge-offs during 2009 relative to its previous historical average for lease financings.

***Goodwill and Other Intangible Assets***

The Corporation has completed the 2010 and 2009 annual impairment tests on goodwill and other intangible assets and no impairment was noted. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has covenants not to compete, intangible assets due to branch acquisitions, core deposit intangibles, 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 for these intangible assets was \$1.5 million for the years ended December 31, 2010 and 2009 and \$642 thousand for the year ended December 31, 2008. The Corporation also has goodwill of \$51.3 million, which is deemed to be an indefinite intangible asset and is not amortized.

***Accrued Interest and Other Assets***

The FDIC Board implemented an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund in the Fourth Quarter of 2009. The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. This assessment was based on an estimated 5% annual growth rate in deposits during 2010, 2011 and 2012; and a 3 basis-point increase in the base assessment rate at September 30, 2009 to be applied in 2011 and 2012. The Bank paid \$9.0 million to the FDIC on December 30, 2009. At December 31, 2010, \$6.1 million remained in a prepaid asset account. The prepaid amount of \$6.1 million has a zero percent risk-weighting for risk-based capital ratio calculations. The remaining prepaid amount will be expensed over the 2011 through 2012 period as the actual FDIC assessment is determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.

At December 31, 2010 and 2009, the Bank held \$3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of \$7.1 million and \$7.4 million as of December 31, 2010 and 2009, respectively. On December 23, 2008, the FHLB announced that it would be suspending the payment of dividends and the repurchase of excess capital stock in-order to rebuild its capital levels. This is due to the other-than-temporary impairment write down required on their private-label mortgage portfolio which could reduce their capital below required levels. Additionally, the FHLB might require its members to increase its capital stock requirement. On October 29, 2010, the FHLB repurchased a limited amount of excess capital stock. The FHLB will make decisions on future repurchases of excess capital stock on a quarterly basis. Based on current information from the FHLB, Management believes that if there is any impairment in the stock it is temporary. Therefore, as of December 31, 2010, the FHLB stock is recorded at cost.

***LIABILITIES***

The following table presents liabilities as of the dates indicated:

| (Dollars in thousands) | 2010         | At December 31, |            |          |
|------------------------|--------------|-----------------|------------|----------|
|                        |              | 2009            | \$ Change  | % Change |
| Deposits               | \$ 1,686,270 | \$ 1,564,257    | \$ 122,013 | 7.8%     |

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|                                        |                     |              |           |        |
|----------------------------------------|---------------------|--------------|-----------|--------|
| Short-term borrowings                  | <b>114,871</b>      | 183,379      | (68,508)  | (37.4) |
| Long-term borrowings                   | <b>28,994</b>       | 30,684       | (1,690)   | (5.5)  |
| Accrued expenses and other liabilities | <b>37,534</b>       | 39,294       | (1,760)   | (4.5)  |
| Total liabilities                      | <b>\$ 1,867,669</b> | \$ 1,817,614 | \$ 50,055 | 2.8    |

**Table of Contents****Deposits**

Total deposits increased during 2010 primarily due to increases in savings deposits of \$67.1 million, noninterest-bearing demand deposits of \$28.4 million and interest-bearing demand deposits of \$59.3 million. These increases were partially offset by decreases in time deposits of \$32.8 million. Deposit growth resulted mainly from the Corporation's successful marketing strategy to take advantage of the disruption in its market place. The Corporation's focus on growing low cost core deposits and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts.

**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, |              |              |
|-------------------------------------|----------------------------------|--------------|--------------|
|                                     | 2010                             | 2009         | 2008         |
| Noninterest-bearing demand deposits | \$ 259,303                       | \$ 224,417   | \$ 223,353   |
| Interest-bearing checking deposits  | 178,679                          | 162,615      | 144,415      |
| Money market savings                | 303,012                          | 305,113      | 409,586      |
| Regular savings                     | 445,721                          | 353,748      | 276,908      |
| Time deposits                       | 432,919                          | 508,337      | 483,872      |
| Total average deposits              | \$ 1,619,634                     | \$ 1,554,230 | \$ 1,538,134 |

The following table summarizes the maturities of time deposits with balances of \$100 thousand or more at December 31, 2010:

| (Dollars in thousands) | Due Three Months or Less | Due Over Three Months to Six Months | Due Over Six Months to Twelve Months | Due Over Twelve Months |
|------------------------|--------------------------|-------------------------------------|--------------------------------------|------------------------|
|                        |                          |                                     |                                      |                        |
| Time deposits          | \$ 31,340                | \$ 45,403                           | \$ 32,452                            | \$ 41,520              |

**Borrowings**

Long-term borrowings at December 31, 2010, included \$3.4 million in Subordinated Capital Notes, \$20.6 million of Trust Preferred Securities and \$5.0 million in long-term borrowings from the FHLB. Short-term borrowings typically include securities sold under agreement to repurchase, federal funds purchased, Federal Reserve Bank discount window borrowings and short-term FHLB borrowings. Short-term borrowings decreased mainly due to FHLB maturities of \$87.0 million partially offset by an increase in federal funds purchased of \$24.6 million. At December 31, 2010, the Bank also had outstanding short-term letters of credit with the FHLB totaling \$15.0 million which were utilized to collateralize seasonal public funds deposits.

**Table 11 Short Term Borrowings**

The following table details key information pertaining to securities sold under agreement to repurchase on an overnight basis as of the dates indicated:

| (Dollars in thousands)                        | 2010       | 2009       | 2008      |
|-----------------------------------------------|------------|------------|-----------|
| Balance at December 31                        | \$ 90,271  | \$ 95,624  | \$ 81,230 |
| Weighted average interest rate at year end    | 0.30%      | 0.50%      | 0.49%     |
| Maximum amount outstanding at any month's end | \$ 109,712 | \$ 133,140 | \$ 92,962 |
| Average amount outstanding during the year    | \$ 97,667  | \$ 91,390  | \$ 84,254 |

|                                                |              |       |       |
|------------------------------------------------|--------------|-------|-------|
| Weighted average interest rate during the year | <b>0.40%</b> | 0.60% | 1.12% |
|------------------------------------------------|--------------|-------|-------|

**Table of Contents*****SHAREHOLDERS' EQUITY***

The following table presents the shareholders' equity as of the dates indicated:

| (Dollars in thousands)               | 2010       | At December 31, |            | % Change |
|--------------------------------------|------------|-----------------|------------|----------|
|                                      |            | 2009            | \$ Change  |          |
| Common stock                         | \$ 91,332  | \$ 91,332       | \$         | %        |
| Additional paid-in capital           | 59,080     | 60,126          | (1,046)    | (1.7)    |
| Retained earnings                    | 151,978    | 150,507         | 1,471      | 1.0      |
| Accumulated other comprehensive loss | (6,766)    | (524)           | (6,242)    | N/M      |
| Treasury stock                       | (29,400)   | (33,634)        | 4,234      | 12.6     |
| Total shareholders' equity           | \$ 266,224 | \$ 267,807      | \$ (1,583) | (0.6)    |

Total shareholders' equity decreased slightly since December 31, 2009 primarily due to an increase in other comprehensive loss of \$6.2 million, of which \$4.5 million is a reduction in unrealized gains on available for sale securities. This decrease was partially offset by issuances of treasury stock of \$4.4 million in connection with the Corporation's employee stock purchase, dividend reinvestment and stock incentive plans.

Treasury stock decreased primarily due to shares issued for the employee stock purchase plan, the dividend reinvestment plan and restricted stock awards. There is a buyback program in place that allows the Corporation to purchase an additional 643,782 shares of its outstanding common stock in the open market or in negotiated transactions.

Accumulated other comprehensive income related to securities of \$884 thousand and \$5.4 million, net of taxes, is included in shareholders' equity at December 31, 2010 and 2009, respectively. Accumulated other comprehensive income (loss) related to securities is the unrealized gain (loss), or difference between the book value and fair value, on the available-for-sale investment portfolio, net of taxes. The period-to-period loss in accumulated other comprehensive income (loss) was a result of decreases in the fair values of municipal bonds and other mortgage-backed securities.

Accumulated other comprehensive income related to an interest rate swap, net of taxes, amounted to \$320 thousand and \$1.1 million at December 31, 2010 and 2009, respectively. Accumulated other comprehensive income (loss) related to an interest-rate swap reflects the current fair value of the swap used for cash flow hedging purposes, net of taxes.

Accumulated other comprehensive loss related to pension and other post-retirement benefits, net of taxes, amounted to \$8.0 million and \$7.0 million at December 31, 2010 and 2009, respectively. The change in the accumulated other comprehensive income loss related to pension and other post-retirement benefits represent the changes in the actuarial gains and losses and the prior service costs and credits that arise during the period.

***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, 2010, the Corporation had a Tier 1 capital ratio of 14.17% and total risk-based capital ratio of 15.47%. At December 31, 2009, the Corporation had a Tier 1 capital ratio of 14.41% and total risk-based capital ratio of 15.76%. The Corporation continues to be in the well-capitalized category under regulatory standards. Details on the capital ratios can be found in Note 20 Regulatory Matters of this Form 10-K along with a discussion on dividend and other restrictions.

The decrease in the Corporation's risk-based capital ratios is attributable to asset growth which was funded by increased deposits.

***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.

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The Corporation uses both an interest-sensitivity gap analysis and a simulation model to quantify its exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year horizon. The simulation uses existing portfolio rate and repricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayments on residential mortgages, and the discretionary pricing of non-maturity assets and liabilities.

On March 24, 2009, the Corporation entered into a \$22.0 million notional interest rate swap, which had been classified as a fair value hedge on a real estate-commercial loan. Under the terms of the swap agreement, the Corporation paid a fixed rate of 6.49% and received a floating rate which is based on the one month LIBOR with a 357 basis point spread and a maturity date of April 1, 2019. The Corporation performed an assessment of the hedge at inception, and at re-designation. During the fourth quarter of 2009, the Corporation participated \$5.0 million of the hedged real estate-commercial loan and de-designated the hedge relationship. During the first quarter of 2010, the Corporation re-designated \$17.0 million of the interest rate swap. Upon re-designation, \$17.0 million of the swap had some ineffectiveness and the \$5.0 million remained undesignated. During the third quarter of 2010, the Corporation terminated the swap. At December 31, 2009, the interest rate swap had a positive fair value of \$1.2 million which was classified on the balance sheet in other assets. The underlying commercial loan had a positive fair value adjustment on the termination date of \$859 thousand which is being amortized through a reduction of interest income over the remaining life. At December 31, 2009, the underlying commercial loan had a negative fair value adjustment of \$431 thousand, which was classified on the balance sheet as a component of loans and leases. For this interest rate swap, the Corporation recognized fair value adjustments which resulted in a loss of \$1.1 million and a gain of \$641 thousand for the years ended December 31, 2010 and 2009, respectively. The fair value gains and losses related to this interest rate swap are classified as a component of net (loss) gain on interest rate swap in the Corporation's consolidated statements of income.

On December 23, 2008, the Corporation entered into a cash flow hedge with a notional amount of \$20.0 million that had the effect of converting the variable rates on trust preferred securities to a fixed rate. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.65% and receives a floating rate based on the three month LIBOR with a maturity date of January 7, 2019. At December 31, 2010, the interest rate swap had a positive fair value of \$492 thousand, which was classified on the balance sheet as a component of other assets, and was determined to be highly effective in offsetting the changes in the cash flows of the hedged item. The fair value of the interest rate swap, net of taxes, of \$320 thousand was recorded as a component of accumulated other comprehensive loss on the balance sheet. At December 31, 2009, the interest rate swap had a positive fair value of \$1.8 million, which was classified on the balance sheet as a component of other assets, and was determined to be highly effective in offsetting the value of the hedged item. The fair value of the interest rate swap, net of taxes, of \$1.1 million was recorded as a component of accumulated other comprehensive loss on the balance sheet. The cash payments on the interest rate swap of \$468 thousand and \$377 thousand for the years ended December 31, 2010 and 2009, respectively, were recorded as a component of interest expense on the income statement. The Corporation expects that approximately \$469 thousand of the net gain in accumulated other comprehensive loss will be reclassified as a reduction of interest expense within the next twelve months. Interest rate swaps in which the Corporation pays a floating rate and receives a fixed rate are used to reduce the impact of changes in interest rates on the Corporation's net income.

***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 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.



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The Corporation focuses on both assessing the borrower's capacity and willingness to repay and on obtaining sufficient collateral. Commercial and industrial loans are generally secured by the borrower's assets and by personal guarantees. Commercial real estate loans are originated primarily within the Eastern 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 residential mortgage loans that are secured by the underlying 1- to 4-family residential properties. 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 and credit card 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 at origination are generally limited to 80%. Other credit considerations may warrant higher combined loan-to-value ratios and are generally insured by private mortgage insurance.

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 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 leases 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 cash management repurchase agreements (Repos) have historically been the most significant funding sources for the Corporation. These deposits and Repos 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, thrifts, 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 are at current money market mutual fund rates. This funding source is subject to changes in the asset allocations of the trust accounts.

The Bank may purchase Certificates from the Pennsylvania Local Government Investment Trust (PLGIT) to augment its short-term fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the FHLB; therefore, Univest National Bank is not required to provide collateral on these

deposits. At December 31, 2010 and 2009, the Bank had no PLGIT deposits.

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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 \$387.9 million. At December 31, 2010 and 2009, total outstanding short-term and long-term borrowings with the FHLB totaled \$5.0 million and \$92.0 million, respectively. At December 31, 2010, the Bank also had outstanding short-term letters of credit with the FHLB totaling \$15.0 million which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity 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 credit lines with several correspondent banks totaling \$82.0 million at December 31, 2010 and 2009. Outstanding borrowings under these lines totaled \$24.6 million at December 31, 2010; there were no outstanding balances at December 31, 2009. 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, 2010 and 2009, the Corporation had no outstanding borrowings under this line.

### ***Cash Requirements***

The Corporation has cash requirements including various financial obligations, including contractual obligations and commitments that require cash payments. The following contractual obligations and commitments table presents, as of December 31, 2010, significant fixed and determinable contractual obligations to third parties. The most significant obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Short-term borrowings consisting of securities sold under agreements to repurchase constitute the next largest payment obligation. 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 as of December 31, 2010. 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 a 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 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. For further information regarding the Corporation's commitments, refer to Footnote 16 of the Consolidated Financial Statements, herein.

**Table of Contents****Table 12 Contractual Obligations**

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows, including interest payable, as of December 31, 2010:

| (Dollars in thousands)                           | Total        | Payments Due by Period        |                                         |                                             |                           |
|--------------------------------------------------|--------------|-------------------------------|-----------------------------------------|---------------------------------------------|---------------------------|
|                                                  |              | Due in One<br>Year or<br>Less | Due after<br>One Year to<br>Three Years | Due after<br>Four<br>Years to<br>Five Years | Due in Over<br>Five Years |
| Securities sold under agreement to repurchase(a) | \$ 90,271    | \$ 90,271                     | \$                                      | \$                                          | \$                        |
| Other short-term borrowings                      | 24,601       | 24,601                        |                                         |                                             |                           |
| Long-term debt(b)                                | 5,380        | 188                           | 5,192                                   |                                             |                           |
| Subordinated capital notes(c)                    | 3,446        | 1,172                         | 2,274                                   |                                             |                           |
| Trust preferred securities(d)                    | 36,291       | 688                           | 1,377                                   | 1,377                                       | 32,849                    |
| Time deposits(e)                                 | 435,591      | 264,812                       | 84,364                                  | 37,039                                      | 49,376                    |
| Operating leases                                 | 28,781       | 2,092                         | 3,644                                   | 3,435                                       | 19,610                    |
| Standby and commercial letters of credit         | 63,808       | 62,099                        | 1,681                                   | 28                                          |                           |
| Commitments to extend credit (f)                 | 430,817      | 153,441                       | 31,323                                  | 11,849                                      | 234,204                   |
| Derivative loan commitments (g)                  | 799          | 799                           |                                         |                                             |                           |
| Total contractual obligations                    | \$ 1,119,785 | \$ 600,163                    | \$ 129,855                              | \$ 53,728                                   | \$ 336,039                |

## Notes:

- (a) Includes interest on variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. 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.
- (b) Interest expense is projected based upon the weighted average interest rate of long-term debt.
- (c) Includes interest on both fixed and variable rate obligations. The interest expense associated with the variable rate obligations is based upon interest rates in effect at December 31, 2010. 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.
- (d) Includes interest on variable rate obligations. The interest expense is based upon interest rates in effect at December 31, 2010. 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. The trust preferred securities mature in 2033 and interest is calculated to this maturity date. The first non-penalized call date was in 2008. The Corporation may choose to call these securities as a result of interest rate fluctuations and capital needs without penalty for the remainder of the term.
- (e) Includes interest on both fixed and variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. 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.

(f) Includes both revolving and straight lines of credit. Revolving lines, including unused credit card lines, are reported in the Due in One Year or Less category.

(g) Includes the fair value of these contractual arrangements at December 31, 2010.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of loss from adverse changes in market prices and rates. In the course of its lending, leasing and deposit taking activities, the Corporation is subject to changes in the economic value and/or earnings potential of these assets and liabilities due to changes in interest rates. The Corporation's Investment Asset/Liability Management Committee manages interest rate risk in a manner so as to provide adequate and reliable earnings. This is accomplished through the establishment of policy limits on maximum risk exposures, as well as the regular and timely monitoring of reports designed to quantify risk and return levels.

The Corporation uses both an interest-rate sensitivity gap analysis and a simulation model to quantify its exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year horizon. The simulation uses existing portfolio rate and repricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayments on residential mortgages, and the discretionary pricing of non-maturity assets and liabilities. The Corporation is permitted to use interest-rate swaps and interest-rate caps/floors with indices that correlate to on-balance sheet instruments, to modify its indicated net interest sensitivity to levels deemed to be appropriate based on the Corporation's current economic outlook.

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At December 31, 2010, the simulation, based upon forward-looking assumptions, projects that the Corporation's greatest interest margin exposure to interest-rate risk would occur if interest rates decreased from present levels. Given the assumptions, a 200 basis point parallel shift in the yield curve applied on a ramp-up basis would cause the Corporation's net interest margin, over a 1-year horizon, to be approximately 2.28% more than it would be if market rates would remain unchanged. A 100 basis point (a 200 basis point ramp down would not be relevant in the current market conditions) parallel shift in the yield curve applied on a ramp-down basis would cause the Corporation's net interest margin, over a 1-year horizon, to be approximately 2.31% less than it would be if market rates would remain unchanged. Policy limits have been established which allow a tolerance for no more than approximately a 5.0% negative impact to the interest margin resulting from a 200 basis point parallel yield curve shift over a forward looking 12-month period. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Net Interest Income and Asset/Liability Management, Liquidity and Table 13.

**Table 13 Interest Sensitivity Analysis**

Interest Sensitivity Analysis at December 31, 2010:

| (Dollars in thousands)                                            | Within<br>Three<br>Months | After<br>Three<br>Months<br>to<br>Twelve<br>Months | After<br>One Year<br>to Five<br>Years | Over<br>Five<br>Years | Non-Rate<br>Sensitive | Total        |
|-------------------------------------------------------------------|---------------------------|----------------------------------------------------|---------------------------------------|-----------------------|-----------------------|--------------|
| Assets:                                                           |                           |                                                    |                                       |                       |                       |              |
| Cash and due from banks                                           | \$                        | \$                                                 | \$                                    | \$                    | \$ 11,624             | \$ 11,624    |
| Interest-earning deposits<br>with other banks                     | 17,563                    |                                                    |                                       |                       |                       | 17,563       |
| Investment securities                                             | 62,392                    | 65,879                                             | 207,862                               | 130,891               |                       | 467,024      |
| Loans held for sale                                               | 4,178                     |                                                    |                                       |                       |                       | 4,178        |
| Loans and leases, net of<br>reserve for loan and lease<br>losses: | 654,395                   | 221,958                                            | 472,030                               | 122,803               | (30,898)              | 1,440,288    |
| Other assets                                                      |                           |                                                    |                                       |                       | 193,216               | 193,216      |
| Total assets                                                      | \$ 738,528                | \$ 287,837                                         | \$ 679,892                            | \$ 253,694            | \$ 173,942            | \$ 2,133,893 |
| Liabilities and shareholders<br>equity:                           |                           |                                                    |                                       |                       |                       |              |
| Demand deposits<br>noninterest-bearing                            | \$                        | \$                                                 | \$                                    | \$                    | \$ 271,125            | \$ 271,125   |
| Demand deposits<br>interest-bearing                               | 344,799                   | 29,535                                             | 155,550                               |                       |                       | 529,884      |
| Savings deposits                                                  | 26,903                    | 70,310                                             | 370,298                               |                       |                       | 467,511      |
| Time deposits                                                     | 52,895                    | 131,521                                            | 186,887                               | 46,447                |                       | 417,750      |
| Borrowed funds                                                    | 138,115                   |                                                    | 5,750                                 |                       |                       | 143,865      |
| Other liabilities                                                 |                           |                                                    |                                       |                       | 37,534                | 37,534       |
| Shareholders' equity                                              |                           |                                                    |                                       |                       | 266,224               | 266,224      |
| Total liabilities and<br>shareholders' equity                     | \$ 562,712                | \$ 231,366                                         | \$ 718,485                            | \$ 46,447             | \$ 574,883            | \$ 2,133,893 |

|                                                           |            |            |             |            |              |
|-----------------------------------------------------------|------------|------------|-------------|------------|--------------|
| Incremental gap                                           | \$ 175,816 | \$ 56,471  | \$ (38,593) | \$ 207,247 | \$ (400,941) |
| Cumulative gap                                            | \$ 175,816 | \$ 232,287 | \$ 193,694  | \$ 400,941 |              |
| Cumulative gap as a percentage of interest-earning assets | 8.97%      | 11.85%     | 9.88%       | 20.46%     |              |

***Recent Accounting Pronouncements***

For information regarding recent accounting pronouncements, refer to Footnote 1, Summary of Significant Accounting Policies of this Form 10-K.

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**Item 8. *Financial Statements and Supplementary Data***

The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

|                                                                   | Page |
|-------------------------------------------------------------------|------|
| <u>Report of Independent Registered Public Accounting Firm</u>    | 48   |
| <u>Consolidated Balance Sheets</u>                                | 49   |
| <u>Consolidated Statements of Income</u>                          | 50   |
| <u>Consolidated Statements of Changes in Shareholders' Equity</u> | 51   |
| <u>Consolidated Statements of Cash Flows</u>                      | 52   |
| <u>Notes to Consolidated Financial Statements</u>                 | 54   |

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Univest Corporation of Pennsylvania:

We have audited the accompanying consolidated balance sheets of Univest Corporation of Pennsylvania and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Philadelphia, PA

March 4, 2011

**Table of Contents****UNIVEST CORPORATION OF PENNSYLVANIA  
CONSOLIDATED BALANCE SHEETS**

|                                                                                                                                                                   | <b>At December 31,</b> |              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|--------------|
|                                                                                                                                                                   | <b>2010</b>            | <b>2009</b>  |
| (Dollars in thousands, except share data)                                                                                                                         |                        |              |
| <b>ASSETS</b>                                                                                                                                                     |                        |              |
| Cash and due from banks                                                                                                                                           | \$ 11,624              | \$ 20,535    |
| Interest-earning deposits with other banks                                                                                                                        | 17,563                 | 48,062       |
| Investment securities held-to-maturity (fair value \$32 and \$108 at December 31, 2010 and 2009, respectively)                                                    | 32                     | 103          |
| Investment securities available-for-sale                                                                                                                          | 466,992                | 419,942      |
| Loans held for sale                                                                                                                                               | 4,178                  | 1,693        |
| Loans and leases                                                                                                                                                  | 1,471,186              | 1,425,980    |
| Less: Reserve for loan and lease losses                                                                                                                           | (30,898)               | (24,798)     |
| Net loans and leases                                                                                                                                              | 1,440,288              | 1,401,182    |
| Premises and equipment, net                                                                                                                                       | 34,605                 | 34,201       |
| Goodwill                                                                                                                                                          | 51,320                 | 50,393       |
| Other intangibles, net of accumulated amortization of \$9,495 and \$8,015 at December 31, 2010 and 2009, respectively                                             | 5,477                  | 5,577        |
| Bank owned life insurance                                                                                                                                         | 48,010                 | 46,740       |
| Accrued interest and other assets                                                                                                                                 | 53,804                 | 56,993       |
| Total assets                                                                                                                                                      | \$ 2,133,893           | \$ 2,085,421 |
| <b>LIABILITIES</b>                                                                                                                                                |                        |              |
| Demand deposits, noninterest-bearing                                                                                                                              | \$ 271,125             | \$ 242,691   |
| Demand deposits, interest-bearing                                                                                                                                 | 529,884                | 470,572      |
| Savings deposits                                                                                                                                                  | 467,511                | 400,452      |
| Time deposits                                                                                                                                                     | 417,750                | 450,542      |
| Total deposits                                                                                                                                                    | 1,686,270              | 1,564,257    |
| Securities sold under agreements to repurchase                                                                                                                    | 90,271                 | 95,624       |
| Other short-term borrowings                                                                                                                                       | 24,600                 | 87,755       |
| Accrued expenses and other liabilities                                                                                                                            | 37,534                 | 39,294       |
| Long-term debt                                                                                                                                                    | 5,000                  | 5,190        |
| Subordinated notes                                                                                                                                                | 3,375                  | 4,875        |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities) | 20,619                 | 20,619       |
| Total liabilities                                                                                                                                                 | 1,867,669              | 1,817,614    |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                       |                        |              |
| Common stock, \$5 par value; 48,000,000 shares authorized at December 31, 2010 and 2009; 18,266,404 shares issued at December 31, 2010 and 2009,                  | 91,332                 | 91,332       |

respectively; and 16,648,303 and 16,465,083 shares outstanding at December 31, 2010 and 2009, respectively

|                                                                                                            |                     |              |
|------------------------------------------------------------------------------------------------------------|---------------------|--------------|
| Additional paid-in capital                                                                                 | <b>59,080</b>       | 60,126       |
| Retained earnings                                                                                          | <b>151,978</b>      | 150,507      |
| Accumulated other comprehensive loss, net of tax benefit                                                   | <b>(6,766)</b>      | (524)        |
| Treasury stock, at cost; 1,618,101 shares and 1,801,321 shares at December 31, 2010 and 2009, respectively | <b>(29,400)</b>     | (33,634)     |
| Total shareholders' equity                                                                                 | <b>266,224</b>      | 267,807      |
| Total liabilities and shareholders' equity                                                                 | <b>\$ 2,133,893</b> | \$ 2,085,421 |

See accompanying notes to consolidated financial statements.

**Table of Contents****UNIVEST CORPORATION OF PENNSYLVANIA  
CONSOLIDATED STATEMENTS OF INCOME**

|                                                                                    | <b>For the Years Ended December 31,</b> |             |             |
|------------------------------------------------------------------------------------|-----------------------------------------|-------------|-------------|
| (Dollars in thousands, except per share data)                                      | <b>2010</b>                             | <b>2009</b> | <b>2008</b> |
| <b>Interest income</b>                                                             |                                         |             |             |
| Interest and fees on loans and leases:                                             |                                         |             |             |
| Taxable                                                                            | \$ 71,661                               | \$ 74,002   | \$ 82,874   |
| Exempt from federal income taxes                                                   | 4,339                                   | 3,815       | 3,742       |
| Total interest and fees on loans and leases                                        | 76,000                                  | 77,817      | 86,616      |
| Interest and dividends on investment securities:                                   |                                         |             |             |
| Taxable                                                                            | 10,377                                  | 14,014      | 16,762      |
| Exempt from federal income taxes                                                   | 4,554                                   | 4,512       | 4,269       |
| Interest on federal funds sold and securities purchased under agreements to resell |                                         |             | 394         |
| Other interest income                                                              | 72                                      | 16          | 16          |
| Total interest income                                                              | 91,003                                  | 96,359      | 108,057     |
| <b>Interest expense</b>                                                            |                                         |             |             |
| Interest on demand deposits                                                        | 1,302                                   | 1,981       | 9,324       |
| Interest on savings deposits                                                       | 2,555                                   | 2,955       | 4,348       |
| Interest on time deposits                                                          | 10,054                                  | 17,371      | 20,894      |
| Interest on short-term borrowings                                                  | 2,116                                   | 3,481       | 1,744       |
| Interest on long-term borrowings                                                   | 1,442                                   | 2,935       | 6,000       |
| Total interest expense                                                             | 17,469                                  | 28,723      | 42,310      |
| Net interest income                                                                | 73,534                                  | 67,636      | 65,747      |
| Provision for loan and lease losses                                                | 21,565                                  | 20,886      | 8,769       |
| Net interest income after provision for loan and lease losses                      | 51,969                                  | 46,750      | 56,978      |
| <b>Noninterest income</b>                                                          |                                         |             |             |
| Trust fee income                                                                   | 6,080                                   | 5,536       | 6,004       |
| Service charges on deposit accounts                                                | 6,693                                   | 7,036       | 6,808       |
| Investment advisory commission and fee income                                      | 4,626                                   | 3,427       | 2,374       |
| Insurance commission and fee income                                                | 7,694                                   | 7,081       | 5,723       |
| Other service fee income                                                           | 5,046                                   | 3,410       | 3,484       |
| Bank owned life insurance income                                                   | 1,270                                   | 1,321       | 2,791       |
| Other-than-temporary impairment on equity securities                               | (62)                                    | (1,708)     | (1,251)     |
| Other-than-temporary impairment on other long lived assets                         |                                         | (500)       |             |
| Net gain on sales of securities                                                    | 432                                     | 1,150       | 280         |
| Net gain on mortgage banking activities                                            | 2,960                                   | 2,378       | 82          |
| Net (loss) gain on interest rate swap                                              | (1,072)                                 | 641         |             |
| Net loss on dispositions of fixed assets                                           | (11)                                    | (144)       | (40)        |

|                              |           |           |           |
|------------------------------|-----------|-----------|-----------|
| Other                        | 762       | 289       | 360       |
| Total noninterest income     | 34,418    | 29,917    | 26,615    |
| <b>Noninterest expense</b>   |           |           |           |
| Salaries and benefits        | 38,034    | 37,422    | 32,413    |
| Net occupancy                | 5,476     | 5,274     | 5,230     |
| Equipment                    | 3,811     | 3,438     | 3,247     |
| Marketing and advertising    | 2,318     | 1,840     | 1,499     |
| Deposit insurance premiums   | 2,670     | 3,185     | 767       |
| Other                        | 15,040    | 14,165    | 14,069    |
| Total noninterest expense    | 67,349    | 65,324    | 57,225    |
| Income before income taxes   | 19,038    | 11,343    | 26,368    |
| Applicable income taxes      | 3,282     | 563       | 5,778     |
| Net income                   | \$ 15,756 | \$ 10,780 | \$ 20,590 |
| <b>Net income per share:</b> |           |           |           |
| Basic                        | \$ 0.95   | \$ 0.75   | \$ 1.60   |
| Diluted                      | 0.95      | 0.75      | 1.60      |
| Dividends declared           | 0.80      | 0.80      | 0.80      |

See accompanying notes to consolidated financial statements.

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**UNIVEST CORPORATION OF PENNSYLVANIA**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

|                                                                                                                | Common<br>Shares<br>Outstanding | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Total      |
|----------------------------------------------------------------------------------------------------------------|---------------------------------|-----------------------------------------------------------|-----------------|----------------------------------|----------------------|-------------------|------------|
| Dollars in thousands, except share and per share data)                                                         |                                 |                                                           |                 |                                  |                      |                   |            |
| Balance at December 31, 2007                                                                                   | 12,830,609                      | \$ (1,768)                                                | \$ 74,370       | \$ 22,211                        | \$ 143,066           | \$ (39,153)       | \$ 198,726 |
| Cumulative effect of adoption of a new accounting principle on January 1, 2008                                 |                                 |                                                           |                 |                                  | (1,550)              |                   | (1,550)    |
| Comprehensive Income:                                                                                          |                                 |                                                           |                 |                                  |                      |                   |            |
| Net Income for 2008                                                                                            |                                 |                                                           |                 |                                  | 20,590               |                   | 20,590     |
| Other comprehensive loss, net of income tax benefit of \$3,689:                                                |                                 |                                                           |                 |                                  |                      |                   |            |
| Unrealized gain on investment securities available-for-sale                                                    |                                 | 382                                                       |                 |                                  |                      |                   | 382        |
| Unrealized loss on swap                                                                                        |                                 | (149)                                                     |                 |                                  |                      |                   | (149)      |
| Unrecognized pension costs                                                                                     |                                 | (7,084)                                                   |                 |                                  |                      |                   | (7,084)    |
| Total comprehensive income                                                                                     |                                 |                                                           |                 |                                  |                      |                   | 13,739     |
| Cash dividends declared (\$0.80 per share)                                                                     |                                 |                                                           |                 |                                  | (10,302)             |                   | (10,302)   |
| Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs | 85,415                          |                                                           |                 | 64                               |                      | 1,950             | 2,014      |
| Exercise of stock options,                                                                                     | 87,134                          |                                                           |                 | (88)                             | 12                   | 1,904             | 1,828      |
| Tax benefits on stock based compensation                                                                       |                                 |                                                           |                 | 204                              |                      |                   | 204        |
| Purchases of treasury stock                                                                                    | (69,235)                        |                                                           |                 |                                  |                      | (1,614)           | (1,614)    |
| Restricted stock awards granted                                                                                | 4,591                           |                                                           |                 | (94)                             |                      | 94                |            |
| Vesting of restricted stock awards                                                                             |                                 |                                                           |                 | 162                              |                      |                   | 162        |
| Balance at December 31, 2008                                                                                   | 12,938,514                      | (8,619)                                                   | 74,370          | 22,459                           | 151,816              | (36,819)          | 203,207    |
| Comprehensive Income:                                                                                          |                                 |                                                           |                 |                                  |                      |                   |            |
| Net Income for 2009                                                                                            |                                 |                                                           |                 |                                  | 10,780               |                   | 10,780     |
| Other comprehensive income, net of income tax of \$4,359:                                                      |                                 |                                                           |                 |                                  |                      |                   |            |
| Unrealized gain on investment securities available-for-sale                                                    |                                 | 3,092                                                     |                 |                                  |                      |                   | 3,092      |
| Unrealized gain on swap                                                                                        |                                 | 1,299                                                     |                 |                                  |                      |                   | 1,299      |
| Unrecognized pension benefits                                                                                  |                                 | 3,704                                                     |                 |                                  |                      |                   | 3,704      |
| Total comprehensive income                                                                                     |                                 |                                                           |                 |                                  |                      |                   | 18,875     |
| Cash dividends declared (\$0.80 per share)                                                                     |                                 |                                                           |                 |                                  | (11,786)             |                   | (11,786)   |
| Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs | 95,973                          |                                                           |                 | 27                               | (344)                | 2,375             | 2,058      |

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|                                                                                                                       |                   |                   |                  |                  |                   |                    |                   |
|-----------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|------------------|------------------|-------------------|--------------------|-------------------|
| Issuance of common stock                                                                                              | 3,392,500         | 16,962            | 38,635           |                  |                   |                    | 55,597            |
| Exercise of stock options                                                                                             | 2,547             |                   | (10)             | 43               | 60                |                    | 93                |
| Purchases of treasury stock                                                                                           | (11,642)          |                   |                  |                  | (370)             |                    | (370)             |
| Restricted stock awards granted                                                                                       | 47,191            |                   | (1,118)          | (2)              | 1,120             |                    |                   |
| Vesting of restricted stock awards                                                                                    |                   |                   | 133              |                  |                   |                    | 133               |
| Balance at December 31, 2009                                                                                          | 16,465,083        | (524)             | 91,332           | 60,126           | 150,507           | (33,634)           | 267,807           |
| <b>Comprehensive Income:</b>                                                                                          |                   |                   |                  |                  |                   |                    |                   |
| <b>Net Income for 2010</b>                                                                                            |                   |                   |                  |                  | <b>15,756</b>     |                    | <b>15,756</b>     |
| <b>Other comprehensive loss, net of income tax benefit of \$3,362:</b>                                                |                   |                   |                  |                  |                   |                    |                   |
| Unrealized loss on investment securities available-for-sale                                                           |                   | (4,489)           |                  |                  |                   |                    | (4,489)           |
| Unrealized loss on swap                                                                                               |                   | (830)             |                  |                  |                   |                    | (830)             |
| Unrecognized pension costs                                                                                            |                   | (923)             |                  |                  |                   |                    | (923)             |
| <b>Total comprehensive income</b>                                                                                     |                   |                   |                  |                  |                   |                    | <b>9,514</b>      |
| <b>Cash dividends declared (\$0.80 per share)</b>                                                                     |                   |                   |                  |                  | <b>(13,284)</b>   |                    | <b>(13,284)</b>   |
| <b>Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs</b> | <b>123,750</b>    |                   |                  |                  | <b>(605)</b>      | <b>2,794</b>       | <b>2,189</b>      |
| <b>Purchases of treasury stock</b>                                                                                    | <b>(8,512)</b>    |                   |                  |                  |                   | <b>(153)</b>       | <b>(153)</b>      |
| <b>Restricted stock awards granted</b>                                                                                | <b>67,982</b>     |                   | <b>(1,206)</b>   | <b>(396)</b>     | <b>1,593</b>      |                    | <b>(9)</b>        |
| <b>Vesting of restricted stock awards</b>                                                                             |                   |                   | <b>160</b>       |                  |                   |                    | <b>160</b>        |
| <b>Balance at December 31, 2010</b>                                                                                   | <b>16,648,303</b> | <b>\$ (6,766)</b> | <b>\$ 91,332</b> | <b>\$ 59,080</b> | <b>\$ 151,978</b> | <b>\$ (29,400)</b> | <b>\$ 266,224</b> |

See accompanying notes to consolidated financial statements.

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**UNIVEST CORPORATION OF PENNSYLVANIA  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (Dollars in thousands)                                                              | <b>For the Years Ended December 31,</b> |             |             |
|-------------------------------------------------------------------------------------|-----------------------------------------|-------------|-------------|
|                                                                                     | <b>2010</b>                             | <b>2009</b> | <b>2008</b> |
| Cash flows from operating activities:                                               |                                         |             |             |
| Net income                                                                          | \$ 15,756                               | \$ 10,780   | \$ 20,590   |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                         |             |             |
| Provision for loan and lease losses                                                 | 21,565                                  | 20,886      | 8,769       |
| Depreciation of premises and equipment                                              | 2,517                                   | 2,357       | 2,246       |
| Other-than-temporary impairment on equity securities                                | 62                                      | 1,708       | 1,251       |
| Other-than-temporary impairment on other long-lived assets                          |                                         | 500         |             |
| Net gain on sales of investment securities                                          | (432)                                   | (1,150)     | (280)       |
| Net gain on mortgage banking activities                                             | (2,960)                                 | (2,378)     | (82)        |
| Net loss (gain) on interest rate swap                                               | 1,072                                   | (641)       |             |
| Net gain on sales of loans and leases held for investment                           |                                         |             | (116)       |
| Net loss on dispositions of fixed assets                                            | 11                                      | 144         | 40          |
| Net loss (gain) on sales and write-downs of other real estate owned                 | 377                                     | 207         | (9)         |
| Bank owned life insurance income                                                    | (1,270)                                 | (1,321)     | (2,791)     |
| Net (accretion) amortization on investment securities                               | (18)                                    | 97          | (339)       |
| Amortization, fair market value adjustments and capitalization of other intangibles | 100                                     | 238         | 642         |
| Premium accretion on deposits and FHLB borrowings                                   | (190)                                   | (447)       | (453)       |
| Deferred tax benefit                                                                | (2,247)                                 | (4,480)     | (124)       |
| Other adjustments to reconcile net income to cash provided by operating activities  |                                         | (115)       | 47          |
| Originations of loans held for sale                                                 | (170,266)                               | (143,615)   | (4,976)     |
| Proceeds from the sale of loans held for sale                                       | 170,098                                 | 144,688     | 4,514       |
| Decrease (Increase) in interest receivable and other assets                         | 3,734                                   | (10,168)    | (3,352)     |
| (Decrease) increase in accrued expenses and other liabilities                       | (3,063)                                 | 2,893       | (3,389)     |
| Net cash provided by operating activities                                           | 34,846                                  | 20,183      | 22,188      |
| Cash flows from investing activities:                                               |                                         |             |             |
| Net cash paid due to acquisitions, net of cash acquired                             | (927)                                   | (157)       | (9,720)     |
| Net capital expenditures                                                            | (2,932)                                 | (3,289)     | (6,752)     |
| Proceeds from maturities of securities held-to-maturity                             | 72                                      | 336         | 44,971      |
| Proceeds from maturities of securities available-for-sale                           | 69,478                                  | 58,424      | 167,768     |
| Proceeds from the sales and calls of securities held-to-maturity                    |                                         | 930         | 28,800      |
| Proceeds from sales and calls of securities available-for-sale                      | 231,023                                 | 198,835     | 152,186     |
| Purchases of investment securities held-to-maturity                                 |                                         |             | (73,275)    |
| Purchases of investment securities available-for-sale                               | (352,989)                               | (242,202)   | (337,295)   |
| Purchases of lease financings                                                       | (4,816)                                 | (4,178)     | (49,671)    |
| Net (increase) decrease loans and leases                                            | (55,800)                                | 15,153      | (56,524)    |
| Proceeds from sales of loans and leases                                             |                                         |             | 2,679       |
| Decrease (increase) in interest-bearing deposits                                    | 30,499                                  | (42,796)    | (4,764)     |
| Proceeds from sales of other real estate owned                                      | 1,843                                   | 304         |             |

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|                                                                            |                  |                  |                  |
|----------------------------------------------------------------------------|------------------|------------------|------------------|
| Net decrease in federal funds sold                                         |                  |                  | 11,748           |
| Proceeds from bank owned life insurance                                    |                  |                  | 3,984            |
| Net cash used in investing activities                                      | <b>(84,549)</b>  | (18,640)         | (125,865)        |
| Cash flows from financing activities:                                      |                  |                  |                  |
| Net increase (decrease) in deposits                                        | <b>122,013</b>   | 36,929           | (5,269)          |
| Net (decrease) increase in short-term borrowings                           | <b>(68,508)</b>  | (97,162)         | 75,954           |
| Issuance of long-term debt                                                 |                  |                  | 30,000           |
| Repayment of subordinated debt                                             | <b>(1,500)</b>   | (1,875)          | (1,500)          |
| Issuance of common stock                                                   |                  | 55,597           |                  |
| Purchases of treasury stock                                                | <b>(153)</b>     | (370)            | (1,614)          |
| Stock issued under dividend reinvestment and employee stock purchase plans | <b>2,189</b>     | 2,058            | 2,014            |
| Proceeds from exercise of stock options, including tax benefits            |                  | 93               | 2,032            |
| Cash dividends paid                                                        | <b>(13,249)</b>  | (11,078)         | (10,275)         |
| Net cash provided by (used in) financing activities                        | <b>40,792</b>    | (15,808)         | 91,342           |
| Net decrease in cash and due from banks                                    | <b>(8,911)</b>   | (14,265)         | (12,335)         |
| Cash and due from banks at beginning of year                               | <b>20,535</b>    | 34,800           | 47,135           |
| Cash and due from banks at end of year                                     | <b>\$ 11,624</b> | <b>\$ 20,535</b> | <b>\$ 34,800</b> |

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**UNIVEST CORPORATION OF PENNSYLVANIA  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (Dollars in thousands)                                       | <b>For the Years Ended December 31,</b> |             |             |
|--------------------------------------------------------------|-----------------------------------------|-------------|-------------|
|                                                              | <b>2010</b>                             | <b>2009</b> | <b>2008</b> |
| Supplemental disclosures of cash flow information            |                                         |             |             |
| Cash paid during the year for:                               |                                         |             |             |
| Interest                                                     | \$ 21,202                               | \$ 30,440   | \$ 44,593   |
| Income taxes, net of refunds received                        | 2,730                                   | 5,080       | 8,180       |
| Assets acquired through acquisition                          |                                         |             | 159         |
| Goodwill and other intangibles due to acquisitions           | 927                                     | 157         | 9,561       |
| See accompanying notes to consolidated financial statements. |                                         |             |             |

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**UNIVEST CORPORATION OF PENNSYLVANIA**

**Notes to Consolidated Financial Statements**

*(All dollar amounts presented in tables are in thousands, except per share data. N/M equates to not meaningful ; - equates to zero or doesn't round to a reportable number ; and N/A equates to not applicable .)*

**Note 1. Summary of Significant Accounting Policies**

***Organization***

Univest Corporation of Pennsylvania (the Corporation) through its wholly owned subsidiary, Univest National Bank and Trust Co. (the Bank), is engaged in domestic commercial and retail banking services and provides a full range of community banking and trust services to its customers. The Bank wholly owns Univest Capital, Inc., which provides lease financing, and Delview, Inc., who through its subsidiaries, Univest Investments, Inc. and Univest Insurance, Inc., provides financial planning, investment management, insurance products and brokerage services. Univest Investments, Univest Insurance, Univest Capital and Univest Reinsurance Company, a wholly owned subsidiary of the Corporation, were formed to enhance the traditional banking and trust services provided by the Bank. Univest Investments, Univest Insurance, Univest Capital and Univest Reinsurance do not currently meet the quantitative thresholds for separate disclosure provided as a business segment. Therefore, the Corporation currently has one reportable segment, Community Banking, and strategically is how the Corporation operates and has positioned itself in the marketplace. The Corporation's activities are interrelated, each activity is dependent, and performance is assessed based on how each of these activities supports the others. Accordingly, significant operating decisions are based upon analysis of the Corporation as one Community Banking operating segment. The Bank serves Montgomery, Bucks, Chester and Lehigh counties of Pennsylvania through thirty-two banking offices and provides banking and trust services to the residents and employees of twelve retirement communities, a work site office which performs a payroll check cashing service and an express banking center located in the Montgomery Mall. Banking services are also available on-line at the Corporation's websites at [www.univest.net](http://www.univest.net) and [www.univestdirect.com](http://www.univestdirect.com).

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank, Univest Delaware, Inc. and Univest Reinsurance Company. All significant intercompany balances and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current-year presentation. The Corporation's former subsidiary, Univest Realty Corporation, was liquidated during the fourth quarter of 2010 and the net assets were transferred to the Corporation.

***Use of Estimates***

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

***Interest-earning Deposits with Other Banks***

Interest-earning deposits with other banks consist of deposit accounts with other financial institutions generally having maturities of three months or less.

**Table of Contents*****Investment Securities***

Securities are classified as investment securities held-to-maturity and carried at amortized cost if management has the positive intent and ability to hold the securities to maturity. Securities purchased with the intention of recognizing short-term profits are placed in the trading account and are carried at fair value. The Corporation did not have any trading account securities as of December, 31, 2010 or 2009. Securities not classified as held-to-maturity or trading are designated securities available-for-sale and carried at fair value with unrealized gains and losses reflected in accumulated other comprehensive income, net of estimated income taxes. Realized gains and losses on the sale of investment securities are recognized using the specific identification method and are included in the consolidated statements of income. The amortization of premiums and accretion of discounts are included in interest income and calculated using the effective yield method for mortgage-backed securities and the constant yield method for all other securities.

Management evaluates debt securities, which comprise of U. S. Government, Government Sponsored Agencies, municipalities and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and Management believes that it will not incur any losses. The unrealized losses on the Corporation's investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation has not recognized any other-than-temporary impairment charges on debt securities during 2008 through 2010.

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 certain equity securities will not regain market value equivalent 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. The Corporation has the positive intent to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation's cost basis occurs.

***Loans and Leases***

Loans and leases are stated at the principal amount less net deferred fees and unearned discount. Interest income on commercial, consumer, and mortgage loans is recorded on the outstanding balance method, using actual interest rates applied to daily principal balances. Loan commitments are made to accommodate the financial needs of the customers. These commitments represent off-balance sheet items that are unfunded. Accrual of interest income on loans and leases ceases when collectability of interest and/or principal is questionable. If it is determined that the collection of interest previously accrued is uncertain, such accrual is reversed and charged to current earnings. Loans and leases are considered past due based upon failure to comply with contractual terms.

A loan or lease is 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. When a loan or lease, including an impaired loan or lease, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. 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 in the current year is reversed. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Loans and 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. A loan or lease is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect

all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest on impaired loans and leases, which are not classified as nonaccrual, is recognized on the accrual basis.

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### ***Loan and Lease Fees***

Fees collected upon loan or lease origination and certain direct costs of originating loans and leases are deferred and recognized over the contractual lives of the related loans and leases as yield adjustments using the interest method. Upon prepayment or other disposition of the underlying loans and leases before their contractual maturities, any associated unearned fees or unamortized costs are recognized.

### ***Reserve for Loan and Lease Losses***

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

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Nonaccrual loans and leases, and those which are troubled debt restructured, are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience, loss factors are determined giving consideration to the areas noted in the first paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve. Loans are also reviewed for impairment based on discounted cash flows using the loans' initial effective interest rate or the fair value of the collateral for certain collateral-dependent loans. Management also reviews the activity within the reserve to determine what actions, if any, should be taken to address differences between estimated and actual losses. Any of the above factors may cause the provision to fluctuate.

The reserve for loan and lease losses is based on management's evaluation of the loan and lease portfolio under current economic conditions and such other factors, which deserve recognition in estimating loan and lease losses. This evaluation is inherently subjective, as it requires estimates including the amounts and timing of future cash flows expected to be received on impaired loans and leases 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, in the case of non-collateral dependent borrowings, will not be realized. Certain impaired loans and leases are reported at the present value of expected future cash flows using the loan's or lease's initial effective interest rate, or at the loan's or lease's observable market price or the fair value of the collateral if the loan or lease is collateral dependent. For commercial impaired loans which are collateral dependent, the fair value of collateral is based on appraisals performed by qualified licensed appraisals hired by the Corporation less management's costs to sell. Appraisals are updated at least annually and obtained more frequently if changes in the property or market conditions warrant. Once an updated appraisal is received, if the fair value less estimated costs to sell is less than the carrying amount of the fully collateral dependent loan, a charge-off to the reserve for loan losses is recorded for the difference.

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

The specific reserve element is based on a regular analysis of impaired commercial and real estate loans and leases. The specific reserve established for these loans and leases is based on a careful 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 in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.



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The Corporation maintains an unallocated reserve to recognize the existence of credit exposures that are within the loan and lease portfolio although currently undetected. There are many factors considered such as the inherent delay in obtaining information regarding a customer's financial condition or changes in their business condition, the judgmental nature of loan and lease evaluations, the delay in the interpretation of economic trends and the judgmental nature of collateral assessments. The Corporation also maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded. In addition, the Bank's primary examiner, as a regular part of their examination process, may require the Bank to increase the level of reserves.

***Premises and Equipment***

Land is stated at cost, and bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method and charged to operating expenses over the estimated useful lives of the assets. The estimated useful life for new buildings constructed on land owned is forty years, and for new buildings constructed on leased land, is the lesser of forty years or the lease term including anticipated renewable terms. The useful life of purchased existing buildings is the estimated remaining useful life at the time of the purchase. Land improvements are considered to have estimated useful lives of fifteen years or the lease term including anticipated renewable terms. Furniture, fixtures and equipment have estimated useful lives ranging from three to ten years.

***Business Combinations and Intangible Assets***

The Corporation accounts for its acquisitions using the purchase accounting method. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. Typically, this allocation results in the purchase price exceeding the fair value of net assets acquired, which is recorded as goodwill. Core deposit intangibles are a measure of the value of checking, money market and savings deposits acquired in business combinations accounted for under the purchase method. Core deposit intangibles and other identified intangibles with finite useful lives are amortized using the sum of the year's digits over their estimated useful lives of up to fifteen years. The Corporation completes annual impairment tests for goodwill and other intangible assets. Identifiable intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. Customer related intangibles are being amortized over their estimated useful lives of five to twelve years. Core deposit intangibles are being amortized over their average estimated useful lives of eight years. The covenants not to compete are being amortized over their three- to five-year contractual lives. Mortgage servicing rights (MSRs) are recognized as separate assets when mortgage loans are sold and the rights are retained. Capitalized MSRs are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing period of the underlying mortgage loans. MSRs are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The Corporation estimates the fair value of MSRs using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. MSRs are carried at the lower of amortized cost or estimated fair value. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the unamortized capitalized amount.

***Bank Owned Life Insurance***

The Corporation carries bank owned life insurance (BOLI) at the net cash surrender value of the policy. Changes in the net cash surrender value of these policies are reflected in noninterest income. Proceeds from and purchases of bank owned life insurance are reflected on the statement of cash flows under investing activities.

On January 1, 2008, the Corporation recognized a cumulative-effect adjustment to retained earnings totaling \$1.6 million related to accounting for certain endorsement split-dollar life insurance arrangements in connection with the adoption of new authoritative accounting guidance. The new accounting guidance requires the Corporation to recognize a liability for the future death benefit for agreements that provide an employee with a death benefit in a postretirement/ termination period.

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***Other Real Estate Owned***

Other real estate owned represents properties acquired through customers' loan defaults and is included in accrued interest and other assets. The real estate is stated at an amount equal to the loan balance prior to foreclosure, plus costs incurred for improvements to the property, but no more than the fair value of the property, less estimated costs to sell. Any write-down, at or prior to the dates the real estate is considered foreclosed, is charged to the allowance for loan losses. Subsequent write-downs and any gain or loss upon the sale of real estate owned is recorded in other noninterest income. Expenses incurred in connection with holding such assets are recorded in other noninterest expense.

***Derivative Financial Instruments***

The Corporation recognizes all derivative financial instruments on its balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings immediately. To determine fair value, the Corporation uses a third party's pricing models that incorporate assumptions about market conditions and risks that are current as of the reporting date.

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to floating in order to reduce the impact of interest rate changes on future net interest income. The Corporation accounts for its interest-rate swap contracts in cash flow hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows of assets or liabilities that are being hedged. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in fair value of the ineffective part of the instrument would need to be charged to the statement of operations, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods. In a fair value hedge, the fair values of the interest rate swap agreements and changes in the fair values of the hedged items are recorded in the Corporation's consolidated balance sheets with the corresponding gain or loss being recognized in current earnings. The difference between changes in the fair values of interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in net interest income in the statement of operations. The Corporation performs an assessment, both at the inception of the hedge and quarterly thereafter, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items.

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale or purchase of mortgage-backed securities to or from third-party investors to hedge the effect of changes in interest rates on the value of the interest rate locks. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the end of the period. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within the net gain on mortgage banking activities on the consolidated statements of operations.

***Federal Home Loan Bank Stock, Federal Reserve Bank Stock and Certain Other Investments without Readily Determinable Fair Values***

Federal Home Loan Bank stock, Federal Reserve Bank stock and certain other investments without readily determinable fair values are classified as other assets on the consolidated balance sheets. These investments are carried at cost and evaluated for impairment periodically or if events or circumstances indicate that there may be impairment.



**Table of Contents*****Income Taxes***

There are two components of income tax expense: current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the applicable period. Deferred income taxes are provided for temporary differences between amounts reported for financial statement and tax purposes. Deferred income taxes are computed using the asset and liability method, such that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial reporting amounts and the tax basis of existing assets and liabilities based on currently enacted tax laws and tax rates in effect for the periods in which the differences are expected to reverse. Deferred tax assets are subject to management's judgment based upon available evidence that future realizations are more likely than not. If management determines that the Corporation is not, more likely than not, to realize some or all of the net deferred tax asset in the future, a charge to income tax expense may be required to reduce the value of the net deferred tax asset to the expected realizable value. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Penalties are recorded in non-interest expense in the year they are assessed and paid and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and paid and is treated as a deductible expense for tax purposes.

***Retirement Plan, Supplemental Plans and Other Postretirement Benefit Plans***

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, was frozen and the plan was amended and converted to a cash balance plan, with participants not losing any pension benefits already earned in the plan. Prior to the cash balance plan conversion effective December 31, 2009, the plan provided benefits based on a formula of each participant's final average pay. Future benefits under the cash balance plan accrue by crediting participants annually with an amount equal to a percentage of earnings in that year based on years of credited service as defined in the plan. Additionally, employees hired on or after December 8, 2009 are no longer eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. The Corporation provides certain postretirement healthcare and life insurance benefits for retired employees. The Corporation's measurement date for plan assets and obligation is fiscal year-end. The Corporation recognizes on its balance sheet the funded status of its defined pension plans and changes in the funded status of the plan in the year in which the changes occur. An under-funded position would create a liability and an over-funded position would create an asset, with a correlating deferred tax asset or liability. The net impact would be an adjustment to equity as accumulated other comprehensive income (loss). The Corporation also recognizes as a component of other comprehensive income (loss), net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

The Corporation sponsors a 401(k) deferred salary savings plan, which is a qualified defined contribution plan, and which covers all employees of the Corporation and its subsidiaries, and provides that the Corporation make matching contributions as defined by the plan.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan (SNQPP) which was established in 1981 for employees who have served for several years, with ability and distinction, in one of the primary policy-making senior level positions, with the understanding that the future growth and continued success of the Corporation's business may well reflect the continued services to be rendered by these employees and the Corporation's desire to be reasonably assured that these employees will continue to serve and realizing that if these employees would enter into competition with the Corporation, it would suffer severe financial loss. The SNQPP was established prior to the existence of a 401(k) Deferred Savings Plan, the Employee Stock Purchase Plan and the Long-Term Incentive Plans and therefore is not actively offered to new participants. These non-qualified plans are accounted for under guidance for deferred compensation arrangements. These plans were previously combined with other pension plans in the Corporation's footnote disclosures in its historical filings of Form 10-Q and 10-K reports. Commencing with December 31, 2010, the disclosures for the SNQPP are separately disclosed for all presentation periods and did not have a material impact on the disclosures.



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***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 grants stock options to employees with an exercise price equal to the fair value of the shares at the date of grant. The fair value of restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period.

***Dividend Reinvestment and Employee Stock Purchase Plans***

The Univest Dividend Reinvestment Plan (the Reinvestment Plan) allows for the issuance of 1,968,750 shares of common stock. During 2010 and 2009, 98,158 and 75,936 shares, respectively, were issued under the Reinvestment Plan, with 941,376 shares available for future purchase as of December 31, 2010.

The 1996 Employee Stock Purchase Plan (the Purchase Plan) allows for the issuance of 984,375 shares of common stock. Employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% nor more than 10% of such employee's total compensation. These contributions are then used to purchase stock during an offering period determined by the Corporation's Administrative Committee. The purchase price of the stock is based solely on the market price of the shares at the date of purchase. Compensation expense is recognized if the discount is greater than 5% of the fair value. During 2010 and 2009, 25,514 and 14,412 shares, respectively, were issued under the Purchase Plan, with 818,289 shares available for future purchase as of December 31, 2010.

***Marketing and Advertising Costs***

The Corporation's accounting policy is to expense marketing and advertising costs as incurred, when the advertisement first takes place, or over the expected useful life of the related asset, as would be the case with billboards.

***Statement of Cash Flows***

The Corporation has defined those items included in the caption "Cash and due from banks" as cash and cash equivalents.

***Trust Assets***

Assets held by the Corporation in a fiduciary or agency capacity for its customers are not included in the consolidated financial statements since such items are not assets of the Corporation.

***Earnings Per Share***

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if option common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method. The effects of options to issue common stock are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive.

**Table of Contents*****Variable Interest Entities***

Variable interest entities (VIEs) are certain legal entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. A company must consolidate a VIE if the company has a variable interest or interests that provide the corporation with a controlling financial interest in the VIE which includes the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the obligation to absorb expected losses of the VIE that could potentially be significant to the VIE and the right to receive expected benefits of the VIE that could potentially be significant to the VIE.

The accounting standards related to Subsidiary Trusts, as interpreted by the SEC, disallow consolidation of Subsidiary Trusts in the financial statements of the Corporation. As a result, securities that were issued by the trusts (Trust Preferred Securities) are not included on the Corporation's consolidated balance sheets. The junior subordinated debentures issued by the Parent Company to the Subsidiary Trusts, which have the same total balance and rate as the combined equity securities and trust preferred securities issued by the Subsidiary Trusts remain in long-term debt.

***Recent Accounting Pronouncements***

In December 2010, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Codification Update to clarify when an entity is to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Goodwill is tested for impairment using a two-step approach. In Step 1, the fair value of the reporting unit is compared to its carrying amount. Step 2 is used to measure the amount of the goodwill impairment, if any, by comparing the carrying amount of the reporting unit's goodwill to its implied fair value. This update requires an entity with reporting units with zero or negative carrying amounts, to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of this update is not expected to materially impact the Corporation's goodwill impairment testing.

In July 2010, the FASB issued an Accounting Standards Codification Update for improving disclosures about the credit quality of financing receivables and the allowance for credit losses. This update requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for the changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. The update will be effective for the Corporation's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for financial statements that include periods beginning on or after January 1, 2011, or March 31, 2011 for the Corporation. The application of the provisions of these standards did not have a material impact on the Corporation's financial statements although it resulted in expanded disclosures effective December 31, 2010, which are included under Note 5, Credit Quality of Loans and Leases and the Reserve for Loans and Lease Losses. In January 2011, the FASB issued an Accounting Standards Codification Update to defer the effective date of the disclosure requirements for public entities about troubled debt restructurings which was included as part of the previously discussed disclosures required for improving the credit quality of financing receivables and the allowance for credit losses. The guidance related to troubled debt restructurings is anticipated to be effective for interim and annual periods ending after June 15, 2011, in order to be concurrent with the effective date of guidance under a proposed Accounting Standards Update clarifying what constitutes a troubled debt restructuring.



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In January 2010, the FASB issued an Accounting Standard Codification Update for improving disclosures about fair value measurements. This update requires companies to disclose, and provide the reasons for, all transfers of assets and liabilities between the Level 1 and 2 fair value categories. It also clarifies that companies should provide fair value measurement disclosures for classes of assets and liabilities which are subsets of line items within the balance sheet, if necessary. In addition, the update clarifies that companies provide disclosures about the fair value techniques and inputs for assets and liabilities classified within Level 2 or 3 categories. The disclosure requirements prescribed by this update are effective for fiscal years beginning after December 31, 2009, and for interim periods within those fiscal years, or March 31, 2010 for the Corporation. This update also requires companies to reconcile changes in Level 3 assets and liabilities by separately providing information about Level 3 purchases, sales, issuances and settlements on a gross basis. This provision of this update is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, or March 31, 2011 for the Corporation. The adoption of this update did not materially impact the Corporation's current fair value measurement disclosures.

In June 2009, the FASB issued standards for accounting for transfers of financial assets and amendments to guidance relating to consolidation of variable interest entities. The standards change off-balance-sheet accounting of financial instruments including the way entities account for securitizations and special-purpose entities. The standards relating to accounting for transfers of financial assets require more information about sales of securitized financial assets and similar transactions, particularly if the seller retains some risk relating to the assets. They eliminate the concept of a qualifying special purpose entity, change the requirement for derecognizing financial assets, and require sellers of the assets to make additional disclosures about them. The guidance relating to consolidation of variable interest entities alters how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. A company has to determine whether it should provide consolidated reporting of any entity based upon the entity's purpose and design and the parent company's ability to direct the entity's actions. The standards are effective at the start of the first fiscal year beginning after November 15, 2009. The adoption of the standards did not have a material impact on the Corporation's financial statements.

### **Note 2. Restrictions on Cash and Due from Bank Accounts**

The Bank maintains reserve balances under Federal Reserve Bank requirements. The reserve requirement at December 31, 2010 and 2009 was \$5.8 million and \$4.4 million, respectively, and was satisfied by vault cash held at the Bank's branches. No additional reserves were required to be maintained at the Federal Reserve Bank of Philadelphia in excess of the required \$25 thousand clearing balance requirement. The average balances at the Federal Reserve Bank of Philadelphia were \$47.9 million and \$26.5 million for the years ended December 31, 2010 and 2009, respectively.

**Table of Contents****Note 3. Investment Securities**

The following table shows the amortized cost and the approximate fair value of the held-to-maturity securities and available-for-sale securities at December 31, 2010 and 2009, by maturity within each type:

| (Dollars in thousands)                  | December 31, 2010 |                              |                               |               | December 31, 2009 |                              |                               |               |
|-----------------------------------------|-------------------|------------------------------|-------------------------------|---------------|-------------------|------------------------------|-------------------------------|---------------|
|                                         | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Securities</b>                       |                   |                              |                               |               |                   |                              |                               |               |
| <b>Held-to-Maturity</b>                 |                   |                              |                               |               |                   |                              |                               |               |
| Residential mortgage-backed securities: |                   |                              |                               |               |                   |                              |                               |               |
| Within 1 year                           | \$ 15             | \$                           | \$                            | \$ 15         | \$                | \$                           | \$                            | \$            |
| After 1 year to 5 years                 |                   |                              |                               |               | 87                | 5                            |                               | 92            |
|                                         | 15                |                              |                               | 15            | 87                | 5                            |                               | 92            |
| Other securities:                       |                   |                              |                               |               |                   |                              |                               |               |
| Within 1 year                           | 17                |                              |                               | 17            |                   |                              |                               |               |
| After 1 year to 5 years                 |                   |                              |                               |               | 16                |                              |                               | 16            |
|                                         | 17                |                              |                               | 17            | 16                |                              |                               | 16            |
| Total                                   | \$ 32             | \$                           | \$                            | \$ 32         | \$ 103            | \$ 5                         | \$                            | \$ 108        |

**Securities****Available-for-Sale**

U.S. government corporations and agencies:

|                         |          |     |         |          |          |     |       |          |
|-------------------------|----------|-----|---------|----------|----------|-----|-------|----------|
| Within 1 year           | \$ 7,000 | \$  | \$      | \$ 7,000 | \$ 7,000 | \$  | \$    | \$ 7,000 |
| After 1 year to 5 years | 182,585  | 515 | (2,000) | 181,100  | 112,937  | 293 | (238) | 112,992  |
|                         | 189,585  | 515 | (2,000) | 188,100  | 119,937  | 293 | (238) | 119,992  |

State and political subdivisions:

|                           |         |       |         |         |         |       |       |         |
|---------------------------|---------|-------|---------|---------|---------|-------|-------|---------|
| Within 1 year             | 451     |       |         | 451     |         |       |       |         |
| After 1 year to 5 years   | 8,801   | 281   |         | 9,082   | 8,287   | 262   | (2)   | 8,547   |
| After 5 years to 10 years | 14,042  | 281   | (69)    | 14,254  | 28,894  | 636   | (23)  | 29,507  |
| Over 10 years             | 86,315  | 639   | (2,693) | 84,261  | 68,560  | 1,200 | (248) | 69,512  |
|                           | 109,609 | 1,201 | (2,762) | 108,048 | 105,741 | 2,098 | (273) | 107,566 |

Residential mortgage-backed

## securities:

|                           |        |       |       |        |        |       |       |         |
|---------------------------|--------|-------|-------|--------|--------|-------|-------|---------|
| Within 1 year             |        |       |       |        | 1,461  | 18    |       | 1,479   |
| After 1 year to 5 years   |        |       |       |        | 6      |       |       | 6       |
| After 5 years to 10 years | 14,709 | 743   |       | 15,452 | 15,865 | 452   |       | 16,317  |
| Over 10 years             | 66,919 | 3,222 | (492) | 69,649 | 80,464 | 3,852 | (829) | 83,487  |
|                           | 81,628 | 3,965 | (492) | 85,101 | 97,796 | 4,322 | (829) | 101,289 |

## Commercial mortgage obligations:

|                           |               |              |                |               |        |       |  |        |
|---------------------------|---------------|--------------|----------------|---------------|--------|-------|--|--------|
| After 5 years to 10 years | <b>8,855</b>  | <b>252</b>   |                | <b>9,107</b>  | 8,644  | 327   |  | 8,971  |
| Over 10 years             | <b>63,827</b> | <b>1,321</b> | <b>(1,164)</b> | <b>63,984</b> | 68,440 | 2,043 |  | 70,483 |
|                           | <b>72,682</b> | <b>1,573</b> | <b>(1,164)</b> | <b>73,091</b> | 77,084 | 2,370 |  | 79,454 |

## Asset backed securities:

|                         |  |  |  |  |     |   |  |     |
|-------------------------|--|--|--|--|-----|---|--|-----|
| After 1 year to 5 years |  |  |  |  | 564 | 9 |  | 573 |
|                         |  |  |  |  | 564 | 9 |  | 573 |

## Other securities:

|                         |              |           |             |              |       |     |  |       |
|-------------------------|--------------|-----------|-------------|--------------|-------|-----|--|-------|
| Within 1 year           | <b>4,692</b> | <b>30</b> |             | <b>4,722</b> | 5,968 | 48  |  | 6,016 |
| After 1 year to 5 years | <b>4,988</b> |           | <b>(43)</b> | <b>4,945</b> | 2,996 | 132 |  | 3,128 |
|                         | <b>9,680</b> | <b>30</b> | <b>(43)</b> | <b>9,667</b> | 8,964 | 180 |  | 9,144 |

## Equity securities:

|                    |              |            |              |              |       |     |      |       |
|--------------------|--------------|------------|--------------|--------------|-------|-----|------|-------|
| No stated maturity | <b>2,447</b> | <b>680</b> | <b>(142)</b> | <b>2,985</b> | 1,589 | 363 | (28) | 1,924 |
|                    | <b>2,447</b> | <b>680</b> | <b>(142)</b> | <b>2,985</b> | 1,589 | 363 | (28) | 1,924 |

|       |                   |                 |                   |                   |            |          |            |            |
|-------|-------------------|-----------------|-------------------|-------------------|------------|----------|------------|------------|
| Total | <b>\$ 465,631</b> | <b>\$ 7,964</b> | <b>\$ (6,603)</b> | <b>\$ 466,992</b> | \$ 411,675 | \$ 9,635 | \$ (1,368) | \$ 419,942 |
|-------|-------------------|-----------------|-------------------|-------------------|------------|----------|------------|------------|

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

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Securities with a fair value of \$347.3 million and \$300.7 million at December 31, 2010 and 2009, respectively, were pledged to secure public deposits and for other purposes as required by law.

During the year ended December 31, 2010, available-for-sale securities with a fair value at the date of sale of \$14.6 million were sold; \$50.8 million were sold in 2009; and \$58.9 million were sold in 2008. Gross realized gains on such sales totaled \$453 thousand during 2010, \$1.2 million during 2009, and \$282 thousand during 2008. Gross realized losses on sales totaled \$21 thousand in 2010, \$28 thousand in 2009, and \$2 thousand in 2008. Tax expense related to net realized gains from the sales of investment securities for the years ended December 31, 2010, 2009, and 2008 were \$151 thousand, \$403 thousand, and \$99 thousand, respectively. Accumulated other comprehensive income related to securities of \$884 thousand and \$5.4 million, net of taxes, has been included in shareholders' equity at December 31, 2010 and 2009, respectively. Unrealized losses in investment securities at December 31, 2010 and 2009 do not represent other-than-temporary impairments.

The Corporation realized other-than-temporary impairment charges of \$62 thousand and \$1.7 million, respectively, to noninterest income on its equity portfolio during the years ended December 31, 2010 and 2009. The Corporation determined that it was probable that certain equity securities would not regain market value equivalent to the Corporation's cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other under-water equity securities, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation's cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced recent declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the positive intent and ability to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation's cost basis occurs. The Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

At December 31, 2010 and 2009, there were no investments in any single non-federal issuer representing more than 10% of shareholders' equity.

The following table shows the amount of securities that were in an unrealized loss position at December 31, 2010 and 2009:

|                                           | At December 31, 2010    |                   |                         |                   |            |                   |
|-------------------------------------------|-------------------------|-------------------|-------------------------|-------------------|------------|-------------------|
|                                           | Less than Twelve Months |                   | Twelve Months or Longer |                   | Total      |                   |
| (Dollars in thousands)                    | Fair Value              | Unrealized Losses | Fair Value              | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government corporations and agencies | \$ 107,978              | \$ (2,000)        | \$                      | \$                | \$ 107,978 | \$ (2,000)        |
| State and political subdivisions          | 52,531                  | (2,589)           | 1,589                   | (173)             | 54,120     | (2,762)           |
| Residential mortgage-backed securities    | 10,096                  | (38)              | 4,419                   | (454)             | 14,515     | (492)             |
| Commercial mortgage obligations           | 19,322                  | (1,164)           |                         |                   | 19,322     | (1,164)           |
| Other securities                          | 4,945                   | (43)              |                         |                   | 4,945      | (43)              |
| Equity securities                         | 951                     | (140)             | 17                      | (2)               | 968        | (142)             |
| Total                                     | \$ 195,823              | \$ (5,974)        | \$ 6,025                | \$ (629)          | \$ 201,848 | \$ (6,603)        |



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| (Dollars in thousands)                    | Less than Twelve Months |                   | At December 31, 2009<br>Twelve Months or Longer |                   | Total      |                   |
|-------------------------------------------|-------------------------|-------------------|-------------------------------------------------|-------------------|------------|-------------------|
|                                           | Fair Value              | Unrealized Losses | Fair Value                                      | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government corporations and agencies | \$ 47,057               | \$ (238)          | \$                                              | \$                | \$ 47,057  | \$ (238)          |
| State and political subdivisions          | 16,378                  | (248)             | 1,141                                           | (25)              | 17,519     | (273)             |
| Residential mortgage-backed securities    |                         |                   | 5,323                                           | (829)             | 5,323      | (829)             |
| Commercial mortgage obligations           |                         |                   |                                                 |                   |            |                   |
| Other securities                          |                         |                   |                                                 |                   |            |                   |
| Equity securities                         | 128                     | (15)              | 95                                              | (13)              | 223        | (28)              |
| Total                                     | \$ 63,563               | \$ (501)          | \$ 6,559                                        | \$ (867)          | \$ 70,122  | \$ (1,368)        |

**Note 4. Loans and Leases**

The following is a summary of the major loan and lease categories:

| (Dollars in thousands)                               | At December 31, |              |
|------------------------------------------------------|-----------------|--------------|
|                                                      | 2010            | 2009         |
| Commercial, financial and agricultural               | \$ 463,518      | \$ 447,495   |
| Real estate-commercial                               | 516,546         | 487,688      |
| Real estate-construction                             | 119,769         | 91,891       |
| Real estate-residential secured for business purpose | 42,459          | 45,588       |
| Real estate-residential secured for personal purpose | 121,876         | 139,561      |
| Real estate-home equity secured for personal purpose | 80,875          | 81,473       |
| Loans to individuals                                 | 44,087          | 46,761       |
| Lease financings                                     | 92,617          | 95,678       |
| Total gross loans and leases                         | 1,481,747       | 1,436,135    |
| Less: Unearned income                                | (10,561)        | (10,155)     |
| Total loans and leases, net of unearned income       | \$ 1,471,186    | \$ 1,425,980 |

Net unamortized deferred loan and lease origination fees, which are recorded within each loan category, for the years ended December 31, 2010 and 2009, were \$228 thousand and \$1.1 million, respectively. Overdraft deposits are re-classified as loans and are included in the total loans and leases on the balance sheet. For the years ended December 31, 2010 and 2009, overdrafts were \$199 thousand and \$495 thousand, respectively.

The Corporation is a lessor of primarily small-ticket equipment under agreements expiring at various dates through the Year 2016. At December 31, 2010, the schedule of minimum lease payments is as follows:

|                        |           |
|------------------------|-----------|
| (Dollars in thousands) |           |
| 2011                   | \$ 42,310 |
| 2012                   | 27,071    |

|                                                           |                  |
|-----------------------------------------------------------|------------------|
| 2013                                                      | 13,595           |
| 2014                                                      | 7,460            |
| 2015                                                      | 2,132            |
| Thereafter                                                | 49               |
| Total future minimum lease payments receivable            | 92,617           |
| Less: Unearned income                                     | (10,561)         |
| Total lease financing receivables, net of unearned income | <b>\$ 82,056</b> |

**Table of Contents****Note 5. Credit Quality of Loans and Leases and the Reserve for Loan and Lease Losses*****Age Analysis of Past Due Loans and Leases***

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans greater than 90 days past due which are accruing interest at December 31, 2010 and 2009:

|                                                            | 30-59<br>Days<br>Past<br>Due* | 60-89<br>Days<br>Past<br>Due* | Greater<br>Than<br>90<br>Days<br>Past<br>Due* | Total<br>Past<br>Due* | Current*     | Total<br>Loans<br>and Leases | Recorded<br>Investment<br>Greater<br>than<br>90 Days<br>Past Due<br>and<br>Accruing<br>Interest* |
|------------------------------------------------------------|-------------------------------|-------------------------------|-----------------------------------------------|-----------------------|--------------|------------------------------|--------------------------------------------------------------------------------------------------|
| (Dollars in thousands)                                     |                               |                               |                                               |                       |              |                              |                                                                                                  |
| <b>At December 31, 2010</b>                                |                               |                               |                                               |                       |              |                              |                                                                                                  |
| Commercial, financial<br>and agricultural                  | \$ 924                        | \$                            | \$                                            | \$ 924                | \$ 454,792   | \$ 463,518                   | \$                                                                                               |
| Real estate-commercial<br>real estate and<br>construction: |                               |                               |                                               |                       |              |                              |                                                                                                  |
| Commercial real estate                                     | 3,836                         |                               |                                               | 3,836                 | 484,527      | 516,546                      |                                                                                                  |
| Construction                                               | 156                           |                               |                                               | 156                   | 112,739      | 119,769                      |                                                                                                  |
| Real estate-residential<br>and home equity:                |                               |                               |                                               |                       |              |                              |                                                                                                  |
| Residential secured for<br>business purpose                |                               |                               |                                               |                       | 42,008       | 42,459                       |                                                                                                  |
| Residential secured for<br>personal purpose                | 92                            |                               | 270                                           | 362                   | 120,250      | 121,876                      | 270                                                                                              |
| Home equity secured for<br>personal purpose                | 118                           | 74                            | 44                                            | 236                   | 80,639       | 80,875                       | 44                                                                                               |
| Loans to individuals                                       | 537                           | 153                           | 382                                           | 1,072                 | 42,934       | 44,087                       | 382                                                                                              |
| Lease financings                                           | 1,071                         | 421                           |                                               | 1,492                 | 79,437       | 82,056                       |                                                                                                  |
| Total                                                      | \$ 6,734                      | \$ 648                        | \$ 696                                        | \$ 8,078              | \$ 1,417,326 | \$ 1,471,186                 | \$ 696                                                                                           |

**At December 31, 2009**

|                                                            |        |          |        |          |            |            |        |
|------------------------------------------------------------|--------|----------|--------|----------|------------|------------|--------|
| Commercial, financial<br>and agricultural                  | \$ 969 | \$ 1,022 | \$ 134 | \$ 2,125 | \$ 441,895 | \$ 447,495 | \$ 134 |
| Real estate-commercial<br>real estate and<br>construction: |        |          |        |          |            |            |        |
| Commercial real estate                                     | 3,307  | 765      |        | 4,072    | 468,265    | 487,688    |        |
| Construction                                               |        |          |        |          | 77,019     | 91,891     |        |

|                                             |          |          |        |           |              |              |        |
|---------------------------------------------|----------|----------|--------|-----------|--------------|--------------|--------|
| Real estate-residential<br>and home equity: |          |          |        |           |              |              |        |
| Residential secured for<br>business purpose | 57       |          |        | 57        | 44,644       | 45,588       |        |
| Residential secured for<br>personal purpose | 784      | 151      | 172    | 1,107     | 137,192      | 139,561      | 172    |
| Home equity secured for<br>personal purpose | 508      | 75       | 101    | 684       | 80,540       | 81,473       | 101    |
| Loans to individuals                        | 811      | 168      | 319    | 1,298     | 45,399       | 46,761       | 319    |
| Lease financings                            | 1,129    | 76       |        | 1,205     | 83,369       | 85,523       |        |
| Total                                       | \$ 7,565 | \$ 2,257 | \$ 726 | \$ 10,548 | \$ 1,378,323 | \$ 1,425,980 | \$ 726 |

\* Excludes impaired loans and leases.

**Table of Contents*****Nonaccrual and Troubled Debt Restructured Loans and Leases***

The following presents by class of loans and leases, nonaccrual loans and leases, and accruing troubled debt restructured loans and leases at December 31, 2010 and 2009:

|                                                      | At December 31,                      |                                                                     |                                             |                                      |                                                                     |                                             |
|------------------------------------------------------|--------------------------------------|---------------------------------------------------------------------|---------------------------------------------|--------------------------------------|---------------------------------------------------------------------|---------------------------------------------|
|                                                      | 2010                                 |                                                                     | Total<br>Impaired<br>Loans<br>and<br>Leases | 2009                                 |                                                                     | Total<br>Impaired<br>Loans<br>and<br>Leases |
| (Dollars in thousands)                               | Nonaccrual<br>Loans<br>and<br>Leases | Accruing<br>Troubled<br>Debt<br>Restructured<br>Loans and<br>Leases |                                             | Nonaccrual<br>Loans<br>and<br>Leases | Accruing<br>Troubled<br>Debt<br>Restructured<br>Loans and<br>Leases |                                             |
| Commercial, financial and agricultural               | \$ 7,627                             | \$ 175                                                              | \$ 7,802                                    | \$ 3,275                             | \$ 200                                                              | \$ 3,475                                    |
| Real estate-commercial real estate and construction: |                                      |                                                                     |                                             |                                      |                                                                     |                                             |
| Commercial real estate                               | 28,183                               |                                                                     | 28,183                                      | 14,005                               | 1,346                                                               | 15,351                                      |
| Construction                                         | 6,874                                |                                                                     | 6,874                                       | 14,872                               |                                                                     | 14,872                                      |
| Real estate-residential and home equity:             |                                      |                                                                     |                                             |                                      |                                                                     |                                             |
| Residential secured for business purpose             | 361                                  | 90                                                                  | 451                                         | 323                                  | 564                                                                 | 887                                         |
| Residential secured for personal purpose             | 1,264                                |                                                                     | 1,264                                       |                                      | 1,262                                                               | 1,262                                       |
| Home equity secured for personal purpose             |                                      |                                                                     |                                             | 249                                  |                                                                     | 249                                         |
| Loans to individuals                                 | 21                                   | 60                                                                  | 81                                          |                                      | 64                                                                  | 64                                          |
| Lease financings                                     | 902                                  | 225                                                                 | 1,127                                       | 774                                  | 175                                                                 | 949                                         |
| Total                                                | \$ 45,232                            | \$ 550                                                              | \$ 45,782                                   | \$ 33,498                            | \$ 3,611                                                            | \$ 37,109                                   |

***Credit Quality Indicators***

The following tables present by class, the recorded investment in loans and leases by credit quality indicator at December 31, 2010 and 2009.

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

1. Cash Secured No credit risk
2. Fully Secured Negligible credit risk
3. Strong Minimal credit risk
4. Satisfactory Nominal credit risk
5. Acceptable Moderate credit risk
6. Pre-Watch Marginal, but stable credit risk
7. Special Mention Potential weakness
8. Substandard Well-defined weakness
9. Doubtful Collection in-full improbable
10. Loss Considered uncollectible

**Table of Contents*****Commercial Credit Exposure Credit Risk by Internally Assigned Grades***

|                           | <b>Commercial,<br/>Financial<br/>and Agricultural</b> |             | <b>Real<br/>Estate Commercial</b> |             | <b>Real<br/>Estate Construction</b> |             | <b>Real<br/>Estate Residential<br/>Secured for<br/>Business<br/>Purpose</b> |             |
|---------------------------|-------------------------------------------------------|-------------|-----------------------------------|-------------|-------------------------------------|-------------|-----------------------------------------------------------------------------|-------------|
| (Dollars in<br>thousands) | <b>At December 31,<br/>2010</b>                       | <b>2009</b> | <b>At December 31,<br/>2010</b>   | <b>2009</b> | <b>At December 31,<br/>2010</b>     | <b>2009</b> | <b>At December 31,<br/>2010</b>                                             | <b>2009</b> |
| Grade:                    |                                                       |             |                                   |             |                                     |             |                                                                             |             |
| 1. Cash secured/          |                                                       |             |                                   |             |                                     |             |                                                                             |             |
| 2. Fully secured          | \$ 2,714                                              | \$ 1,924    | \$                                | \$          | \$                                  | \$          | \$                                                                          | \$          |
| 3. Strong                 | 16,350                                                | 26,767      | 11,542                            | 18,029      | 2,674                               | 1,076       | 28                                                                          | 130         |
| 4. Satisfactory           | 71,258                                                | 110,372     | 47,755                            | 61,476      | 12,217                              | 11,711      | 1,836                                                                       | 4,777       |
| 5. Acceptable             | 254,422                                               | 186,506     | 261,520                           | 216,942     | 78,116                              | 24,221      | 24,987                                                                      | 24,391      |
| 6. Pre-watch              | 70,259                                                | 60,346      | 109,493                           | 102,531     | 11,296                              | 23,393      | 6,322                                                                       | 5,432       |
| 7. Special<br>Mention     | 8,476                                                 | 12,324      | 17,596                            | 26,504      | 684                                 | 15,052      | 700                                                                         | 884         |
| 8. Substandard            | 36,933                                                | 48,124      | 67,379                            | 62,108      | 14,782                              | 9,144       | 8,586                                                                       | 9,720       |
| 9. Doubtful               | 3,106                                                 | 1,040       | 1,261                             | 98          |                                     | 7,294       |                                                                             | 254         |
| 10. Loss                  |                                                       | 92          |                                   |             |                                     |             |                                                                             |             |
| Total                     | \$ 463,518                                            | \$ 447,495  | \$ 516,546                        | \$ 487,688  | \$ 119,769                          | \$ 91,891   | \$ 42,459                                                                   | \$ 45,588   |

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

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

|                           | <b>Real Estate Residential<br/>Secured for</b>       |             | <b>Real Estate Home<br/>Equity<br/>Secured for</b>   |             | <b>Loans to<br/>individuals</b> |             | <b>Lease Financing</b>          |             |
|---------------------------|------------------------------------------------------|-------------|------------------------------------------------------|-------------|---------------------------------|-------------|---------------------------------|-------------|
| (Dollars in<br>thousands) | <b>Personal Purpose<br/>At December 31,<br/>2010</b> | <b>2009</b> | <b>Personal Purpose<br/>At December 31,<br/>2010</b> | <b>2009</b> | <b>At December 31,<br/>2010</b> | <b>2009</b> | <b>At December 31,<br/>2010</b> | <b>2009</b> |
| Performing                | \$ 120,342                                           | \$ 138,127  | \$ 80,831                                            | \$ 81,123   | \$ 43,624                       | \$ 46,378   | \$ 80,929                       | \$ 84,574   |
| Nonperforming             | 1,534                                                | 1,434       | 44                                                   | 350         | 463                             | 383         | 1,127                           | 949         |
| Total                     | \$ 121,876                                           | \$ 139,561  | \$ 80,875                                            | \$ 81,473   | \$ 44,087                       | \$ 46,761   | \$ 82,056                       | \$ 85,523   |

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

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

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

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

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

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

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

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

In the real estate-home equity loan portfolio secured for a personal purpose, combined loan-to-value ratios at origination are generally limited to 80%. Other credit considerations may warrant higher combined loan-to-value ratios and are generally insured by private mortgage insurance.

Credit risk in the loans to individuals portfolio, which includes, direct consumer loans and credit cards, is controlled by strict adherence to conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk 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.



**Table of Contents*****Reserve for Loan and Lease Losses and Recorded Investment in Loans and Leases***

The following presents, by portfolio segment, the balance in the reserve for loan and leases losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the years ended December 31, 2010 and 2009.

|                                                       | Commercial, Financial and Agricultural |       | Real Estate-Commercial and Construction |        | Real Estate Residential for Business Purpose |       | Real Estate and Home Equity Secured for Personal Purpose |     | Loans to Individual | Leasehold Improvements | Unallocated | Total |    |       |    |        |
|-------------------------------------------------------|----------------------------------------|-------|-----------------------------------------|--------|----------------------------------------------|-------|----------------------------------------------------------|-----|---------------------|------------------------|-------------|-------|----|-------|----|--------|
| (Dollars in thousands)                                |                                        |       |                                         |        |                                              |       |                                                          |     |                     |                        |             |       |    |       |    |        |
| For the Year Ended December 31, 2010                  |                                        |       |                                         |        |                                              |       |                                                          |     |                     |                        |             |       |    |       |    |        |
| Reserve for loan and lease losses:                    |                                        |       |                                         |        |                                              |       |                                                          |     |                     |                        |             |       |    |       |    |        |
| Ending balance: individually evaluated for impairment | \$                                     | 470   | \$                                      | 1,122  | \$                                           | 29    | \$                                                       | 2   | \$                  |                        | \$          | N/A   | \$ | 1,623 |    |        |
| Ending balance: collectively evaluated for impairment |                                        | 9,160 |                                         | 14,166 |                                              | 1,304 |                                                          | 542 |                     | 734                    |             | 1,950 |    | 1,419 |    | 29,275 |
| Ending balance                                        | \$                                     | 9,630 | \$                                      | 15,288 | \$                                           | 1,333 | \$                                                       | 544 | \$                  | 734                    | \$          | 1,950 | \$ | 1,419 | \$ | 30,898 |

**Loans and leases:**

|                                                             |    |         |    |         |    |        |    |         |    |        |    |        |  |    |              |
|-------------------------------------------------------------|----|---------|----|---------|----|--------|----|---------|----|--------|----|--------|--|----|--------------|
| Ending balance:<br>individually evaluated<br>for impairment | \$ | 7,802   | \$ | 35,057  | \$ | 451    | \$ | 1,264   | \$ | 81     | \$ | 1,127  |  | \$ | 45,782       |
| Ending balance:<br>collectively evaluated for<br>impairment |    | 455,716 |    | 601,258 |    | 42,008 |    | 201,487 |    | 44,006 |    | 80,929 |  |    | 1,425,404    |
| Ending balance                                              | \$ | 463,518 | \$ | 636,315 | \$ | 42,459 | \$ | 202,751 | \$ | 44,087 | \$ | 82,056 |  |    | \$ 1,471,186 |

**For the Year Ended December 31, 2009****Reserve for loan and lease losses:**

|                                                             |    |        |    |       |    |       |    |     |    |     |    |       |    |       |    |        |
|-------------------------------------------------------------|----|--------|----|-------|----|-------|----|-----|----|-----|----|-------|----|-------|----|--------|
| Ending balance:<br>individually evaluated<br>for impairment | \$ | 558    | \$ | 813   | \$ | 53    | \$ |     | \$ |     | \$ | N/A   | \$ | 1,424 |    |        |
| Ending balance:<br>collectively evaluated for<br>impairment |    | 11,590 |    | 7,162 |    | 1,005 |    | 501 |    | 887 |    | 1,175 | \$ | 1,054 |    | 23,374 |
| Ending balance                                              | \$ | 12,148 | \$ | 7,975 | \$ | 1,058 | \$ | 501 | \$ | 887 | \$ | 1,175 | \$ | 1,054 | \$ | 24,798 |

**Loans and leases:**

|                                                             |    |         |    |         |    |        |    |         |    |        |    |        |  |    |           |
|-------------------------------------------------------------|----|---------|----|---------|----|--------|----|---------|----|--------|----|--------|--|----|-----------|
| Ending balance:<br>individually evaluated<br>for impairment | \$ | 3,475   | \$ | 30,223  | \$ | 887    | \$ | 1,511   | \$ | 64     | \$ | 949    |  | \$ | 37,109    |
| Ending balance:<br>collectively evaluated for<br>impairment |    | 444,020 |    | 549,356 |    | 44,701 |    | 219,523 |    | 46,697 |    | 84,574 |  |    | 1,388,871 |
| Ending balance                                              | \$ | 447,495 | \$ | 579,579 | \$ | 45,588 | \$ | 221,034 | \$ | 46,761 | \$ | 85,523 |  | \$ | 1,425,980 |

A summary of the activity in the reserve for loan and lease losses is as follows:

|                                     | <b>For the Years Ended December 31,</b> |             |             |
|-------------------------------------|-----------------------------------------|-------------|-------------|
|                                     | <b>2010</b>                             | <b>2009</b> | <b>2008</b> |
| Balance at beginning of year        | \$ 24,798                               | \$ 13,118   | \$ 13,086   |
| Provision for loan and lease losses | 21,565                                  | 20,886      | 8,769       |
| Loans and leases charged off        | (17,105)                                | (10,448)    | (9,305)     |
| Recoveries                          | 1,640                                   | 1,242       | 568         |
| Balance at end of year              | \$ 30,898                               | \$ 24,798   | \$ 13,118   |

**Table of Contents*****Impaired Loans and Leases***

The following presents, by class of loans and leases, the recorded investment and unpaid principal balance of impaired loans and leases, the amounts of the impaired loans and leases for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at December 31, 2010 and 2009.

| (Dollars in thousands)                                             | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal<br/>Balance</b> | <b>Related<br/>Allowance</b> |
|--------------------------------------------------------------------|--------------------------------|-----------------------------------------|------------------------------|
| <b>At December 31, 2010</b>                                        |                                |                                         |                              |
| Impaired loans and leases with no related allowance recorded:      |                                |                                         |                              |
| Commercial, financial and agricultural                             | \$ 4,761                       | \$ 5,074                                |                              |
| Real estate-commercial real estate                                 | 21,403                         | 23,094                                  |                              |
| Real estate-construction                                           | 6,225                          | 8,025                                   |                              |
| Real estate-residential secured for business purpose               | 361                            | 730                                     |                              |
| Real estate-residential secured for personal purpose               | 632                            | 632                                     |                              |
| Loans to individuals                                               | 81                             | 81                                      |                              |
| Lease financings                                                   | 1,127                          | 1,127                                   |                              |
| Total impaired loans and leases with no related allowance recorded | \$ 34,590                      | \$ 38,763                               |                              |
| Impaired loans and leases with an allowance recorded:              |                                |                                         |                              |
| Commercial, financial and agricultural                             | \$ 3,041                       | \$ 3,058                                | \$ 650                       |
| Real estate-commercial real estate                                 | 6,780                          | 8,321                                   | 909                          |
| Real estate-construction                                           | 648                            | 649                                     | 33                           |
| Real estate-residential secured for business purpose               | 90                             | 90                                      | 29                           |
| Real estate-residential secured for personal purpose               | 632                            | 632                                     | 2                            |
| Total impaired loans leases with an allowance recorded             | \$ 11,192                      | \$ 12,750                               | \$ 1,623                     |
| Total impaired loans and leases:                                   |                                |                                         |                              |
| Commercial, financial and agricultural                             | \$ 7,802                       | \$ 8,132                                | \$ 650                       |
| Real estate-commercial real estate                                 | 28,183                         | 31,415                                  | 909                          |
| Real estate-construction                                           | 6,874                          | 8,674                                   | 33                           |
| Real estate-residential secured for business purpose               | 451                            | 820                                     | 29                           |
| Real estate-residential secured for personal purpose               | 1,264                          | 1,264                                   | 2                            |
| Loans to individuals                                               | 81                             | 81                                      |                              |
| Lease financings                                                   | 1,127                          | 1,127                                   |                              |
| Total impaired loans and leases                                    | \$ 45,782                      | \$ 51,513                               | \$ 1,623                     |

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| (Dollars in thousands)                                             | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal<br/>Balance</b> | <b>Related<br/>Allowance</b> |
|--------------------------------------------------------------------|--------------------------------|-----------------------------------------|------------------------------|
| <b>At December 31, 2009</b>                                        |                                |                                         |                              |
| Impaired loans and leases with no related allowance recorded:      |                                |                                         |                              |
| Commercial, financial and agricultural                             | \$ 2,120                       | \$ 2,882                                |                              |
| Real estate commercial real estate                                 | 15,052                         | 15,075                                  |                              |
| Real estate construction                                           | 7,236                          | 8,629                                   |                              |
| Real estate residential secured for business purpose               | 628                            | 843                                     |                              |
| Real estate residential secured for personal purpose               | 1,262                          | 1,262                                   |                              |
| Real estate home equity secured for personal purpose               | 249                            | 249                                     |                              |
| Loans to individuals                                               | 64                             | 64                                      |                              |
| Lease financings                                                   | 949                            | 949                                     |                              |
| Total impaired loans and leases with no related allowance recorded | \$ 27,560                      | \$ 29,953                               |                              |
| Impaired loans and leases with an allowance recorded:              |                                |                                         |                              |
| Commercial, financial and agricultural                             | \$ 1,355                       | \$ 1,355                                | \$ 558                       |
| Real estate commercial real estate                                 | 299                            | 299                                     | 8                            |
| Real estate construction                                           | 7,636                          | 7,736                                   | 805                          |
| Real estate commercial residential                                 | 259                            | 259                                     | 53                           |
| Total impaired loans leases with an allowance recorded             | \$ 9,549                       | \$ 9,649                                | \$ 1,424                     |
| Total impaired loans and leases:                                   |                                |                                         |                              |
| Commercial, financial and agricultural                             | \$ 3,475                       | \$ 4,237                                | \$ 558                       |
| Real estate commercial real estate                                 | 15,351                         | 15,374                                  | 8                            |
| Real estate construction                                           | 14,872                         | 16,365                                  | 805                          |
| Real estate residential secured for business purpose               | 887                            | 1,102                                   | 53                           |
| Real estate residential secured for personal purpose               | 1,262                          | 1,262                                   |                              |
| Real estate home equity secured for personal purpose               | 249                            | 249                                     |                              |
| Loans to individuals                                               | 64                             | 64                                      |                              |
| Lease financings                                                   | 949                            | 949                                     |                              |
| Total impaired loans and leases                                    | \$ 37,109                      | \$ 39,602                               | \$ 1,424                     |

Additional information with respect to impaired loans and leases is as follows:

| (Dollars in thousands)                                   | <b>2010</b>  | <b>December 31,<br/>2009</b> | <b>2008</b> |
|----------------------------------------------------------|--------------|------------------------------|-------------|
| Average recorded investment in impaired loans and leases | \$ 35,717    | \$ 16,570                    | \$ 7,135    |
| Interest income recognized                               | 25           | 79                           | 11          |
|                                                          | <b>2,149</b> | <b>969</b>                   | <b>685</b>  |

Interest income that would have been recognized under original terms

Any income accrued on one-to-four family residential properties after the loan becomes 90 days past due is held in a reserve for uncollected interest. The reserve for uncollected interest was \$42 thousand and \$29 thousand at December 31, 2010 and 2009, respectively. Other real estate owned was \$2.4 million and \$3.4 million at December 31, 2010 and 2009, respectively.

The Bank maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded. The reserve for off-balance sheet credits was \$178 thousand and \$145 thousand at December 31, 2010 and 2009, respectively.

**Table of Contents****Note 6. Premises and Equipment**

The following table reflects the components of premises and equipment:

| (Dollars in thousands)         | At December 31, |           |
|--------------------------------|-----------------|-----------|
|                                | 2010            | 2009      |
| Land and land improvements     | \$ 8,906        | \$ 8,270  |
| Premises and improvements      | 35,449          | 34,493    |
| Furniture and equipment        | 18,042          | 17,307    |
| Total cost                     | 62,397          | 60,070    |
| Less: accumulated depreciation | (27,792)        | (25,869)  |
| Net book value                 | \$ 34,605       | \$ 34,201 |

**Note 7. Intangible Assets**

The Corporation has completed an annual impairment test for the intangible asset category. There were no impairments in 2010 and 2009. There can be no assurance that future impairment tests will not result in a charge to earnings.

The Corporation has covenants not to compete, intangible assets due to branch acquisitions, core deposit intangibles, 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 for these intangible assets was: \$1.5 million for the year ended December 31, 2010; \$1.5 million for the year ended December 31, 2009; and \$642 thousand for the year ended December 31, 2008. The Corporation also has goodwill with a net carrying amount of \$51.3 million, which is deemed to be an indefinite intangible asset and is not amortized. On December 31, 2008, the Corporation completed the acquisition of the Trollinger Consulting Group and related entities, an independent actuarial, administrative, consulting/compliance, and investment counseling firm that exclusively serves Municipal Pension Plan clients. The Corporation recorded \$2.9 million in goodwill and \$3.0 million in customer related intangibles as a result of the Trollinger Consulting Group acquisition. On December 29, 2008, the Corporation completed the acquisition of Liberty Benefits, Inc., a full service employee benefits brokerage and consulting firm specializing in providing comprehensive employee benefits packages to businesses both large and small. The Corporation recorded \$2.8 million in goodwill and \$740 thousand in customer related intangibles as a result of the Liberty Benefits, Inc. acquisition. On July 27, 2006, the Corporation completed the acquisition of B. G. Balmer & Company, Inc., a full-service insurance agency. In connection with this acquisition, \$3.1 million was recorded to goodwill, \$1.5 million was recorded to a customer-related intangible and \$100 thousand was recorded for a covenant not to compete. The Corporation recorded additional goodwill of \$925 thousand at December 31, 2010 for an earn-out payment related to the acquisition of Trollinger Consulting Group for meeting minimum operating results. The Corporation recorded additional goodwill of \$157 thousand in 2009 related to its 2008 acquisition of Trollinger Consulting Group.

Changes in the carrying amount of the Corporation's goodwill for the years ended December 31, 2010 and 2009 were as follows:

|                                 |           |
|---------------------------------|-----------|
| (Dollars in thousands)          |           |
| Balance as of December 31, 2008 | \$ 50,236 |
| Additions:                      |           |
| Trollinger Consulting Group     | 157       |
| Balance as of December 31, 2009 | \$ 50,393 |
| Additions:                      |           |

|                                 |                  |
|---------------------------------|------------------|
| Trollinger Consulting Group     | 927              |
| Balance as of December 31, 2010 | <b>\$ 51,320</b> |

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The following table reflects the components of intangible assets as of the dates indicated:

|                                   | December 31, 2010 |              |          | December 31, 2009 |              |          |
|-----------------------------------|-------------------|--------------|----------|-------------------|--------------|----------|
|                                   | Gross             | Accumulated  | Net      | Gross             | Accumulated  | Net      |
| (Dollars in thousands)            | Carrying          | Amortization | Carrying | Carrying          | Amortization | Carrying |
|                                   | Amount            | and          | Amount   | Amount            | Fair Value   | Amount   |
|                                   |                   | Adjustments  |          |                   | Adjustments  |          |
| Amortized intangible assets:      |                   |              |          |                   |              |          |
| Covenants not to compete          | \$ 320            | \$ 308       | \$ 12    | \$ 320            | \$ 288       | \$ 32    |
| Branch acquisitions               | 2,951             | 2,951        |          | 2,951             | 2,951        |          |
| Core deposit intangibles          | 2,201             | 2,007        | 194      | 2,201             | 1,786        | 415      |
| Customer related intangibles      | 5,302             | 2,472        | 2,830    | 5,302             | 1,609        | 3,693    |
| Mortgage servicing rights, net    | 4,198             | 1,757        | 2,441    | 2,818             | 1,381        | 1,437    |
| Total amortized intangible assets | \$ 14,972         | \$ 9,495     | \$ 5,477 | \$ 13,592         | \$ 8,015     | \$ 5,577 |

The estimated aggregate amortization expense includes covenants not to compete, core deposit intangibles and customer related intangibles for each of the five succeeding fiscal years is as follows:

| Year       | Amount<br>(Dollars in thousands) |
|------------|----------------------------------|
| 2011       | \$ 893                           |
| 2012       | 671                              |
| 2013       | 498                              |
| 2014       | 380                              |
| 2015       | 263                              |
| Thereafter | 331                              |

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method using an accelerated amortization method and are subject to periodic impairment testing.

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

| (Dollars in thousands)             | For the Years Ended December 31, |            |           |
|------------------------------------|----------------------------------|------------|-----------|
|                                    | 2010                             | 2009       | 2008      |
| Beginning balance                  | \$ 1,437                         | \$ 418     | \$ 512    |
| Servicing rights capitalized       | 1,380                            | 1,280      | 51        |
| Amortization of servicing rights   | (425)                            | (178)      | (27)      |
| Changes in valuation               | 49                               | (83)       | (118)     |
| Ending balance                     | \$ 2,441                         | \$ 1,437   | \$ 418    |
| Mortgage loans serviced for others | \$ 306,403                       | \$ 174,066 | \$ 55,138 |

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

| (Dollars in thousands) | For the Years Ended December 31, |          |          |
|------------------------|----------------------------------|----------|----------|
|                        | 2010                             | 2009     | 2008     |
| Beginning balance      | \$ (250)                         | \$ (167) | \$ (49)  |
| Additions              | 49                               | (83)     | (118)    |
| Reductions             |                                  |          |          |
| Direct write-downs     |                                  |          |          |
| Ending balance         | \$ (201)                         | \$ (250) | \$ (167) |

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The estimated amortization expense of mortgage servicing rights for each of the five succeeding fiscal years is as follows:

| Year       | Amount<br>(Dollars in thousands) |
|------------|----------------------------------|
| 2011       | \$ 385                           |
| 2012       | 335                              |
| 2013       | 288                              |
| 2014       | 249                              |
| 2015       | 215                              |
| Thereafter | 969                              |

The balance of mortgage servicing rights, net of fair value adjustments and accumulated amortization, or fair value, included in other intangibles at December 31, 2010 was \$2.4 million and at December 31, 2009 was \$1.4 million. The aggregate fair value of these rights was \$2.9 million and \$1.4 million at December 31, 2010 and 2009, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 3.5% to 6.3% for 2010. Amortization of mortgage servicing rights of approximately \$425 thousand was recorded during 2010, \$178 thousand during 2009, and \$27 thousand during 2008. The cumulative unfavorable fair value adjustments were \$201 thousand, \$250 thousand and \$167 thousand at December 31, 2010, 2009 and 2008, respectively.

**Note 8. Accrued Interest and Other Assets**

The following table provides the details of accrued interest and other assets:

| (Dollars in thousands)                                                                                      | At December 31, |           |
|-------------------------------------------------------------------------------------------------------------|-----------------|-----------|
|                                                                                                             | 2010            | 2009      |
| Other real estate owned                                                                                     | \$ 2,438        | \$ 3,428  |
| Accrued interest receivable                                                                                 | 7,206           | 7,613     |
| Accrued income and other receivables                                                                        | 2,843           | 2,772     |
| Fair market value of derivative financial instruments                                                       | 1,291           | 3,124     |
| Prepaid FDIC insurance assessments                                                                          | 6,132           | 8,427     |
| Other prepaid expenses                                                                                      | 7,256           | 9,145     |
| Federal Reserve Bank stock, Federal Home Loan Bank stock and other not readily marketable equity securities | 10,457          | 11,910    |
| Net deferred tax assets                                                                                     | 15,557          | 9,947     |
| Other                                                                                                       | 624             | 627       |
| Total accrued interest and other assets                                                                     | \$ 53,804       | \$ 56,993 |

On September 28, 2009, the FDIC Board implemented an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund which was finalized in the Fourth Quarter of 2009. The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. This assessment was based on an estimated 5% annual growth rate in deposits during 2010, 2011 and 2012; and a 3 basis-point increase in the base assessment rate at September 30, 2009 to be applied in 2011 and 2012. The Bank paid \$9.0 million to the FDIC on December 30, 2009. At December 31, 2010 \$6.1 million remained in a prepaid asset account. The prepaid amount of \$6.1 million has a zero percent risk-weighting for risk-based capital ratio calculations. The remaining prepaid amount will be expensed over the 2011 through 2012 period as the actual FDIC assessment are determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.

At December 31, 2010 and 2009, the Bank held \$3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the Federal Home Loan Bank of Pittsburgh (FHLB) in relation to the level of outstanding borrowings. The Bank held FHLB stock of \$7.1 million and \$7.4 million as of December 31, 2010 and 2009, respectively. During 2008, the FHLB suspended the payment of dividends and the repurchase of excess capital stock in-order to rebuild its capital levels. This is due to the other-than-temporary impairment write down required on their private-label mortgage portfolio which could reduce their capital below required levels. Additionally, the FHLB might require its members to increase its capital stock requirement. On October 29, 2010 the FHLB repurchased a limited amount of excess capital stock. The FHLB will make decisions on future repurchases of excess capital stock on a quarterly basis. Based on current information from the FHLB, Management believes that if there is any impairment in the stock it is temporary. Therefore, as of December 31, 2010, the FHLB stock is recorded at cost.

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At December 31, 2009, the Corporation held certain equity investments for which it was restricted from trading and had been carried at cost. During 2009, the Corporation recorded an other-than-temporary impairment on these long-lived assets of \$500 thousand. The Corporation determined that it was probable that these long-lived assets would not regain market value equivalent to the Corporation's cost basis within a reasonable period of time due to a decline in the financial stability of the underlying company. During the first quarter of 2010, due to increased market activity and removal of underlying restrictions from selling, these thinly traded equities were marked to fair value and reclassified to investment securities available for sale.

**Note 9. Income Taxes**

The provision for federal and state income taxes included in the accompanying consolidated statements of income consists of the following:

| (Dollars in thousands) | For the Years Ended December 31, |          |          |
|------------------------|----------------------------------|----------|----------|
|                        | 2010                             | 2009     | 2008     |
| Current:               |                                  |          |          |
| Federal                | \$ 5,142                         | \$ 5,057 | \$ 5,727 |
| State                  | 387                              | (14)     | 175      |
| Deferred:              |                                  |          |          |
| Federal                | (2,162)                          | (4,543)  | (124)    |
| State                  | (85)                             | 63       |          |
|                        | \$ 3,282                         | \$ 563   | \$ 5,778 |

The provision for income taxes differs from the expected statutory provision as follows:

| (Dollars in thousands)                                                         | For the Years Ended December 31, |        |       |
|--------------------------------------------------------------------------------|----------------------------------|--------|-------|
|                                                                                | 2010                             | 2009   | 2008  |
| Expected provision at statutory rate                                           | 35.0%                            | 35.0%  | 35.0% |
| Difference resulting from:                                                     |                                  |        |       |
| Tax exempt interest income                                                     | (16.0)                           | (25.0) | (9.9) |
| Increase in value of bank owned life insurance assets                          | (2.3)                            | (4.1)  | (3.7) |
| Other, including state income taxes, valuation allowance and rate differential | 0.5                              | (0.9)  | 0.5   |
|                                                                                | 17.2%                            | 5.0%   | 21.9% |

During the years ended December 31, 2010 and 2009, the Corporation did not record any tax benefits resulting from the exercise of employee stock options and restricted stock to additional paid-in capital.

As of December 31, 2010 the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. The Corporation's 2006 and 2007 federal tax returns were examined with some adjustments, and tax years 2006 through 2009 remain subject to federal examination as well as examination by state taxing jurisdictions.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Deferred state taxes are combined with federal deferred taxes (net of the impact of deferred state tax on the deferred federal tax) and are shown in the table below by major category of deferred income or expense. A valuation allowance at December 31,

2010 and 2009, was attributable to deferred tax assets generated in certain state jurisdictions for which management believes it is more likely than not that such deferred tax assets will not be realized. Additionally, deferred tax assets of \$9 thousand and \$7 thousand were reversed and charged to equity during the years ended December 31, 2010 and 2009, respectively, as a result of unrecognizable restricted stock and non-qualified stock option expense. The Corporation had state net operating loss carryforwards of \$12.5 million which will begin to expire after December 31, 2018 if not utilized.

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The assets and liabilities giving rise to the Corporation's deferred tax assets and liabilities are as follows:

| (Dollars in thousands)                                                   | At December 31, |          |
|--------------------------------------------------------------------------|-----------------|----------|
|                                                                          | 2010            | 2009     |
| Deferred tax assets:                                                     |                 |          |
| Loan and lease loss                                                      | \$ 10,941       | \$ 8,756 |
| Deferred compensation                                                    | 2,531           | 2,426    |
| Postretirement benefits                                                  | 614             | 578      |
| Actuarial adjustments on postretirement benefits*                        | 4,292           | 3,794    |
| Vacation accrual                                                         | 370             | 366      |
| State net operating losses                                               | 813             | 846      |
| Other-than-temporary impairments on equity securities                    | 1,279           | 1,315    |
| Other                                                                    | 1,553           | 822      |
| Gross deferred tax assets                                                | 22,393          | 18,903   |
| Valuation allowance                                                      | (1,281)         | (1,405)  |
| Total deferred tax asset, net of valuation allowance                     | 21,112          | 17,498   |
| Deferred tax liabilities:                                                |                 |          |
| Market discount                                                          | 1,276           | 691      |
| Retirement plans                                                         | 1,612           | 1,117    |
| Depreciation                                                             | 482             | 273      |
| Deferred fees and expense                                                | 268             | 175      |
| Prepaid expenses                                                         | 406             | 371      |
| Intangible assets                                                        | 863             | 564      |
| Net unrealized holding gains on securities available for sale and swaps* | 648             | 3,512    |
| Other                                                                    |                 | 848      |
| Total deferred tax liabilities                                           | 5,555           | 7,551    |
| Net deferred tax assets                                                  | \$ 15,557       | \$ 9,947 |

\* Represents the amount of deferred taxes recorded in accumulated other comprehensive income (loss).

**Note 10. Retirement Plan and Supplemental Retirement Plans**

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, was frozen and the plan was amended and converted to a cash balance plan, with participants not losing any pension benefits already earned in the plan. Prior to the cash balance plan conversion effective December 31, 2009, the plan provided benefits based on a formula of each participant's final average pay. Future benefits under the cash balance plan accrue by crediting participants annually with an amount equal to a percentage of earnings in that year based on years of credited service as defined in the plan. Additionally, employees hired on or after December 8, 2009 are no longer eligible to participate in the noncontributory retirement plan. The Corporation experienced a reduction in its benefit obligation of \$2.7 million during 2009 as a result of the conversion to the cash balance plan. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. Information on these plans are aggregated and reported under Retirement Plans within this footnote.

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

The Corporation sponsors a 401(k) deferred salary savings plan, which is a qualified defined contribution plan, and which covers all employees of the Corporation and its subsidiaries, and provides that the Corporation makes matching contributions as defined by the plan. Expense recorded by the Corporation for the 401(k) deferred salary savings plan for the years ended December 31, 2010, 2009 and 2008 was \$588 thousand, \$536 thousand and \$493 thousand, respectively.

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The Corporation sponsors a Supplemental non-Qualified Pension Plan (SNQPP) which was established in 1981 for employees who have served for several years, with ability and distinction, in one of the primary policy-making senior level positions, with the understanding that the future growth and continued success of the Corporation's business may well reflect the continued services to be rendered by these employees and the Corporation's desire to be reasonably assured that these employees will continue to serve and realizing that if these employees would enter into competition with the Corporation, it would suffer severe financial loss. The SNQPP was established prior to the existence of a 401(k) Deferred Savings Plan, the Employee Stock Purchase Plan and the Long-Term Incentive Plans and therefore is not actively offered to new participants. Expense recorded by the Corporation for the SNQPP for the years ended December 31, 2010, 2009 and 2008 was \$88 thousand, \$576 thousand and \$523 thousand, respectively. The reduction in expense during 2010 was the result of a change in valuation estimates associated with projecting future changes in the Consumer Price Index. The expense for 2010 was estimated using a weighted-average discount rate of 5.23%. Information with respect to the Retirement and Supplemental Retirement Plans and Other Postretirement Benefits follows:

| (Dollars in thousands)                                   | Retirement Plans |           | Other Postretirement Benefits |            |
|----------------------------------------------------------|------------------|-----------|-------------------------------|------------|
|                                                          | 2010             | 2009      | 2010                          | 2009       |
| Change in benefit obligation:                            |                  |           |                               |            |
| Benefit obligation at beginning of year                  | \$ 29,386        | \$ 31,421 | \$ 1,636                      | \$ 1,486   |
| Service cost                                             | 362              | 1,094     | 76                            | 68         |
| Interest cost                                            | 1,708            | 1,700     | 115                           | 91         |
| Plan amendment                                           |                  | (2,726)   |                               |            |
| Actuarial loss (gain)                                    | 2,239            | (683)     | 226                           | 72         |
| Benefits paid                                            | (1,445)          | (1,420)   | (79)                          | (81)       |
| Benefit obligation at end of year                        | \$ 32,250        | \$ 29,386 | \$ 1,974                      | \$ 1,636   |
| Change in plan assets:                                   |                  |           |                               |            |
| Fair value of plan assets at beginning of year           | \$ 21,606        | \$ 19,422 | \$                            | \$         |
| Actual return on plan assets                             | 2,145            | 3,543     |                               |            |
| Benefits paid                                            | (1,445)          | (1,420)   | (79)                          | (81)       |
| Employer contribution and non-qualified benefit payments | 2,060            | 61        | 79                            | 81         |
| Fair value of plan assets at end of year                 | 24,366           | 21,606    |                               |            |
| Funded status                                            | (7,884)          | (7,780)   | (1,974)                       | (1,636)    |
| Unrecognized net actuarial gain                          | 16,508           | 15,728    | 561                           | 333        |
| Unrecognized prior service costs                         | (2,296)          | (2,531)   | (68)                          | (88)       |
| Unrecognized transition asset                            | (2,443)          | (2,726)   |                               |            |
| Net amount recognized                                    | \$ 3,885         | \$ 2,691  | \$ (1,481)                    | \$ (1,391) |

Information for the pension plans with an accumulated benefit obligation in excess of plan assets:

| (Dollars in thousands) | At December 31, |      |
|------------------------|-----------------|------|
|                        | 2010            | 2009 |

|                                |    |               |    |        |
|--------------------------------|----|---------------|----|--------|
| Projected benefit obligation   | \$ | <b>31,718</b> | \$ | 28,896 |
| Accumulated benefit obligation |    | <b>29,679</b> |    | 26,615 |
| Fair value of plan assets      |    | <b>24,366</b> |    | 21,606 |

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The retirement benefit cost includes the following components:

| (Dollars in thousands)                         | Retirement Plans |          |          | Other Postretirement Benefits |        |        |
|------------------------------------------------|------------------|----------|----------|-------------------------------|--------|--------|
|                                                | 2010             | 2009     | 2008     | 2010                          | 2009   | 2008   |
| Service cost                                   | \$ 362           | \$ 1,094 | \$ 890   | \$ 76                         | \$ 68  | \$ 47  |
| Interest cost                                  | 1,708            | 1,700    | 1,664    | 115                           | 91     | 75     |
| Expected return on plan assets                 | (1,670)          | (1,545)  | (1,872)  |                               |        |        |
| Amortization of net loss                       | 686              | 899      | 358      | 7                             | 25     | 3      |
| Amortization (accretion) of prior service cost | 47               | 47       | 46       | (20)                          | (20)   | (20)   |
| Accretion of transition asset                  | (283)            |          |          |                               |        |        |
| Net periodic benefit cost                      | \$ 850           | \$ 2,195 | \$ 1,086 | \$ 178                        | \$ 164 | \$ 105 |

| (Dollars in thousands)                         | Retirement Plans | Other Postretirement Benefits |
|------------------------------------------------|------------------|-------------------------------|
| <b>Expected amortization expense for 2011:</b> |                  |                               |
| Amortization of net loss                       | \$ 730           | \$ 16                         |
| Amortization (accretion) of prior service cost | 42               | (20)                          |
| Accretion of transition asset                  | (283)            |                               |

During 2011, the Corporation expects to contribute approximately \$54 thousand to the Retirement Plans and approximately \$97 thousand to Other Postretirement Benefits.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| (Dollars in thousands)      | Retirement Plans | Other Postretirement Benefits |
|-----------------------------|------------------|-------------------------------|
| For the fiscal year ending: |                  |                               |
| 2011                        | \$ 1,504         | \$ 97                         |
| 2012                        | 1,610            | 105                           |
| 2013                        | 1,727            | 112                           |
| 2014                        | 1,715            | 123                           |
| 2015                        | 1,856            | 126                           |
| Years 2016-2020             | 8,099            | 710                           |

Weighted-average assumptions used to determine benefit obligations at December 31, 2010 and 2009 were as follows:

|                                      | Retirement Plans |      | Other Postretirement Benefits |      |
|--------------------------------------|------------------|------|-------------------------------|------|
|                                      | 2010             | 2009 | 2010                          | 2009 |
| Assumed discount rate for obligation | 5.5%             | 5.9% | 5.5%                          | 6.0% |
| Assumed salary increase rate         | 3.0              | 3.0  |                               |      |

Weighted-average assumptions used to determine net periodic costs for the years ended December 31, 2010 and 2009 were as follows:

| Retirement Plans | Other Postretirement Benefits |
|------------------|-------------------------------|
|------------------|-------------------------------|

|                                             | <b>2010</b> | <b>2009</b> | <b>2010</b> | <b>2009</b> |
|---------------------------------------------|-------------|-------------|-------------|-------------|
| Assumed discount rate for obligation        | <b>6.0%</b> | 5.9%        | <b>6.0%</b> | 5.9%        |
| Assumed long-term rate of investment return | <b>8.0</b>  | 8.0         |             |             |
| Assumed salary increase rate                | <b>3.0</b>  | 5.1         |             |             |

The discount rate was determined utilizing the Citigroup Pension Discount Curve. Historical investment returns is the basis used to determine the overall expected long-term rate of return on assets.

| <b>Assumed Health Care Cost Trend Rates</b>             | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---------------------------------------------------------|-------------|-------------|-------------|
| Health care cost trend rate assumed for next year       | <b>6.5%</b> | 6.5%        | 6.5%        |
| Rate to which the cost trend rate is assumed to decline | <b>5.0</b>  | 5.0         | 5.0         |
| Year that the rate reaches the ultimate rate            | <b>2012</b> | 2011        | 2010        |

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

|                                                         | <b>One Percentage Point</b> |                 |
|---------------------------------------------------------|-----------------------------|-----------------|
| (Dollars in thousands)                                  | <b>Increase</b>             | <b>Decrease</b> |
| Effect on total of service and interest cost components | \$ <b>5</b>                 | \$ <b>(5)</b>   |
| Effect on postretirement benefit obligation             | <b>60</b>                   | <b>(5)</b>      |

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The Corporation's pension plan asset allocation at December 31, 2010 and 2009, by asset category was as follows:

| Asset Category:   | Percentage of Plan Assets at December 31, |      |
|-------------------|-------------------------------------------|------|
|                   | 2010                                      | 2009 |
| Equity securities | 52%                                       | 50%  |
| Debt securities   | 47                                        | 44   |
| Other             | 1                                         | 6    |
| Total             | 100%                                      | 100% |

Plan assets include marketable equity securities, corporate and government debt securities, and certificates of deposit. The investment strategy is to keep a 50%-equity-to-50%-fixed-income mix to achieve the overall expected long-term rate of return of 8.0%. Equity securities do not include any common stock of the Corporation.

The major categories of assets in the Corporation's pension plan as of year-end are presented in the following table. Assets are segregated by the level of the valuation inputs within the fair value hierarchy described in Note 18, Fair Value Disclosures.

| (Dollars in thousands)          | Fair Value Measurements at December 31, |           |
|---------------------------------|-----------------------------------------|-----------|
|                                 | 2010                                    | 2009      |
| Level 1:                        |                                         |           |
| Common stocks                   | \$ 8,119                                | \$ 8,666  |
| Mutual funds:                   |                                         |           |
| U.S. Mid Cap                    | 1,043                                   | 1,092     |
| U.S. Small Cap                  | 1,068                                   | 1,100     |
| International                   | 2,421                                   |           |
| Income                          | 1,518                                   | 776       |
| Short-term investments          | 395                                     | 1,324     |
| Level 2:                        |                                         |           |
| U.S. government obligations     | 2,482                                   | 2,156     |
| Corporate bonds                 | 4,422                                   | 4,219     |
| Level 3:                        |                                         |           |
| Certificates of deposit         | 2,898                                   | 2,273     |
| Total fair value of plan assets | \$ 24,366                               | \$ 21,606 |

Investments in common stocks primarily include U.S. companies with large market capitalizations and some foreign exposure in their markets. The common stock investments are diversified amongst various industries including healthcare, utilities and other industries with the primary objective of long-term capital appreciation and a secondary objective of current income. Mutual fund investments in U.S. mid cap and small cap companies are comprised mainly of growth and value equity funds with some foreign exposure in the companies' markets. Mutual fund investments in international funds are comprised of equities of companies located outside of the U.S., including both developed and emerging markets. The common stock investments are diversified across over 40 countries and include companies ranging from small to large. The primary objective of international equity funds is long-term capital appreciation. Mutual fund investments in income funds are comprised of short-term and intermediate-term bond funds. Corporate bonds are fixed income investment grade bonds of primarily U.S. issuers from diverse industries. Other fixed-income

investments include U.S. government agency securities and bank certificates of deposits. The fixed income investments have varying maturities ranging from one to ten years with the objective to maximize investment return while preserving investment principal. Short-term investments are comprised of an interest-bearing money market deposit account with the Bank.

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The following table provides a reconciliation of the beginning and ending balances for measurements in hierarchy Level 3 at December 31, 2010 and 2009.

| (Dollars in thousands)  | Balance at<br>December<br>31,<br>2009 | Total<br>Unrealized<br>(Losses)<br>or<br>Gains | Total<br>Realized<br>Gains<br>or<br>(Losses) | Purchases | Maturities/<br>Redemptions | Balance at<br>December<br>31,<br>2010 |
|-------------------------|---------------------------------------|------------------------------------------------|----------------------------------------------|-----------|----------------------------|---------------------------------------|
| Certificates of deposit | \$ 2,273                              | \$                                             | \$                                           | \$ 1,599  | \$ (974)                   | \$ 2,898                              |
| Total Level 3 assets    | \$ 2,273                              | \$                                             | \$                                           | \$ 1,599  | \$ (974)                   | \$ 2,898                              |

| (Dollars in thousands)  | Balance at<br>December<br>31,<br>2008 | Total<br>Unrealized<br>(Losses)<br>or<br>Gains | Total<br>Realized<br>Gains<br>or<br>(Losses) | Purchases | Maturities/<br>Redemptions | Balance at<br>December<br>31,<br>2009 |
|-------------------------|---------------------------------------|------------------------------------------------|----------------------------------------------|-----------|----------------------------|---------------------------------------|
| Certificates of deposit | \$ 1,904                              | \$                                             | \$                                           | \$ 754    | \$ 385                     | \$ 2,273                              |
| Total Level 3 assets    | \$ 1,904                              | \$                                             | \$                                           | \$ 754    | \$ 385                     | \$ 2,273                              |

**Note 11. Long-Term Incentive Plan**

The Corporation has a shareholder-approved 2003 Long-Term Incentive Plan under which the Corporation may grant options and share awards to employees up to 1,500,000 shares of common stock. The plan provides for the issuance of options to purchase common shares at prices not less than 100 percent of the fair market value at the date of option grant and have a contractual term of ten years; and for restricted stock awards valued at not less than 100 percent of the fair market value at the date of award grant. For the majority of options issued, after two years, 33.3 percent of the optioned shares become exercisable in each of the following three years and remain exercisable for a period not exceeding ten years from the date of grant. For the majority of the restricted stock awards, the restriction lapses over a three-year period at 33.3 percent per year. There were 877,157 common shares available for future grants at December 31, 2010 under the plan. At December 31, 2010 there were 428,032 options to purchase common stock and 116,813 unvested restricted stock awards outstanding under the plan.

Following is a summary of the status of options granted under the 2003 Long-term Incentive Plan during 2010:

| (Dollars in thousands)           | Shares<br>Under<br>Option | Weighted<br>Average<br>Exercise<br>Price Per<br>Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Aggregate<br>Intrinsic<br>Value at<br>December<br>31,<br>2010 |
|----------------------------------|---------------------------|-------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------|
| Outstanding at December 31, 2009 | 405,532                   | \$ 23.37                                              |                                                                    |                                                               |
| Granted                          | 22,500                    | 17.58                                                 |                                                                    |                                                               |
| Expired                          |                           |                                                       |                                                                    |                                                               |
| Forfeited                        |                           |                                                       |                                                                    |                                                               |

## Exercised

|                                  |                |              |            |           |           |
|----------------------------------|----------------|--------------|------------|-----------|-----------|
| Outstanding at December 31, 2010 | <b>428,032</b> | <b>23.07</b> | <b>6.0</b> | <b>\$</b> | <b>40</b> |
| Exercisable at December 31, 2010 | <b>251,532</b> | <b>24.64</b> | <b>5.0</b> |           |           |

The total intrinsic values of options exercised during 2009 and 2008 were \$25 thousand and \$1.1 million, respectively. There were no stock options exercised during 2010. The Corporation has a stock-for-stock-option exchange (or cashless exercise) program in place, whereby optionees can exchange the value of the spread of in-the-money vested options for Corporation stock having an equivalent value. This exchange allows the optionees to exercise their vested options on a net basis without having to pay the exercise price and or related taxes in cash. However, it will result in the executives acquiring fewer shares than the number of options exercised. During 2009, optionees exchanged 1,586 shares, net shares acquired amounted to 2,547 common shares.

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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 life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee turnover. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury strip rate in effect at the time of grant. Expected volatility is based on the historical volatility of the Corporation's stock over the expected life of the grant. The Corporation uses a straight-line accrual method to recognize stock-based compensation expense over the time-period it expects the options to vest.

The Corporation recognizes compensation expense for stock options over the requisite service period based on the grant-date fair value of those awards expected to ultimately vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates. The following aggregated assumptions were made for options granted during fiscal years 2010 and 2009; there were no options granted in 2008:

|                               | For the Years Ended |         |      |
|-------------------------------|---------------------|---------|------|
|                               | December 31,        |         |      |
|                               | 2010                | 2009    | 2008 |
| Expected option life in years | 8.0                 | 7.8     |      |
| Risk free interest rate       | 3.60%               | 2.34%   |      |
| Expected dividend yield       | 4.55%               | 3.60%   |      |
| Expected volatility           | 47.16%              | 45.95%  |      |
| Fair value of options         | \$ 5.81             | \$ 7.67 |      |

Following is a summary of nonvested restricted stock awards as of December 31, 2010 including changes during the year:

|                                             | Nonvested<br>Share<br>Awards | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------------------|------------------------------|-------------------------------------------------|
| (Dollars in thousands)                      |                              |                                                 |
| Nonvested share awards at December 31, 2009 | 56,024                       | \$ 23.09                                        |
| Granted                                     | 67,982                       | 17.62                                           |
| Vested                                      | (7,193)                      | 22.24                                           |
| Forfeited                                   |                              |                                                 |
| Nonvested share awards at December 31, 2010 | 116,813                      | 19.96                                           |

The fair value of 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 restricted stock awards granted during 2010, 2009 and 2008 was \$17.62, \$23.08 and \$26.00 per share, respectively. The total intrinsic value of restricted stock awards that vested during 2010, 2009 and 2008 was \$138 thousand, \$112 thousand and \$229 thousand, respectively. As of December 31, 2010, there was \$1.3 million in total unrecognized compensation expense related to nonvested share-based compensation arrangements, which is expected to be recognized over a weighted average period of 1.9 years.

During the years ended December 31, 2010, 2009 and 2008, the Corporation recognized stock-based compensation expense of \$211 thousand, \$376 thousand and \$449 thousand, respectively, on stock options; \$834 thousand, \$445 thousand and \$184 thousand during 2010, 2009 and 2008, respectively, on restricted stock awards; and \$46 thousand, \$32 thousand and \$28 thousand during 2010, 2009 and 2008, respectively, on the Employee Stock Purchase Plan. During the years ended December 31, 2010, 2009 and 2008, the Corporation recognized a tax benefit on nonqualified stock option expense and restricted stock awards of \$292 thousand, \$171 thousand and \$125 thousand, respectively.



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During the year ended December 31, 2008, the Corporation accelerated the vesting of 5,000 options, respectively as permitted under the plan upon retirement. The accelerated options became exercisable upon the date of retirement and are exercisable up to a two-year period post-retirement; however incentive stock options become nonqualified after 90-days post-retirement. As a result of these modifications, additional compensation expense of \$38 thousand was recognized during 2008. During the year ended December 31, 2008, the Corporation accelerated the vesting of 2,500 restricted stock awards as permitted under the plan upon retirement. As a result of this modification, additional compensation expense of \$53 thousand was recognized in 2008. There were no modifications or accelerations to options or restricted stock awards during 2009 or 2010.

During the years ended December 31, 2009 and 2008, cash proceeds from the exercise of stock options were \$93 thousand and \$1.8 million, respectively; the tax benefit recognized and recorded to additional paid in capital was \$0 and \$210 thousand, respectively. There were no stock options exercised during 2010.

The Corporation typically issues shares for stock options exercises and grants of restricted stock awards from its Treasury Stock.

**Note 12. Time Deposits**

The aggregate amount of time deposits in denominations of \$100 thousand or more was \$150.7 million at December 31, 2010 and \$128.7 million at December 31, 2009, with interest expense of \$2.9 million for 2010 and \$4.4 million for 2009.

At December 31, 2010, the scheduled maturities of time deposits in denominations of \$100 thousand or more are as follows:

(Dollars in thousands)

|             |    |         |
|-------------|----|---------|
| Due in 2011 | \$ | 109,195 |
| Due in 2012 |    | 9,181   |
| Due in 2013 |    | 7,580   |
| Due in 2014 |    | 4,917   |
| Due in 2015 |    | 6,732   |
| Thereafter  |    | 13,110  |
| Total       | \$ | 150,715 |

**Note 13. Borrowings**

At December 31, 2010 and 2009 long-term borrowings consisted of the following:

| (Dollars in thousands)           | Balance  |          | Interest Rate |       | Maturity     |
|----------------------------------|----------|----------|---------------|-------|--------------|
|                                  | 2010     | 2009     | 2010          | 2009  |              |
| Federal Home Loan Bank Advances* | \$ 5,000 | \$ 5,000 | 3.75%         | 3.75% | January 2013 |
| Subordinated Term Loan Note      | 1,125    | 1,625    | 1.67%         | 1.64% | April 2013   |
| Subordinated Term Loan Note      | 2,250    | 3,250    | 1.67%         | 1.64% | May 2013     |
| Trust Preferred Securities &nb   | 20,619   | 20,619   | 3.34%         | 3.33% | October 2033 |