UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended September 30, 2011.

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from __________ to __________.

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

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

14 North Main Street, Souderton, Pennsylvania 18964
(Address of principal executive offices)(Zip Code)
Registrant s telephone number, including area code: (215) 721-2400
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Common Stock, $5 par value	16,727,099

(Title of Class)	(Number of shares outstanding at October 31, 2011)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At September 30, 2011	(SEE NOTE) At December 31, 2010
ASSETS		
Cash and due from banks	$ **50,146**	$ 11,624
Interest-earning deposits with other banks	**96,884**	17,563
Investment securities held-to-maturity (fair value $30,212 and $32 at September 30, 2011 and December 31, 2010, respectively)	**30,526**	32
Investment securities available-for-sale	**381,814**	466,992
Loans held for sale	**1,724**	4,178
Loans and leases	**1,436,411**	1,471,186
Less: Reserve for loan and lease losses	**(31,002)**	(30,898)
Net loans and leases	**1,405,409**	1,440,288
Premises and equipment, net	**34,132**	34,605
Goodwill	**51,320**	51,320
Other intangibles, net of accumulated amortization and fair value adjustments of $11,219 and $9,495 at September 30, 2011 and December 31, 2010, respectively	**4,718**	5,477
Bank owned life insurance	**60,885**	48,010
Accrued interest and other assets	**56,569**	53,804
Total assets	$ **2,174,127**	$ 2,133,893
LIABILITIES		
Demand deposits, noninterest-bearing	$ **275,930**	$ 271,125
Demand deposits, interest-bearing	**534,179**	529,884
Savings deposits	**482,472**	467,511
Time deposits	**432,482**	417,750
Total deposits	**1,725,063**	1,686,270
Securities sold under agreements to repurchase	**107,621**	90,271
Other short-term borrowings		24,600
Accrued expenses and other liabilities	**38,475**	37,534
Long-term debt	**5,000**	5,000
Subordinated notes	**2,250**	3,375
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities)	**20,619**	20,619

Total liabilities		**1,899,028**		1,867,669
SHAREHOLDERS EQUITY				
Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2011 and December 31, 2010; 18,266,404 shares issued at September 30, 2011 and December 31, 2010; 16,727,099 and 16,648,303 shares outstanding at September 30, 2011 and December 31, 2010, respectively		**91,332**		91,332
Additional paid-in capital		**58,326**		59,080
Retained earnings		**155,617**		151,978
Accumulated other comprehensive loss, net of taxes		**(2,251)**		(6,766)
Treasury stock, at cost; 1,539,305 shares and 1,618,101 shares at September 30, 2011 and December 31, 2010, respectively		**(27,925)**		(29,400)
Total shareholders equity		**275,099**		266,224
Total liabilities and shareholders equity	**$**	**2,174,127**	$	2,133,893

Note: The consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 17,150**	**$** 18,427	$ **51,724**	$ 53,803
Exempt from federal income taxes	**1,087**	1,121	**3,265**	3,160
Total interest and fees on loans and leases	**18,237**	19,548	**54,989**	56,963
Interest and dividends on investment securities:				
Taxable	**1,856**	2,356	**6,268**	7,972
Exempt from federal income taxes	**1,119**	1,136	**3,350**	3,438
Other interest income	**25**	20	**40**	50
Total interest income	**21,237**	23,060	**64,647**	68,423
Interest expense				
Interest on deposits	**2,170**	3,217	**6,926**	11,025
Interest on short-term borrowings	**96**	527	**256**	1,982
Interest on long-term borrowings	**355**	363	**1,059**	1,082
Total interest expense	**2,621**	4,107	**8,241**	14,089
Net interest income	**18,616**	18,953	**56,406**	54,334
Provision for loan and lease losses	**3,649**	5,529	**14,339**	15,289
Net interest income after provision for loan and lease losses	**14,967**	13,424	**42,067**	39,045
Noninterest income				
Trust fee income	**1,625**	1,450	**4,875**	4,450
Service charges on deposit accounts	**1,218**	1,633	**3,910**	5,227
Investment advisory commission and fee income	**1,239**	1,227	**3,595**	3,435
Insurance commission and fee income	**1,787**	1,815	**6,059**	5,954
Other service fee income	**814**	962	**3,606**	3,346
Bank owned life insurance income	**554**	326	**1,166**	860
Other-than-temporary impairment on equity securities	**(1)**	(12)	**(11)**	(59)
Net gain on sales of securities	**848**	339	**1,417**	426
Net gain on mortgage banking activities	**913**	1,246	**1,216**	2,181
Net loss on interest rate swap		(246)		(1,072)
Net loss on dispositions of fixed assets	**(3)**		**(12)**	(11)
	(141)	(5)	**(758)**	(368)

Net loss on sales and write-downs of other real estate owned								
Other		**121**		149		**366**		781
Total noninterest income		**8,974**		8,884		**25,429**		25,150
Noninterest expense								
Salaries and benefits		**9,888**		9,775		**28,505**		29,055
Net occupancy		**1,361**		1,384		**4,272**		4,047
Equipment		**1,026**		1,051		**2,968**		2,889
Marketing and advertising		**305**		365		**1,287**		1,966
Deposit insurance premiums		**442**		698		**1,582**		1,958
Other		**4,273**		3,898		**11,833**		11,244
Total noninterest expense		**17,295**		17,171		**50,447**		51,159
Income before income taxes		**6,646**		5,137		**17,049**		13,036
Applicable income taxes		**1,402**		990		**3,427**		2,189
Net income	**$**	**5,244**	**$**	4,147	$	**13,622**	$	10,847
Net income per share:								
Basic	**$**	**.31**	**$**	.25	$	**.81**	$	.65
Diluted		**.31**		.25		**.81**		.65
Dividends declared		**.20**		.20		**.60**		.60

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Nine Months Ended September 30, 2011							
Balance at December 31, 2010	**16,648,303**	**$ (6,766)**	**$ 91,332**	**$ 59,080**	**$ 151,978**	**$ (29,400)**	**$ 266,224**
Comprehensive income:							
Net income					**13,622**		**13,622**
Other comprehensive income, net of income tax:							
Unrealized gain on investment securities available for sale		**5,470**					**5,470**
Unrealized loss on swap		**(1,195)**					**(1,195)**
Unrecognized pension benefits		**240**					**240**
Total comprehensive income							**18,137**
Cash dividends declared ($0.60 per share)					**(10,043)**		**(10,043)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs:	**105,345**			**62**	**13**	**1,712**	**1,787**
Purchases of treasury stock	**(85,285)**					**(1,209)**	**(1,209)**
Restricted stock awards granted	**58,736**			**(1,019)**	**47**	**972**	
Vesting of restricted stock awards				**203**			**203**
Balance at September 30, 2011	**16,727,099**	**$ (2,251)**	**$ 91,332**	**$ 58,326**	**$ 155,617**	**$ (27,925)**	**$ 275,099**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Nine Months Ended September 30, 2010							
Balance at December 31, 2009	16,465,083	$ (524)	$ 91,332	$ 60,126	$ 150,507	$ (33,634)	$ 267,807
Comprehensive income:							
Net income					10,847		10,847

Other comprehensive income, net of income tax:							
Unrealized gain on investment securities available for sale		1,697					1,697
Unrealized loss on swap		(1,554)					(1,554)
Unrecognized pension benefits		214					214
Total comprehensive income							11,204
Cash dividends declared ($0.60 per share)					(9,955)		(9,955)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	94,160				(497)	2,169	1,672
Purchases of treasury stock	(325)					(6)	(6)
Restricted stock awards granted	67,982			(1,197)	(396)	1,593	
Vesting of restricted stock awards				51			51
Balance at September 30, 2010	16,626,900	$ (167)	$ 91,332	$ 58,980	$ 150,506	$ (29,878)	$ 270,773

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	For the Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	**$ 13,622**	$ 10,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**14,339**	15,289
Depreciation of premises and equipment	**1,942**	1,885
Other-than-temporary impairment on equity securities	**11**	59
Net gain on sales of investment securities	**(1,417)**	(426)
Net gain on mortgage banking activities	**(1,216)**	(2,181)
Net loss on interest rate swap		1,072
Net loss on dispositions of fixed assets	**12**	11
Net loss on sales and write-downs of other real estate owned	**758**	368
Bank owned life insurance income	**(1,166)**	(860)
Other adjustments to reconcile net income to cash provided by operating activities	**2,509**	4,193
Originations of loans held for sale	**(105,389)**	(102,747)
Proceeds from the sale of loans held for sale	**108,836**	101,745
Increase in interest receivable and other assets	**(1,467)**	(3,535)
Decrease in accrued expenses and other liabilities	**(200)**	(2,979)
Net cash provided by operating activities	**31,174**	22,741
Cash flows from investing activities:		
Net cash paid due to acquisitions, net of cash acquired		(1)
Net capital expenditures	**(1,481)**	(2,800)
Proceeds from maturities of securities held-to-maturity	**33**	56
Proceeds from maturities and calls of securities available-for-sale	**153,033**	219,741
Proceeds from sales of securities available-for-sale	**40,481**	13,466
Purchases of investment securities held-to-maturity	**(30,561)**	
Purchases of investment securities available-for-sale	**(98,833)**	(230,115)
Purchases of lease financings		(4,816)
Net decrease (increase) in loans and leases	**13,114**	(46,692)
Net increase in interest-bearing deposits	**(79,321)**	(2,416)
Purchases of bank owned life insurance	**(12,500)**	
Proceeds from bank owned life insurance	**791**	
Proceeds from sales of other real estate owned	**1,607**	1,690
Net cash used in investing activities	**(13,637)**	(51,887)
Cash flows from financing activities:		
Net increase in deposits	**38,793**	113,384
Net decrease in short-term borrowings	**(7,250)**	(84,227)
Repayment of subordinated debt	**(1,125)**	(750)

Purchases of treasury stock		**(1,209)**		(6)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs		**1,787**		1,672
Cash dividends paid		**(10,011)**		(9,925)
Net cash provided by financing activities		**20,985**		20,148
Net increase (decrease) in cash and due from banks		**38,522**		(8,998)
Cash and due from banks at beginning of year		**11,624**		20,535
Cash and due from banks at end of period	**$**	**50,146**	$	11,537
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	**$**	**8,374**	$	16,506
Income taxes, net of refunds received		**4,357**		1,612
Noncash transfer of loans to other real estate owned	**$**	**7,426**	$	162

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation) and its wholly owned subsidiaries; the Corporation s primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant s Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the SEC on March 4, 2011.

Use of Estimates

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

Recent Accounting Pronouncements

In August 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to simplify testing goodwill for impairment. The amendments will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not, that its fair value is less than its carrying amount. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 or March 31, 2012 for the Corporation. Early adoption is permitted. The Corporation expects to early adopt this updated standard during the fourth quarter of 2011 and does not anticipate the guidance will have a material impact on its financial statements.

In June 2011, the FASB issued an ASU regarding the presentation of comprehensive income and to increase the prominence of items reported in other comprehensive income and facilitate the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). The guidance requires entities to report the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This update is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied retrospectively. The Corporation does not expect the guidance will have a material impact on its financial statements but will result in a revised format for the presentation of comprehensive income and the components of other comprehensive income.

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

In April 2011, the FASB issued an ASU regarding a creditor s determination of whether a restructuring is a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that the restructuring constitutes both a concession and the borrower is experiencing financial difficulties under the guidance provided by this update. In addition, the amendments clarify that a creditor is precluded from using the effective interest rate test in the borrower s guidance on restructuring of payables when evaluating whether a restructuring constitutes a troubled debt restructuring. The guidance on identifying and disclosing troubled debt restructurings was effective for interim and annual periods beginning on or after June 15, 2011, or September 30, 2011 for the Corporation, and applied retrospectively to restructurings occurring on or after the beginning of the year or January 1, 2011 for the Corporation. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring was effective on a prospective basis. The applications of the provisions of this standard did not have a material impact on the Corporation s financial statements.

In July 2010, the FASB issued an ASU for improving disclosures about the credit quality of financing receivables and 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. For disclosures required as of the end of a reporting period, the update was effective and implemented commencing as of December 31, 2010 for the Corporation s financial statements. Disclosures that relate to activity during a reporting period were required for financial statements that include periods beginning on or after January 1, 2011, or March 31, 2011 for the Corporation. The guidance related to troubled debt restructurings was effective for interim and annual periods beginning after June 15, 2011, or September, 30, 2011 for the Corporation, in order to be concurrent with the effective date of guidance under the ASU issued in April 2011 regarding a creditor s determination of whether a restructuring is a troubled debt restructuring. 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 March 31, 2011 and September 30, 2011, which are included under Note 4, Credit Quality of Loans and Leases and the Reserve for Loans and Lease Losses.

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Note 2. 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 September 30, 2011 and December 31, 2010 by maturity within each type.

	At September 30, 2011				At December 31, 2010			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Residential mortgage-backed securities:								
Within 1 year	**$**	**$**	**$**	**$**	$ 15	$	$	$ 15
					15			15
Corporate bonds:								
After 1 year to 5 years	**30,526**	**6**	**(320)**	**30,212**	17			17
	30,526	**6**	**(320)**	**30,212**	17			17
Total	**$ 30,526**	**$ 6**	**$ (320)**	**$ 30,212**	$ 32	$	$	$ 32
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	**$ 5,000**	**$ 26**	**$**	**$ 5,026**	$ 7,000	$	$	$ 7,000
After 1 year to 5 years	**117,991**	**964**	**(17)**	**118,938**	182,585	515	(2,000)	181,100
	122,991	**990**	**(17)**	**123,964**	189,585	515	(2,000)	188,100
State and political subdivisions:								
Within 1 year	**754**	**8**		**762**	451			451
After 1 year to 5 years	**9,561**	**358**		**9,919**	8,801	281		9,082
After 5 years to 10 years	**11,426**	**401**	**(23)**	**11,804**	14,042	281	(69)	14,254
Over 10 years	**87,424**	**3,976**	**(16)**	**91,384**	86,315	639	(2,693)	84,261
	109,165	**4,743**	**(39)**	**113,869**	109,609	1,201	(2,762)	108,048
Residential mortgage-backed securities:								
	11,591	**741**		**12,332**	14,709	743		15,452

After 5 years to 10 years								
Over 10 years	**54,036**	**2,701**	**(620)**	**56,117**	66,919	3,222	(492)	69,649
	65,627	**3,442**	**(620)**	**68,449**	81,628	3,965	(492)	85,101
Commercial mortgage obligations:								
After 5 years to 10 years	**6,305**	**181**		**6,486**	8,855	252		9,107
Over 10 years	**55,400**	**1,155**		**56,555**	63,827	1,321	(1,164)	63,984
	61,705	**1,336**		**63,041**	72,682	1,573	(1,164)	73,091
Corporate bonds:								
Within 1 year					2,999	30		3,029
After 1 year to 5 years	**4,990**		**(177)**	**4,813**	4,988		(43)	4,945
	4,990		**(177)**	**4,813**	7,987	30	(43)	7,974
Other debt securities:								
Within 1 year	**5,193**			**5,193**	1,693			1,693
	5,193			**5,193**	1,693			1,693
Equity securities:								
No stated maturity	**2,367**	**356**	**(238)**	**2,485**	2,447	680	(142)	2,985
	2,367	**356**	**(238)**	**2,485**	2,447	680	(142)	2,985
Total	**$ 372,038**	**$ 10,867**	**$ (1,091)**	**$ 381,814**	$ 465,631	$ 7,964	$ (6,603)	$ 466,992

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

Securities with a fair value of $289.0 million and $347.3 million at September 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes as required by law.

During the nine months ended September 30, 2011 and 2010, available-for-sale securities with a fair value at the date of sale of $40.5 million and $13.5 million, respectively, were sold. Gross realized gains on such sales totaled $1.4 million in 2011 and $447 thousand in 2010. Gross realized losses on sales were $11 thousand in 2011 and $21 thousand in 2010. Tax expense related to net realized gains from the sales of investment securities for the nine months ended September 30, 2011 and 2010 was $500 thousand and $149 thousand, respectively. Accumulated other comprehensive income related to securities of $6.4 million and $7.1 million, net of taxes, has been included in shareholders equity at September 30, 2011 and December 31, 2010, respectively. Unrealized losses in investment securities at September 30, 2011 and December 31, 2010 do not represent other-than-temporary impairments.

The Corporation realized other-than-temporary impairment charges to noninterest income of $11 thousand and $59 thousand, respectively, on its equity portfolio during the nine months ended September 30, 2011 and 2010. 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 equity securities in an unrealized loss position, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced 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 to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. The Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2011 and December 31, 2010.

Management evaluates debt securities, which are comprised of U. S. Government, Government Sponsored Agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation has not recognized any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2011 and 2010.

At September 30, 2011 and December 31, 2010, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the amount of securities that were in an unrealized loss position at September 30, 2011 and December 31, 2010:

	At September 30, 2011					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government corporations and agencies	$ 9,996	$ (17)	$	$	$ 9,996	$ (17)
State and political subdivisions	371	(3)	1,712	(36)	2,083	(39)
Residential mortgage-backed securities			3,528	(620)	3,528	(620)
Corporate bonds	30,025	(497)			30,025	(497)
Equity securities	1,049	(238)			1,049	(238)
Total	$ 41,441	$ (755)	$ 5,240	$ (656)	$ 46,681	$ (1,411)

At December 31, 2010

(Dollars in thousands)	Less than Twelve Months		Twelve Months or Longer		Total	
	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)
Corporate bonds	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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Note 3. Loans and Leases
The following is a summary of the major loan and lease categories:

(Dollars in thousands)	At September 30, 2011	At December 31, 2010
Commercial, financial and agricultural	**$ 473,561**	$ 463,518
Real estate-commercial	**518,984**	516,546
Real estate-construction	**83,111**	119,769
Real estate-residential secured for business purpose	**32,657**	42,459
Real estate-residential secured for personal purpose	**131,326**	121,876
Real estate-home equity secured for personal purpose	**80,942**	80,875
Loans to individuals	**42,290**	44,087
Lease financings	**83,402**	92,617
Total gross loans and leases	**1,446,273**	1,481,747
Less: Unearned income	**(9,862)**	(10,561)
Total loans and leases, net of unearned income	**$ 1,436,411**	$ 1,471,186

Note 4. 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 and leases greater than 90 days past due which are accruing interest at September 30, 2011 and December 31, 2010:

(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At September 30, 2011							
Commercial, financial and agricultural	**$ 1,229**	**$ 815**	**$**	**$ 2,044**	**$ 465,656**	**$ 473,561**	**$**
Real estate-commercial real estate and construction:							
Commercial real estate	**2,473**	**565**		**3,038**	**487,149**	**518,984**	
Construction					**77,022**	**83,111**	
Real estate-residential and home equity:							
Residential secured for business purpose			**9**	**9**	**32,433**	**32,657**	**9**

Residential secured for personal purpose		**68**		**68**	**131,039**	**131,326**	
Home equity secured for personal purpose	**240**	**79**	**102**	**421**	**80,490**	**80,942**	**102**
Loans to individuals	**347**	**194**	**332**	**873**	**41,367**	**42,290**	**332**
Lease financings	**850**	**553**	**6**	**1,409**	**71,288**	**73,540**	**6**
Total	**$ 5,139**	**$ 2,274**	**$ 449**	**$ 7,862**	**$ 1,386,444**	**$ 1,436,411**	**$ 449**

* Excludes impaired loans and leases.

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(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At December 31, 2010							
Commercial, financial and agricultural	$ 924	$	$	$ 924	$ 454,792	$ 463,518	$
Real estate-commercial real estate and construction:							
Commercial real estate	3,836			3,836	484,527	516,546	
Construction	156			156	112,739	119,769	
Real estate-residential and home equity:							
Residential secured for business purpose					42,008	42,459	
Residential secured for personal purpose	92		270	362	120,250	121,876	270
Home equity secured for 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

* Excludes impaired loans and leases.

Nonaccrual and Troubled Debt Restructured Loans and Leases

The following presents, by class of loans and leases, nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and leases) and accruing troubled debt restructured loans and leases at September 30, 2011 and December 31, 2010.

	At September 30, 2011			At December 31, 2010		
(Dollars in thousands)	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Leases	Total Impaired Loans and Leases	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Leases	Total Impaired Loans and Leases

Commercial, financial and agricultural	**$ 5,861**	**$**	**$ 5,861**	$ 7,627	$ 175	$ 7,802
Real estate-commercial real estate and construction:						
Commercial real estate	**26,354**	**2,443**	**28,797**	28,183		28,183
Construction	**4,887**	**1,202**	**6,089**	6,874		6,874
Real estate-residential and home equity:						
Residential secured for business purpose	**108**	**107**	**215**	361	90	451
Residential secured for personal purpose	**219**		**219**	1,264		1,264
Home equity secured for personal purpose	**31**		**31**			
Loans to individuals		**50**	**50**	21	60	81
Lease financings	**720**	**123**	**843**	902	225	1,127
Total	**$ 38,180**	**$ 3,925**	**$ 42,105**	$ 45,232	$ 550	$ 45,782

* Includes non-accrual troubled debt restructured loans and leases of $6.8 million and $1.2 million at September 30, 2011 and December, 31, 2010, respectively.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases by credit quality indicator at September 30, 2011 and December 31, 2010.

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

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

Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	Commercial, Financial and Agricultural At September 30, 2011	Commercial, Financial and Agricultural At December 31, 2010	Real Estate Commercial At September 30, 2011	Real Estate Commercial At December 31, 2010	Real Estate Construction At September 30, 2011	Real Estate Construction At December 31, 2010	Real Estate Residential Secured for Business Purpose At September 30, 2011	Real Estate Residential Secured for Business Purpose At December 31, 2010
Grade:								
1. Cash secured/ 2. Fully secured	**$ 965**	$ 2,714	**$**	$	**$**	$	**$**	$
3. Strong	**5,872**	16,350	**11,302**	11,542		2,674		28
4. Satisfactory	**30,484**	71,258	**30,337**	47,755		12,217	**1,385**	1,836
5. Acceptable	**290,809**	254,422	**286,952**	261,520	**46,390**	78,116	**20,257**	24,987
6. Pre-watch	**81,479**	70,259	**103,233**	109,493	**28,161**	11,296	**7,875**	6,322
7. Special Mention	**22,921**	8,476	**36,344**	17,596	**58**	684	**669**	700
8. Substandard	**38,012**	36,933	**49,823**	67,379	**8,502**	14,782	**2,471**	8,586
9. Doubtful	**3,019**	3,106	**993**	1,261				
10. Loss								
Total	**$ 473,561**	$ 463,518	**$ 518,984**	$ 516,546	**$ 83,111**	$ 119,769	**$ 32,657**	$ 42,459

The Corporation monitors the credit risk profile by payment activity for the following classifications of loans and leases: residential real estate loans secured for a personal purpose, home equity loans secured for a personal purpose, loans to individuals and lease financings by payment activity. Nonperforming loans and leases are loans past due 90 days or more 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 and leases are loans with a well-defined weakness as well as loans where collection in-full is improbable.

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

	Real Estate-Residential Secured for Personal Purpose		Real Estate-Home Equity Secured for Personal Purpose		Loans to individuals		Lease Financing	
((Dollars in thousands)	At September 30, 2011	At December 31, 2010	At September 30, 2011	At December 31, 2010	At September 30, 2011	At December 31, 2010	At September 30, 2011	At December 31, 2010
Performing	**$ 131,107**	$ 120,342	**$ 80,809**	$ 80,831	**$ 41,908**	$ 43,624	**$ 72,691**	$ 80,929
Nonperforming	**219**	1,534	**133**	44	**382**	463	**849**	1,127
Total	**$ 131,326**	$ 121,876	**$ 80,942**	$ 80,875	**$ 42,290**	$ 44,087	**$ 73,540**	$ 82,056

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.

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.

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

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three and nine months ended September 30, 2011 and 2010:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
For the Three Months Ended September 30, 2011								
Reserve for loan and lease losses:								
Beginning balance	**$ 10,877**	**$ 16,092**	**$ 1,019**	**$ 696**	**$ 695**	**$ 1,912**	**$ 1,310**	**$ 32,601**
Charge-offs	**(160)**	**(4,661)**	**(120)**		**(209)**	**(310)**		**(5,460)**
Recoveries	**28**	**35**	**4**	**4**	**65**	**76**		**212**
Provision (recovery of provision)	**(1,021)**	**4,259**	**(47)**	**(4)**	**79**	**(66)**	**449**	**3,649**
Ending balance	**$ 9,724**	**$ 15,725**	**$ 856**	**$ 696**	**$ 630**	**$ 1,612**	**$ 1,759**	**$ 31,002**
For the Three Months Ended September 30, 2010								
Reserve for loan and lease losses:								
Beginning balance	$ 12,531	$ 11,328	$ 854	$ 482	$ 805	$ 2,023	$ 1,086	$ 29,109
Charge-offs	(846)	(4,340)			(253)	(639)		(6,078)
Recoveries	34	123	2		37	127		323
Provision (recovery of provision)	418	2,838	115	111	173	499	1,375	5,529
Ending balance	$ 12,137	$ 9,949	$ 971	$ 593	$ 762	$ 2,010	$ 2,461	$ 28,883

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
For the Nine Months Ended September 30, 2011								
Reserve for loan and lease losses:								
Beginning balance	$ 9,630	$ 15,288	$ 1,333	$ 544	$ 734	$ 1,950	$ 1,419	$ 30,898
Charge-offs	(2,934)	(9,724)	(314)	(38)	(806)	(1,169)		(14,985)
Recoveries	209	115	10	7	143	266		750
Provision (recovery of provision)	2,819	10,046	(173)	183	559	565	340	14,339
Ending balance	$ 9,724	$ 15,725	$ 856	$ 696	$ 630	$ 1,612	$ 1,759	$ 31,002
For the Nine Months Ended September 30, 2010								
Reserve for loan and lease losses:								
Beginning balance	$ 12,148	$ 7,975	$ 1,058	$ 501	$ 887	$ 1,175	$ 1,054	$ 24,798
Charge-offs	(3,194)	(6,778)	(5)		(732)	(1,831)		(12,540)
Recoveries	102	612	12		179	431		1,336
Provision (recovery of provision)	3,081	8,140	(94)	92	428	2,235	1,407	15,289
Ending balance	$ 12,137	$ 9,949	$ 971	$ 593	$ 762	$ 2,010	$ 2,461	$ 28,883

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(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At September 30, 2011								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 374**	**$ 1,784**	**$**	**$**	**$**	**$**	**$ N/A**	**$ 2,158**
Ending balance: collectively evaluated for impairment	**9,350**	**13,941**	**856**	**696**	**630**	**1,612**	**1,759**	**28,844**
Total ending balance	**$ 9,724**	**$ 15,725**	**$ 856**	**$ 696**	**$ 630**	**$ 1,612**	**$ 1,759**	**$ 31,002**
Loans and leases:								
Ending balance: individually evaluated for impairment	**$ 5,861**	**$ 34,886**	**$ 215**	**$ 250**	**$ 50**	**$ 843**		**$ 42,105**
Ending balance: collectively evaluated for impairment	**467,700**	**567,209**	**32,442**	**212,018**	**42,240**	**82,559**		**1,404,168**
Total ending balance	**$ 473,561**	**$ 602,095**	**$ 32,657**	**$ 212,268**	**$ 42,290**	**$ 83,402**		**$ 1,446,273**
At September 30, 2010								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 721	$ 199	$ 95	$ 4	$	$	$ N/A	$ 1,019
Ending balance: collectively evaluated	11,416	9,750	876	589	762	2,010	2,461	27,864

for impairment								
Total ending balance	$ 12,137	$ 9,949	$ 971	$ 593	$ 762	$ 2,010	$ 2,461	$ 28,883
Loans and leases:								
Ending balance: individually evaluated for impairment	$ 3,890	$ 26,370	$ 811	$ 1,520	$ 61	$ 1,204		$ 33,856
Ending balance: collectively evaluated for impairment	466,109	587,722	43,430	208,703	43,740	83,822		1,433,526
Total ending balance	$ 469,999	$ 614,092	$ 44,241	$ 210,223	$ 43,801	$ 85,026		$ 1,467,382

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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 September 30, 2011 and December 31, 2010:

	At September 30, 2011			At December 31, 2010		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans and leases with no related allowance recorded:						
Commercial, financial and agricultural	**$ 5,051**	**$ 5,933**		$ 4,761	$ 5,074	
Real estate-commercial real estate	**25,743**	**32,169**		21,403	23,094	
Real estate-construction	**4,804**	**4,804**		6,225	8,025	
Real estate-residential secured for business purpose	**215**	**729**		361	730	
Real estate-residential secured for personal purpose	**219**	**219**		632	632	
Real estate-home equity secured for personal purpose	**31**	**31**				
Loans to individuals	**50**	**59**		81	81	
Lease financings	**843**	**843**		1,127	1,127	
Total impaired loans and leases with no related allowance recorded:	**$ 36,956**	**$ 44,787**		$ 34,590	$ 38,763	
Impaired loans and leases with an allowance recorded:						
Commercial, financial and agricultural	**$ 810**	**$ 841**	**$ 374**	$ 3,041	$ 3,058	$ 650
Real estate-commercial real estate	**3,054**	**5,554**	**1,743**	6,780	8,321	909
Real estate-construction	**1,285**	**1,307**	**41**	649	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 and leases with an allowance recorded	**$ 5,149**	**$ 7,702**	**$ 2,158**	$ 11,192	$ 12,750	$ 1,623

Total impaired loans and leases:						
Commercial, financial and agricultural	**$ 5,861**	**$ 6,774**	**$ 374**	$ 7,802	$ 8,132	$ 650
Real estate-commercial real estate	**28,797**	**37,723**	**1,743**	28,183	31,415	909
Real estate-construction	**6,089**	**6,111**	**41**	6,874	8,674	33
Real estate-residential secured for business purpose	**215**	**729**		451	820	29
Real estate-residential secured for personal purpose	**219**	**219**		1,264	1,264	2
Real estate-home equity secured for personal purpose	**31**	**31**				
Loans to individuals	**50**	**59**		81	81	
Lease financings	**843**	**843**		1,127	1,127	
Total impaired loans and leases:	**$ 42,105**	**$ 52,489**	**$ 2,158**	$ 45,782	$ 51,513	$ 1,623

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

(Dollars in thousands)	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 5,924**	**$**	**$ 77**	$ 3,010	$ 4	$ 57
Real estate-commercial real estate	**31,344**	**39**	**601**	18,793	5	352
Real estate-construction	**7,899**	**20**	**85**	6,937		89
Real estate-residential secured for business purpose	**247**	**2**	**4**	965	6	17
Real estate-residential secured for personal purpose	**219**		**3**	1,128		18
Real estate-home equity secured for personal purpose	**31**			252		3
Loans to individuals	**51**	**1**		61	1	
Lease financings	**861**			1,021		
Total	**$ 46,576**	**$ 62**	**$ 770**	$ 32,167	$ 16	$ 536

* Includes interest income recognized on accruing troubled debt restructured loans of $60 thousand and $16 thousand for the three months ended September 30, 2011 and 2010, respectively.

(Dollars in thousands)	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 6,498**	**$ 14**	**$ 270**	$ 3,034	$ 10	$ 146
	27,670	**91**	**1,445**	17,569	63	872

Real estate-commercial real estate						
Real estate-construction	**7,969**	**48**	**260**	10,177		378
Real estate-residential secured for business purpose	**343**	**5**	**13**	909	24	30
Real estate-residential secured for personal purpose	**590**	**19**	**23**	1,180	13	41
Real estate-home equity secured for personal purpose	**18**			250		8
Loans to individuals	**59**	**4**	**1**	62	4	
Lease financings	**980**			974		
Total	**$ 44,127**	**$ 181**	**$ 2,012**	$ 34,155	$ 114	$ 1,475

* Includes interest income recognized on accruing troubled debt restructured loans of $139 thousand and $89 thousand for the nine months ended September 30, 2011 and 2010, respectively.

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Troubled Debt Restructured Loans and Leases

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

	Three Months Ended September 30, 2011				**Nine Months Ended September 30, 2011**			
(Dollars in thousands)	**Number Of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**	**Number Of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**
Accruing Troubled Debt Restructured Loans and Leases:								
Real estate-commercial real estate		**$**	**$**	**$**	5	$ 2,438	$ 2,435	**$**
Real estate-construction					5	2,182	2,182	
Real estate-residential secured for business purpose					1	98	98	
Real estate-residential secured for personal purpose					1	156	156	
Real estate-home equity secured for personal purpose					1	31	31	
Total		**$**	**$**	**$**	13	$ 4,905	$ 4,902	**$**
Nonaccrual Troubled Debt Restructured Loans and Leases:								
Real estate-commercial real estate	**1**	**$ 6,667**	**$ 6,667**	**$**	2	$ 9,432	$ 9,432	**$**
Total	**1**	**$ 6,667**	**$ 6,667**	**$**	2	$ 9,432	$ 9,432	**$**

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

Accruing loans totaling $4.9 million were restructured during the first nine months of 2011. Accruing troubled debt restructured loans were primarily comprised of two categories of loans on which interest is being accrued under the restructured terms, and the loans were current or less than ninety days past due. The first category included four commercial real estate loans totaling $1.2 million, which had their interest only payment terms extended due to reduced cash flows, and one loan with a balance of $1.2 million, which had an interest rate reduction and maturity date extension due to inability to make payments because of reduced cash flows caused by economic conditions. The second category consisted of five construction loans totaling $2.2 million, which had interest only payment terms extended due to stalled land development projects. Accruing troubled debt restructured loans charged-off during the nine months ended September 30, 2011 subsequent to the restructuring totaled approximately $241 thousand, primarily due to declines in collateral values.

Nonaccrual loans totaling $9.4 million were restructured during the first nine months of 2011. Nonaccrual troubled debt restructured loans were primarily comprised of one commercial real estate loan of $6.7 million. This restructure was necessary due to the customer s declining revenue and inability to raise additional capital needed to fund future projects, placing a strain on cash flow. To allow payments to be made, based on projected cash flows, two loans were restructured into one loan with a balance of $6.7 million at a reduced interest rate, to begin repayment in October of 2011. Periodic review of the financial performance of the company has been included in the covenants of the restructure, requiring additional payments on the loans as the company s financial condition improves.

The following presents, by class of loans and leases, information regarding accruing and nonaccrual troubled debt restructured loans and leases, included in the table above, for which there was a payment default during the three and nine month periods ending September 30, 2011.

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

Accruing troubled debt restructured loans, restructured during 2011, totaling $189 thousand, had payment defaults subsequent to restructuring in the first nine months of 2011. As a result of the payment default, these loans have been placed on nonaccrual status.

Nonaccrual troubled debt restructured loans, restructured during 2011, totaling $2.8 million, had payment defaults subsequent to restructuring in the first nine months of 2011. The commercial real estate loan for $2.8 million was foreclosed on and $1.0 million was charged-off based on the appraised value of the property and the remaining $1.8 million was transferred to other real estate owned during the third quarter of 2011.

Note 5. Mortgage Servicing Rights

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method using an accelerated amortization method and are subject to periodic impairment testing. The aggregate fair value of these rights was $2.4 million and $2.9 million at September 30, 2011 and December 31, 2010. The fair value of mortgage servicing rights was determined using discount rates ranging from 3.50% to 7.32% for the nine months ended September 30, 2011.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2011		**2010**		**2011**		**2010**
	(Dollars in thousands)							
Beginning of period	**$**	**2,878**	$	1,799	**$**	**2,441**	$	1,437
Servicing rights capitalized		**277**		370		**965**		877
Amortization of servicing rights		**(123)**		(89)		**(312)**		(228)
Changes in valuation		**(672)**		(412)		**(734)**		(418)

End of period	**$ 2,360**	$ 1,668	**$ 2,360**	$ 1,668
Mortgage loans serviced for others	**$ 377,060**	$ 255,292	**$ 377,060**	$ 255,292

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
	(Dollars in thousands)			
Valuation allowance, beginning of period	**$ (263)**	$ (256)	**$ (201)**	$ (250)
Additions	**(672)**	(412)	**(734)**	(418)
Reductions				
Direct write-downs				
Valuation allowance, end of period	**$ (935)**	$ (668)	**$ (935)**	$ (668)

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

Year (Dollars in thousands)	**Amount**
2011	$ 169
2012	554
2013	427
2014	330
2015	250
Thereafter	630

Note 6. Income Taxes

As of September 30, 2011 and 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. As of September 30, 2011, the Corporation s 2007 federal tax return was examined and tax years 2007 through 2010 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, were 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 not eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. Information on these plans are aggregated and reported under Retirement Plans within this footnote.

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

The Corporation sponsors a Supplemental Non-Qualified Pension Plan (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.

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

Components of net periodic benefit cost were as follows:

	For the Three Months Ended September 30,			
	2011	2010	2011	2010
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	**$ 138**	$ 91	**$ 16**	$ 19
Interest cost	**431**	426	**29**	26
Expected return on plan assets	**(474)**	(418)		
Amortization of net loss	**185**	169	**(5)**	2
Amortization (accretion) of prior service cost	**12**	12	**(6)**	(5)
Accretion of transition asset	**(71)**	(70)		
Net periodic cost	**$ 221**	$ 210	**$ 34**	$ 42

	For the Nine Months Ended September 30,			
	2011	2010	2011	2010
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	**$ 416**	$ 273	**$ 49**	$ 57
Interest cost	**1,294**	1,282	**88**	79
Expected return on plan assets	**(1,422)**	(1,253)		
Amortization of net loss	**549**	506	**12**	9
Amortization (accretion) of prior service cost	**36**	36	**(16)**	(15)
Accretion of transition asset	**(212)**	(212)		
Net periodic cost	**$ 661**	$ 632	**$ 133**	$ 130

The Corporation previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to make contributions of $54 thousand to its qualified and non-qualified retirement plans and $97 thousand to its other postretirement benefit plans in 2011. During the nine months ended September 30, 2011, the Corporation contributed $30 thousand and $60 thousand to its qualified and non-qualified retirement plans and other postretirement plans, respectively. As of September 30, 2011, $1.1 million has been paid to participants from the qualified and non-qualified retirement plans and $60 thousand has been paid to participants from the other postretirement plans.

Note 8. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands, except per share data)	2011	2010	2011	2010
Numerator:				
	$ 5,244	$ 4,147	**$ 13,622**	$ 10,847

Numerator for basic and diluted earnings per share								
Income available to common shareholders								
Denominator:								
Denominator for basic earnings per share weighted-average shares outstanding		**16,771**		16,621		**16,752**		16,582
Effect of dilutive securities:								
Employee stock options								
Denominator for diluted earnings per share adjusted weighted-average shares outstanding		**16,771**		16,621		**16,752**		16,582
Basic earnings per share	**$**	**0.31**	$	0.25	**$**	**0.81**	$	0.65
Diluted earnings per share	**$**	**0.31**	$	0.25	**$**	**0.81**	$	0.65

Anti-dilutive options have been excluded in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common stock. For the three months ended September 30, 2011 and 2010, there were 508,032 and 428,032 average anti-dilutive options at an average exercise price of $22.09 and $23.07, per share, respectively. For the nine months ended September 30, 2011 and 2010, there were 498,472 and 403,032 average anti-dilutive options at an average exercise price of $22.09 and $23.41, per share, respectively.

Note 9. Comprehensive Income and Accumulated Other Comprehensive (Loss) Income

The following table shows the components of comprehensive income, net of income taxes, for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in thousands)			
Net income	**$ 5,244**	$ 4,147	**$ 13,622**	$ 10,847
Net unrealized gains on available-for-sale investment securities:				
Net unrealized gains arising during the period	**2,277**	439	**6,384**	1,936
Less: reclassification adjustment for net gains on sales realized in net income	**551**	220	**921**	277
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income		(7)	**(7)**	(38)
Total net unrealized gains on available-for-sale investment securities	**1,726**	226	**5,470**	1,697
Net change in fair value of derivatives used for cash flow hedges	**(953)**	(507)	**(1,195)**	(1,554)
Defined benefit pension plans:				
Less: amortization of net loss included in net periodic pension costs	**(117)**	(106)	**(365)**	(338)
Less: amortization of prior service cost included in net periodic pension costs	**(4)**	(5)	**(13)**	(14)
Less: accretion of transition asset included in net periodic pension costs	**46**	46	**138**	138
Total defined benefit pension plans	**75**	65	**240**	214
Total comprehensive income, net of tax	**$ 6,092**	$ $3,931	**$ 18,137**	$ 11,204

The following table shows the components of accumulated other comprehensive (loss) income, net of taxes, for the periods presented:

(Dollars in thousands)	**Net Unrealized Gains on Available for Sale Investment Securities**	**Net Change in Fair Value of Derivative Used for Cash Flow Hedges**	**Net Change Related to Defined Benefit Pension Plan**	**Accumulated Other Comprehensive**

								(Loss) Income
Balance, December 31, 2010	**$**	**884**	**$**	**320**	**$**	**(7,970)**	**$**	**(6,766)**
Net Change		**5,470**		**(1,195)**		**240**		**4,515**
Balance, September 30, 2011	**$**	**6,354**	**$**	**(875)**	**$**	**(7,730)**	**$**	**(2,251)**
Balance, December 31, 2009	$	5,373	$	1,150	$	(7,047)	$	(524)
Net Change		1,697		(1,554)		214		357
Balance, September 30, 2010	$	7,070	$	(404)	$	(6,833)	$	(167)

Note 10. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to floating in order to reduce the impact of interest rate changes on future net interest income. The Corporation accounts for its interest-rate swap contracts in cash flow and fair value hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows or fair value 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.

The Corporation s credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in equity until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in income. For a qualifying fair value hedge, the gain or loss on the hedging relationship is recognized in earnings, and the change in fair value on the hedged item to the extent attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in earnings.

Derivative loan commitments represent agreements for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. The Corporation s derivative loan commitments are commitments to sell loans secured by 1-to-4 family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Loans held for sale are included as forward loan commitments. At September 30, 2011, the notional amounts of interest rate locks with customers and forward loan commitments were $51.6 million and $53.3 million, respectively, with fair values of a positive $1.4 million and negative $336 thousand, respectively. At December 31, 2010, the notional amounts of interest rate locks with customers and forward loan commitments were $37.7 million and $41.8 million, respectively, with positive fair values of $530 thousand and $269 thousand, respectively. For the interest rate locks with customers, the Corporation recognized fair value adjustments, which resulted in gains of $1.1 million and $782 thousand for the three months ended September 30, 2011 and 2010, respectively and gains of $829 thousand and $1.5 million for the nine months ended September 30, 2011 and 2010, respectively. For the forward loan commitments, the Corporation recognized fair value adjustments, which resulted in losses of $369 thousand and $4 thousand for the three months ended September 30, 2011 and 2010, respectively and losses of $606 thousand and $430 thousand for the nine months ended September 30, 2011 and 2010, respectively. The fair value gains and losses related to interest rate locks and forward loan commitments are classified as a component of net gain on mortgage banking activities in the Corporation s consolidated statements of income.

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 was based on the one month U.S. London Interbank Borrowing Rate (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. 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. For this interest rate swap, the Corporation recognized fair value adjustments, which resulted in losses of $246 thousand and $1.1 million for the three and nine months ended September 30, 2010. 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. The Corporation has performed an assessment of the hedge at inception and determined that this derivative is highly effective in offsetting the changes in the cash flows of the hedged item. At September 30, 2011, the interest rate swap had a negative fair value of $1.3 million, which was classified on the balance sheet as a component of other liabilities, 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 negative $875 thousand was recorded as a component of accumulated other comprehensive loss on the balance sheet. 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. The cash payments on the interest rate swap of $123 thousand and $109 thousand during the three months ended September 30, 2011 and 2010, respectively, and $360 thousand and $347 thousand during the nine months ended September 30, 2011 and 2010, respectively, were recorded as a component of interest expense on the income statement. The Corporation expects that approximately $462 thousand of the net gain in accumulated other comprehensive loss will be reclassified as a reduction of interest expense within the next twelve months.

Note 11. Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Corporation determines the fair value of its financial instruments based on the fair value hierarchy. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation s assumptions that the market participants would use in pricing the asset or liability based on the best information available in the circumstances. Three levels of inputs are used to measure fair value. A financial instrument s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Assets and liabilities utilizing Level 1 inputs include: Exchange-traded equity and most U.S. treasury securities.

Level 2: Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities generally utilizing Level 2 inputs include: most U.S. Government agency mortgage-backed debt securities (MBS), corporate debt securities, corporate and municipal bonds, residential mortgage loans held for sale, certain commercial loans, certain equity securities, mortgage servicing rights, other real estate owned and derivative financial instruments.

Level 3: Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities utilizing Level 3 inputs include: financial instruments whose value is determined using pricing models, discounted cash-flow methodologies, or similar techniques, as well as instruments for which the fair value calculation requires significant management judgment or estimation. These assets and liabilities include: certain commercial mortgage obligations (CMO s) securities and impaired loans and leases.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid U.S. Treasury securities and most equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of instruments,

which would generally be classified within Level 2 of the valuation hierarchy, include U.S. Government sponsored enterprises, certain MBS, CMOs, and municipal bonds and certain equity securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain CMO securities.

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Derivative Financial Instruments

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Derivative financial instruments are classified within Level 2 of the valuation hierarchy.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, classified using the fair value hierarchy:

	At September 30, 2011			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$	$ **123,964**	$	$ **123,964**
State and political subdivisions		**113,869**		**113,869**
Mortgage-backed securities		**68,449**		**68,449**
Commercial mortgage obligations		**63,041**		**63,041**
Corporate bonds		**4,813**		**4,813**
Other debt securities		**5,193**		**5,193**
Equity securities	**2,485**			**2,485**
Total available-for-sale securities	**2,485**	**379,329**		**381,814**
Interest rate swap				
Interest rate locks with customers		**1,359**		**1,359**
Forward loan commitments				
Total assets	$ **2,485**	$ **380,688**	$	$ **383,173**
Liabilities:				
Interest rate swap		**1,347**		**1,347**
Forward loan commitments		**336**		**336**
Total liabilities	$	$ **1,683**	$	$ **1,683**

	At December 31, 2010			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$	$ 188,100	$	$ 188,100
State and political subdivisions		108,048		108,048
Mortgage-backed securities		85,101		85,101
Commercial mortgage obligations		68,760	4,331	73,091
Corporate bonds		7,974		7,974

Other debt securities				1,693				1,693
Equity securities		2,985						2,985
Total available-for-sale securities		2,985		459,676		4,331		466,992
Interest rate swaps				492				492
Interest rate locks with customers				530				530
Forward loan commitments				269				269
Total assets	$	2,985	$	460,967	$	4,331	$	468,283
Liabilities:								
Liabilities	$		$		$		$	
Total liabilities	$		$		$		$	

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The following table presents a reconciliation for all assets measured at fair value on a recurring basis and for which the Corporation utilized Level 3 inputs to determine fair value for the three months ended September 30, 2010. There was no activity to report for the three months ended September 30, 2011.

	Three Months Ended September 30, 2010				
(Dollars in thousands)	Balance at June 30, 2010	Total Unrealized Gains or (Losses)	Total Realized Gains or (Losses)	Paydowns	Balance at September 30, 2010
Available-for-sale securities:					
Commercial mortgage obligations	$ 4,752	$ 130	$	$ (323)	$ 4,559
Asset-backed securities	301	(1)		(300)	
Total Level 3 assets	$ 5,053	$ 129	$	$ (623)	$ 4,559

The following table presents a reconciliation for all assets measured at fair value on a recurring basis and for which the Corporation utilized Level 3 inputs to determine fair value for the nine months ended September 30, 2011 and 2010.

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

	Nine Months Ended September 30, 2010				
(Dollars in thousands)	Balance at December 31, 2009	Total Unrealized Gains Or (Losses)	Total Realized Gains or (Losses)	Paydowns	Balance at September 30, 2010
Available-for-sale securities:					
Commercial mortgage obligations	$ 5,172	$ 276	$	$ (889)	$ 4,559

Asset-backed securities	573	(9)		(564)	
Total Level 3 assets	$ 5,745	$ 267	$	$ (1,453)	$ 4,559

Realized gains or losses are recognized in the consolidated statements of income. There were no realized gains or losses recognized on Level 3 assets during the three or nine month periods ended September 30, 2011 or 2010. The CMO security which was previously classified at Level 3 at September 30, 2010 and December 31, 2010 was transferred to Level 2 at March 31, 2011 as the CMO market for these types of securities are again being actively traded in the market and quoted prices are again observable at September 30, 2011.

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The following table represents assets measured at fair value on a non-recurring basis as of September 30, 2011 and December 31, 2010.

	At September 30, 2011			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Impaired loans and leases	$	$	$ 39,947	$ 39,947
Mortgage servicing rights		2,360		2,360
Other real estate owned		7,711		7,711
Total	$	$ 10,071	$ 39,947	$ 50,018

	At December 31, 2010			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Loans held for sale	$	$ 4,178	$	$ 4,178
Real estate-commercial loan		17,650		17,650
Impaired loans and leases			44,159	44,159
Mortgage servicing rights		2,441		2,441
Other real estate owned		2,438		2,438
Total	$	$ 26,707	$ 44,159	$ 70,866

The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including, interest rates, and bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale at September 30, 2011 were carried at the lower of cost or estimated fair value.

The fair value of the hedged real estate-commercial loan (as discussed in Note 10) was based on a discounted cash flow model which takes into consideration the changes in market value due to changes in LIBOR. Commercial loans are classified within Level 2 of the valuation hierarchy. During the fourth quarter of 2009, the Corporation participated $5.0 million of the hedged real estate-commercial loan and at that time the remaining $17.0 million loan was marked to fair value due to the de-designation of the fair value hedge. During the first quarter of 2010, the swap was re-designated and the hedged loan was being marked to fair value on a recurring basis. During the third quarter of 2010 the swap was terminated and the loan was marked to fair value. The fair value is being amortized to par value over the remaining life of the loan using the level-yield method.

Impaired loans and leases include those collateral-dependent loans and leases for which the practical expedient was applied, resulting in a fair-value adjustment to the loan or lease. Impaired loans and leases are evaluated and valued at the time the loan and lease is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and leases less cost to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At September 30, 2011, impaired loans and leases had a carrying amount of $42.1 million with a valuation allowance of $2.2 million. At December 31, 2010, impaired loans and leases had a carrying amount of $45.8 million with a valuation allowance of $1.6 million.

The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 2 of the valuation hierarchy. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value.

The fair value of other real estate owned is estimated based upon its appraised value less costs to sell. The real estate is stated at an amount equal to the loan balance prior to foreclosure, plus costs incurred for improvements to the property but no more than the fair value of the properly, less estimated costs to sell. New appraisals are generally obtained at least on an annual basis. Other real estate owned is classified within Level 2 of the valuation hierarchy.

Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other intangible assets. During the nine months ended September 30, 2011, there were no triggering events that required valuation to fair value of goodwill and other intangible assets.
The following table represents the estimates of fair value of financial instruments:

	At September 30, 2011		At December 31, 2010	
(Dollars in thousands)	**Carrying, Notional or Contract Amount**	**Fair Value**	**Carrying, Notional or Contract Amount**	**Fair Value**
Assets:				
Cash and short-term interest- earning assets	**$ 147,030**	**$ 147,030**	$ 29,187	$ 29,187
Investment securities	**412,340**	**412,026**	467,024	467,024
Loans held for sale	**1,724**	**1,773**	4,178	4,178
Net loans and leases	**1,405,409**	**1,438,907**	1,440,288	1,499,065
Interest rate swaps			20,000	492
Interest rate locks with customers	**51,569**	**1,359**	37,691	530
Forward loan commitments			41,842	269
Liabilities:				
Deposits	**1,725,063**	**1,619,996**	1,686,270	1,666,566
Short-term borrowings	**107,621**	**104,394**	114,871	114,908
Long-term borrowings	**27,869**	**28,077**	28,994	29,363
Interest rate swaps	**20,000**	**1,347**		
Forward loan commitments	**53,270**	**336**		
Off-Balance-Sheet:				
Commitments to extend credit		**(1,204)**		(1,069)

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

Cash and short-term interest-earning assets: The carrying amounts reported in the balance sheets for cash and due from banks, interest-earning deposits with other banks, and federal funds sold and other short-term investments approximates those assets fair values.

Investment securities: Fair values for the held-to-maturity and available-for-sale investment securities are based on quoted market prices that are available in an active market for identical instruments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Loans held for sale: The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including, interest rates, and bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans. Loans held for sale are carried at the lower of cost or estimated fair value.

Loans and leases: The fair values for loans are estimated using discounted cash flow analyses, using a discount rate consisting of an appropriate risk free rate, as well as components for credit risk, operating expense and embedded prepayment options. As permitted, the fair value of the loans and leases are not based on the exit price concept as discussed in the first paragraph of this note.

Derivative Financial Instruments: The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

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Deposit liabilities: The fair values for deposits with fixed maturities are estimated by discounting the final maturity. At September 30, 2011, the fair values for non-maturing deposits are established based on expected cash flows and repricing characteristics for the instruments and incorporates Corporation developed, market-based assumptions regarding the impact of changing interest rates on these financial instruments. At December 31, 2010, the fair value for non-maturing deposits were established using a decay factor estimate of cash flows based upon industry-accepted assumptions with the discount rate consisting of an appropriate risk free rate and including components for operating expense.

Short-term borrowings: The carrying amounts of securities sold under repurchase agreements, and fed funds purchased approximate their fair values. Short-term FHLB advances with embedded options are estimated using a discounted cash flow analysis using a discount rate consisting of an appropriate risk free rate, as well as operating expense, and embedded prepayment options.

Long-term borrowings: The fair values of the Corporation s long-term borrowings (other than deposits) are estimated using a discounted cash flow analysis using a discount rate consisting of an appropriate risk free rate, as well as components for credit risk, operating expense, and embedded prepayment options.

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

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

Forward-Looking Statements

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words believe, anticipate, estimate, expect, project, target, goal 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 those set forth below:

- Operating, legal and regulatory risks
- Economic, political and competitive forces impacting various lines of business
- The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful
- Volatility in interest rates
- Other risks and uncertainties, including those occurring in the U.S. and world financial systems

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These forward-looking statements speak only as of the date of the report. The Corporation expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Corporation s expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Policies

Management, in order to prepare the Corporation s financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that affect the amounts reported in the Corporation s financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the fair value measurement of investment securities available for sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies. For more information on these critical accounting policies, please refer to the Corporation s 2010 Annual Report on Form 10-K.

General

Univest Corporation of Pennsylvania, (the Corporation), is a Bank Holding Company. It owns all of the capital stock of Univest Bank and Trust Co. (the Bank), Univest Delaware, Inc., and Univest Reinsurance Corporation.

Effective as of the close of the business on June 29, 2011 and following receipt of required regulatory approvals, Univest National Bank and Trust Co. converted from a national bank to a Pennsylvania state-chartered bank and trust company, as authorized by the National Bank Act and Pennsylvania law. As a result of the conversion, the bank opened on June 30, 2011 as an FDIC-insured Pennsylvania bank and trust company operating under the name, Univest Bank and Trust Co. The Corporation believes that the charter conversion will allow greater flexibility to execute its strategy as a community bank and remain competitive in the markets it chooses to serve. As a state-chartered member bank of the Federal Reserve System, the Bank will be regulated primarily by the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia. The conversion to a state charter will not have any significant financial or regulatory impact or affect the Corporation s current activities or customers.

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

Executive Overview

The Corporation reported net income for the three months ended September 30, 2011 of $5.2 million or, $0.31 diluted earnings per share, compared to net income of $4.1 million, or $0.25 diluted earnings per share for the three months ended September 30, 2010. Net income for the nine months ended September 30, 2011 was $13.6 million, or $0.81 diluted earnings per share, compared to net income of $10.8 million, or $0.65 diluted earnings per share for the same period in the prior year.

Net interest income on a tax-equivalent basis for the three months ended September 30, 2011 was down $233 thousand, or 1.2% compared to the same period in 2010. The third quarter 2011 net interest margin was 4.15%, a decrease of 9 basis points from 4.24% for the second quarter of 2011 and level with the 4.15% for the third quarter of 2010. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2011 was up $2.4 million, or 4.2% compared to the same period in 2010. The tax equivalent net interest margin for the first nine months of 2011 was 4.21% compared to 4.08% for the first nine months of 2010. The increase in net interest income and the net interest margin for the nine months ended September 30, 2011, was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits as well as regular savings accounts, and declines in the volume of Federal Home Loan Bank of Pittsburgh (FHLB) borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation repaid its maturing FHLB advances in 2010, reducing average year-to-date FHLB advances from $58.1 million for the nine months ended September 30, 2010 to $5.0 million for the nine months ended September 30, 2011. FHLB advances remained at $5.0 million at September 30, 2011.

The provision for loan and lease losses decreased by $1.9 million for the three months ended September 30, 2011 compared to the same period in 2010 and by $950 thousand for the nine months ended September 30, 2011 from the comparable period in 2010.

Non-interest income increased $90 thousand or 1.0% during the three months ended September 30, 2011 compared to the same period in 2010 and $279 thousand or 1.1% for the nine months ended September 30, 2011 compared to the same period in the prior year.

Non-interest expense increased $124 thousand, or 0.7% for the three months ended September 30, 2011 compared to the same period in 2010 and decreased $712 thousand, or 1.4% for the nine months ended September 30, 2011 compared to the same period in 2010.

Nonperforming loans and leases decreased to $42.6 million at September 30, 2011 compared to $46.5 million at December 31, 2010. Nonperforming loans and leases were $34.8 million at September 30, 2010. Nonperforming loans and leases as a percentage of total loans and leases were 2.96% at September 30, 2011 compared to 3.16% at December 31, 2010 and 2.37% at September 30, 2010. Net charge-offs for the three months ended September 30, 2011 were $5.2 million compared to $5.8 million for the three months ended September 30, 2010. Net charge-offs for the nine months ended September 30, 2011 were $14.2 million compared to $11.2 million for the same period in the prior year. Charge-offs occurred primarily in the commercial real estate category, but occurred in all categories.

During the three months ended September 30, 2011, the Corporation deployed $742 thousand of capital to repurchase 56,408 shares of common stock through the stock repurchase program. Maximum shares available for future repurchases through the plan at September 30, 2011 was 587,374. Total shares outstanding at September 30, 2011 were 16,727,099.

The Corporation earns its revenues primarily from the margins and fees it generates from loans and leases and depository services it provides as well as from trust fees and insurance and investment commissions. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. As interest

rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation is in a more asset sensitive position; although interest rates are expected to remain low for the foreseeable future, it anticipates increasing interest rates over the longer term, which it expects would benefit its net interest margin.

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

Results of Operations

The Corporation s consolidated net income and earnings per share, for the three and nine months ended September 30, 2011 and 2010, were as follows:

(Dollars in thousands, except per share data)	For the Three Months Ended September 30, 2011	2010	Change Amount	Percent	For the Nine Months Ended September 30, 2011	2010	Change Amount	Percent
Net income	**$ 5,244**	$ 4,147	$ 1,097	26.5%	**$ 13,622**	$ 10,847	$ 2,775	25.6%
Net income per share:								
Basic	**$ 0.31**	$ 0.25	$ 0.06	24.0%	**$ 0.81**	$ 0.65	$ 0.16	24.6%
Diluted	**0.31**	0.25	0.06	24.0	**0.81**	0.65	0.16	24.6

Return on average shareholders equity was 7.55% and return on average assets was 0.98% for the three months ended September 30, 2011, compared to 6.07% and 0.78%, respectively, for the same period in 2010. Return on average shareholders equity was 6.69% and return on average assets was 0.87% for the nine months ended September 30, 2011, compared to 5.37% and 0.70%, respectively, for the same period in 2010.

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. Table 1 presents a summary of the Corporation s average balances, the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the three and nine months ended September 30, 2011 and 2010. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Net interest income on a tax-equivalent basis for the three months ended September 30, 2011 decreased $233 thousand, or 1.2% compared to the same period in 2010. The tax-equivalent net interest margin for the three months ended September 30, 2011 remained level at 4.15% from the three-months ended September 30, 2010. Net interest income on a tax-equivalent basis increased $2.4 million, or 4.2% for the nine months ended September 30, 2011 compared to the same period in 2010. The tax-equivalent net interest margin for the nine months ended September 30, 2011 increased 13 basis points to 4.21% from 4.08% for the first nine months of 2010. The increase in net interest income and the net interest margin for the nine months ended September 30, 2011 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits as well as regular savings accounts, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation

repaid its maturing FHLB advances in 2010, reducing average year-to-date FHLB advances from $58.1 million for the nine months ended September 30, 2010 to $5.0 million for the nine months ended September 30, 2011. FHLB advances remained at $5.0 million at September 30, 2011.

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Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

(Dollars in thousands)	For the Three Months Ended September 30, 2011 Average Balance	Income/ Expense	Average Rate	2010 Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 46,109**	**$ 25**	**0.22%**	$ 32,983	$ 20	0.24%
U.S. Government obligations	**129,263**	**509**	**1.56**	156,579	669	1.70
Obligations of states and political subdivisions	**112,935**	**1,720**	**6.04**	109,376	1,746	6.33
Other debt and equity securities	**167,178**	**1,347**	**3.20**	165,238	1,687	4.05
Total interest-earning deposits and investments	**455,485**	**3,601**	**3.14**	464,176	4,122	3.52
Commercial, financial and agricultural loans	**435,805**	**4,930**	**4.49**	435,823	5,428	4.94
Real estate-commercial and construction loans	**528,936**	**7,308**	**5.48**	538,288	7,871	5.80
Real estate-residential loans	**247,332**	**2,684**	**4.31**	255,715	2,800	4.34
Loans to individuals	**42,358**	**594**	**5.56**	44,250	657	5.89
Municipal loans and leases	**132,497**	**1,918**	**5.74**	110,650	1,662	5.96
Lease financings	**58,416**	**1,457**	**9.90**	75,094	1,671	8.83
Gross loans and leases	**1,445,344**	**18,891**	**5.19**	1,459,820	20,089	5.46
Total interest-earning assets	**1,900,829**	**22,492**	**4.69**	1,923,996	24,211	4.99
Cash and due from banks	**57,572**			38,924		
Reserve for loan and lease losses	**(34,104)**			(29,853)		
Premises and equipment, net	**34,257**			34,862		
Other assets	**154,892**			149,779		
Total assets	**$ 2,113,446**			$ 2,117,708		
Liabilities:						
Interest-bearing checking deposits	**$ 210,499**	**57**	**0.11**	$ 179,117	61	0.14
Money market savings	**291,830**	**167**	**0.23**	301,674	239	0.31
Regular savings	**483,341**	**349**	**0.29**	454,358	578	0.50
Time deposits	**394,509**	**1,597**	**1.61**	432,881	2,339	2.14
Total time and interest-bearing deposits	**1,380,179**	**2,170**	**0.62**	1,368,030	3,217	0.93
Securities sold under agreements to repurchase	**104,458**	**78**	**0.30**	99,855	90	0.36

Other short-term borrowings	**11**	**18**	**N/M**	40,277	437	4.30
Long-term debt	**5,000**	**48**	**3.81**	5,000	48	3.81
Subordinated notes and capital securities	**23,240**	**307**	**5.24**	24,744	315	5.05
Total borrowings	**132,709**	**451**	**1.35**	169,876	890	2.08
Total interest-bearing liabilities	**1,512,888**	**2,621**	**0.69**	1,537,906	4,107	1.06
Demand deposits, non-interest bearing	**292,273**			274,583		
Accrued expenses and other liabilities	**32,783**			34,174		
Total liabilities	**1,837,944**			1,846,663		
Shareholders Equity:						
Common stock	**91,332**			91,332		
Additional paid-in capital	**61,473**			61,420		
Retained earnings and other equity	**122,697**			118,293		
Total shareholders equity	**275,502**			271,045		
Total liabilities and shareholders equity	**$ 2,113,446**			$ 2,117,708		
Net interest income		**$ 19,871**			$ 20,104	
Net interest spread			**4.00**			3.93
Effect of net interest-free funding sources			**0.15**			0.22
Net interest margin			**4.15%**			4.15%
Ratio of average interest-earning assets to average interest-bearing liabilities	**125.64%**			125.10%		

	For the Nine Months Ended September 30,					
	2011			2010		
(Dollars in thousands)	**Average Balance**	**Income/ Expense**	**Average Rate**	**Average Balance**	**Income/ Expense**	**Average Rate**
Assets:						
Interest-earning deposits with other banks	**$ 24,076**	**$ 40**	**0.22%**	$ 24,727	$ 50	0.27%
U.S. Government obligations	**150,902**	**1,865**	**1.65**	143,238	2,332	2.18
Obligations of states and political subdivisions	**110,730**	**5,153**	**6.22**	108,287	5,289	6.53
Other debt and equity securities	**169,453**	**4,403**	**3.47**	176,317	5,640	4.28
Total interest-earning deposits and investments	**455,161**	**11,461**	**3.37**	452,569	13,311	3.93
Commercial, financial and agricultural loans	**431,983**	**15,048**	**4.66**	420,572	14,985	4.76
Real estate-commercial and construction loans	**542,926**	**21,958**	**5.41**	528,611	23,185	5.86
Real estate-residential loans	**245,889**	**8,082**	**4.39**	257,637	8,443	4.38
Loans to individuals	**42,428**	**1,817**	**5.73**	45,969	2,054	5.97
Municipal loans and leases	**128,196**	**5,529**	**5.77**	104,321	4,651	5.96
Lease financings	**61,006**	**4,442**	**9.74**	78,341	5,136	8.77
Gross loans and leases	**1,452,428**	**56,876**	**5.24**	1,435,451	58,454	5.44
Total interest-earning assets	**1,907,589**	**68,337**	**4.79**	1,888,020	71,765	5.08
Cash and due from banks	**41,205**			36,045		
Reserve for loan and lease losses	**(33,506)**			(28,444)		
Premises and equipment, net	**34,393**			34,908		
Other assets	**155,561**			152,213		
Total assets	**$ 2,105,242**			$ 2,082,742		
Liabilities:						
Interest-bearing checking deposits	**$ 204,619**	**180**	**0.12**	$ 177,776	180	0.14
Money market savings	**292,620**	**542**	**0.25**	291,841	832	0.38
Regular savings	**482,026**	**1,186**	**0.33**	438,832	2,020	0.62
Time deposits	**403,729**	**5,018**	**1.66**	434,334	7,993	2.46
Total time and interest-bearing deposits	**1,382,994**	**6,926**	**0.67**	1,342,783	11,025	1.10
Securities sold under agreements to repurchase	**100,695**	**227**	**0.30**	98,181	318	0.43
Other short-term borrowings	**4,555**	**29**	**0.85**	54,379	1,664	4.09

Long-term debt	**5,000**	**142**	**3.80**	5,485	142	3.46
Subordinated notes and capital securities	**23,615**	**917**	**5.19**	25,116	940	5.00
Total borrowings	**133,865**	**1,315**	**1.31**	183,161	3,064	2.24
Total interest-bearing liabilities	**1,516,859**	**8,241**	**0.73**	1,525,944	14,089	1.23
Demand deposits, non-interest bearing	**283,124**			253,238		
Accrued expenses and other liabilities	**32,966**			33,560		
Total liabilities	**1,832,949**			1,812,742		
Shareholders Equity:						
Common stock	**91,332**			91,332		
Additional paid-in capital	**61,452**			61,420		
Retained earnings and other equity	**119,509**			117,248		
Total shareholders equity	**272,293**			270,000		
Total liabilities and shareholders equity	**$ 2,105,242**			$ 2,082,742		
Net interest income		**$ 60,096**			$ 57,676	
Net interest spread			**4.06**			3.85
Effect of net interest-free funding sources			**0.15**			0.23
Net interest margin			**4.21%**			4.08%
Ratio of average interest-earning assets to average interest-bearing liabilities	**125.76%**			123.73%		

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the three and nine months ended September 30, 2011 and 2010 have been calculated using the Corporation s federal applicable rate of 35.0%.

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Table 2 Analysis of Changes in Net Interest Income

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the periods indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

	Three Months Ended September 30, 2011 Versus 2010			Nine Months Ended September 30, 2011 Versus 2010		
	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
	(Dollars in thousands)					
Interest income:						
Interest-earning deposits with other banks	$ 7	$ (2)	$ 5	$ (1)	$ (9)	$ (10)
U.S. Government obligations	(109)	(51)	(160)	121	(588)	(467)
Obligations of states and political subdivisions	56	(82)	(26)	118	(254)	(136)
Other debt and equity securities	20	(360)	(340)	(211)	(1,026)	(1,237)
Interest on deposits, investments and federal funds sold	(26)	(495)	(521)	27	(1,877)	(1,850)
Commercial, financial and agricultural loans and leases		(498)	(498)	390	(327)	63
Real estate-commercial and construction loans	(135)	(428)	(563)	607	(1,834)	(1,227)
Real estate-residential loans	(96)	(20)	(116)	(380)	19	(361)
Loans to individuals	(27)	(36)	(63)	(155)	(82)	(237)
Municipal loans and leases	319	(63)	256	1,031	(153)	878
Lease financings	(401)	187	(214)	(1,220)	526	(694)
Interest and fees on loans and leases	(340)	(858)	(1,198)	273	(1,851)	(1,578)
Total interest income	(366)	(1,353)	(1,719)	300	(3,728)	(3,428)
Interest expense:						
Interest-bearing checking deposits	11	(15)	(4)			
Money market savings	(8)	(64)	(72)	2	(292)	(290)
Regular savings	34	(263)	(229)	186	(1,020)	(834)
Time deposits	(196)	(546)	(742)	(530)	(2,445)	(2,975)
Interest on time and interest-bearing deposits	(159)	(888)	(1,047)	(342)	(3,757)	(4,099)
Securities sold under agreement to repurchase	4	(16)	(12)	8	(99)	(91)
Other short-term borrowings	(869)	450	(419)	(877)	(758)	(1,635)

Long-term debt						
Subordinated notes and capital securities	(20)	12	(8)	(58)	35	(23)
Interest on borrowings	(885)	446	(439)	(927)	(822)	(1,749)
Total interest expense	(1,044)	(442)	(1,486)	(1,269)	(4,579)	(5,848)
Net interest income	$ 678	$ (911)	$ (233)	$ 1,569	$ 851	$ 2,420

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the three and nine months ended September 30, 2011 and 2010 have been calculated using the Corporation s federal applicable rate of 35.0%.

Interest Income

Three months ended September 30, 2011 versus 2010

Interest income on a tax-equivalent basis for the three months ended September 30, 2011 decreased $1.7 million, or 7.1% from the same period in 2010. This decrease was mainly due to a 38 basis point decrease in the average rate earned on investment securities and deposits at other banks and a 27 basis point decrease in the average rate earned on loans as well as a $14.5 million decrease in average loan volume. The decline in interest income on investment securities and deposits at other banks of $521 thousand for the three months ended September 30, 2011 compared to the same period in 2010 was mostly due to maturities, pay-downs and calls of investment securities and replacement with lower yielding investments due to the lower interest rate environment. Interest and fees on loans and leases declined by $1.2 million during the three months ended September 30, 2011 compared to the same period in 2010. The Corporation experienced decreases in the average rates on commercial business loans and commercial real estate and construction loans as well as decreases in average volume for commercial real estate and construction loans, residential real estate loans and lease financings. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity as well as reduced leasing origination volume. These unfavorable variances were partially offset by growth in municipal loans and leases.

Nine months ended September 30, 2011 versus 2010

Interest income on a tax-equivalent basis for the nine months ended September 30, 2011 decreased $3.4 million, or 4.8% from the same period in 2010. This decrease was mainly due to a 56 basis point decrease in the average rate earned on investment securities and deposits at other banks as well as a 20 basis point decrease in the average rate earned on loans partially offset by a $17.0 million increase in average loan volume. The decline in interest income on investment securities and deposits at other banks of $1.9 million for the nine months ended September 30, 2011 compared to the same period in 2010 was primarily due to maturities, pay-downs and calls of investment securities and replacement with lower yielding investments due to the lower interest rate environment. Interest and fees on loans and leases declined by $1.6 million during the nine months ended September 30, 2011 compared to the same period in 2010. The Corporation experienced decreases in the average rates on commercial real estate and construction loans 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 leasing origination volume. These unfavorable variances were partially offset by growth of commercial business loans, commercial real estate and construction loans and municipal loans and leases.

Interest Expense

Three months ended September 30, 2011 versus 2010

Interest expense on a tax-equivalent basis for the three months ended September 30, 2011 decreased $1.5 million, or 36.2% from the comparable period in 2010. This decrease was mainly due to a 31 basis point decrease in the Corporation s average cost of deposits as well as a $37.2 million decrease in average borrowings and a 73 basis point decrease in the average borrowing rate. The decrease in the Corporation s cost of deposits was largely attributable to re-pricing of time deposit accounts as well as regular savings accounts. For the three months ended September 30, 2011, interest expense on time deposits decreased $742 thousand and interest expense on savings accounts decreased by $229 thousand. For the three months ended September 30, 2011, average interest-bearing deposits increased by $12.1 million with increases in interest-bearing checking of $31.4 million, average regular savings of $29.0 million partially offset by decreases in average money market savings of $9.8 million and average time deposits of $38.4 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. Interest on other short-term borrowings mainly includes interest paid on federal funds purchased and short-term FHLB borrowings and the amortization of fees on short-term FHLB letters of credit. Interest expense on other short-term borrowings decreased $419 thousand for the three months ended September 30, 2011 compared to the same period in 2010 primarily due to a decrease in average volume of $40.3 million. The decreases in average rate and volume were due to maturities of FHLB advances.

Nine months ended September 30, 2011 versus 2010

Interest expense on a tax-equivalent basis for the nine months ended September 30, 2011 decreased $5.8 million, or 41.5% from the comparable period in 2010. This decrease was mainly due to a 43 basis point decrease in the Corporation s average cost of deposits as well as a $49.3 million decrease in average borrowings and a 93 basis point decrease in the average borrowing rate. The decrease in the Corporation s cost of deposits was largely attributable to re-pricing of time deposit accounts as well as regular savings accounts. For the nine months ended September 30, 2011, interest expense on time deposits decreased $3.0 million and interest expense on savings accounts decreased by $834 thousand. For the nine months ended September 30, 2011, average interest-bearing deposits increased by $40.2 million with increases in interest-bearing checking of $26.8 million, average regular savings of $43.2 million partially offset by a decrease in average time deposits of $30.6 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. Interest expense on other short-term borrowings decreased $1.6 million for the nine months ended September 30, 2011 compared to the same period in 2010 primarily due to a decrease in average volume of $49.8 million and a reduction in average rate of 324 basis points. The decreases in average rate and volume were due to maturities of FHLB advances.

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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 charged-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans and leases initial effective interest rates or the fair value of the collateral for certain collateral dependent loans and leases. Any of the above criteria may cause the reserve to fluctuate. The provision for the three months ended September 30, 2011 and 2010 was $3.6 million and $5.5 million, respectively. The provision for the nine months ended September 30, 2011 and 2010 was $14.3 million and $15.3 million, respectively. The decreases in the provision were primarily the result of lower loan volume and a decrease in the historical loss factors.

Noninterest Income

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

The following table presents noninterest income for the periods indicated:

	Three Months Ended September 30,		**Change**		**Nine Months Ended September 30,**		**Change**	
	2011	**2010**	**Amount**	**Percent**	**2011**	**2010**	**Amount**	**Percent**
	(Dollars in thousands)							
Trust fee income	$ **1,625**	$ 1,450	$ 175	12.1%	$ **4,875**	$ 4,450	$ 425	9.6%
Service charges on deposit accounts	**1,218**	1,633	(415)	(25.4)	**3,910**	5,227	(1,317)	(25.2)
Investment advisory commission and fee income	**1,239**	1,227	12	1.0	**3,595**	3,435	160	4.7
Insurance commission and fee income	**1,787**	1,815	(28)	(1.5)	**6,059**	5,954	105	1.8
Other service fee income	**814**	962	(148)	(15.4)	**3,606**	3,346	260	7.8
Bank owned life insurance income	**554**	326	228	69.9	**1,166**	860	306	35.6
Other-than-temporary impairment on equity securities	**(1)**	(12)	11	91.7	**(11)**	(59)	48	81.4
Net gain on sales of securities	**848**	339	509	N/M	**1,417**	426	991	N/M
Net gain on mortgage banking activities	**913**	1,246	(333)	(26.7)	**1,216**	2,181	(965)	(44.2)
Net loss on interest rate swap		(246)	246	N/M		(1,072)	1,072	N/M

Net loss on dispositions of fixed assets	**(3)**		(3)	N/M	**(12)**	(11)	(1)	(9.1)
Net loss on sales and write-downs of other real estate owned	**(141)**	(5)	(136)	N/M	**(758)**	(368)	(390)	N/M
Other	**121**	149	(28)	(18.8)	**366**	781	(415)	(53.1)
Total noninterest income	**$ 8,974**	$ 8,884	$ 90	1.0	**$ 25,429**	$ 25,150	$ 279	1.1

Three months ended September 30, 2011 versus 2010

Non-interest income for the three months ended September 30, 2011 was $9.0 million, a slight increase of $90 thousand compared to the same period in 2010. Non-interest income for the three months ended September 30, 2011 included a net gain on sales of securities of $848 thousand, an increase of $509 thousand from the three months ended September 30, 2010. These net securities gains were offset by a mortgage servicing right impairment of $672 thousand during the three months ended September 30, 2011 primarily due to the decline in interest rates which increased the projected speeds of prepayment. This impairment is an increase of $260 thousand compared to the three months ended September 30, 2010 and is reflected in other service fee income. Non-interest income also included increases in trust fee income of $175 thousand and bank owned life insurance income of $228 thousand. Additionally, the three months ended September 30, 2010 was impacted by a fair value write-down on the ineffective portion of a fair value swap of $246 thousand, which was terminated in August, 2010. These favorable variances were offset by a $415 thousand decline in service charges on deposit accounts, primarily due to the amendments to Regulation E which were implemented on August 15, 2010; a $333 thousand decrease in the net gain on mortgage banking activities as a result of lower volume and net gains on sales; and a $150 thousand negative valuation adjustment on one real estate owned property based on the updated fair value.

The decrease in service charges on deposit accounts during the three months ended September 30, 2011 from the comparable period in 2010 was primarily 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. The Corporation implemented the provisions of Regulation E in the third quarter of 2010.

Bank owned life insurance income for the three months ended September 30, 2011 included proceeds from a death benefit of $429 thousand. This was partially offset by a net decrease of $264 thousand in the change in the cash surrender value of the policies.

The sale of available for sale investment securities during the three months ended September, 30, 2011 and 2010 amounted to $34.6 million and $9.9 million, respectively and consisted primarily of U.S. government agency and municipal bonds. The Corporation did not realize any significant other-than-temporary impairment charges on its equity portfolio during the three months ended September 30, 2011 and 2010. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other securities in an unrealized loss position, 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 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.

Nine months ended September 30, 2011 versus 2010

Non-interest income for the nine months ended September 30, 2011 was $25.4 million, an increase of $279 thousand or 1.1% compared to the nine months ended September 30, 2010. Non-interest income during the nine months ended September 30, 2011 included increases from trust fees of $425 thousand, investment advisory commissions and fees of $160 thousand, insurance commissions and fees of $105 thousand, bank owned life insurance income of $306 thousand, other service fee income of $260 thousand primarily related to interchange fees, and an increase in the net gain on sales of securities of $991 thousand. Additionally, the nine months ended September 30, 2010 was impacted by fair value write-downs on the ineffective portion of a fair value swap of $1.1 million, which was terminated in August 2010. These favorable variances were partially offset by a decline of $1.3 million in service charges on deposit accounts, mainly due to the amendments to Regulatory E which were implemented on August 15, 2010 as previously discussed and a decline of $965 thousand in the net gain on mortgage banking activities due to weaker mortgage demand in the first six months of the year. During the third quarter of 2011, mortgage demand has shown significant improvement due to re-financings. In addition, fair value write-downs on other real estate owned properties increased by $390 thousand and the first quarter of 2010 included a litigation settlement.

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During the nine months ended September 30, 2011 and 2010, the Corporation sold available for sale securities totaling $40.5 million and $13.5 million, respectively, primarily from the U.S. government agency and municipal bond portfolios.

For the nine months ended September 30, 2010, the Corporation recognized a loss of $1.1 million on the ineffective portion of a fair value interest rate swap for a commercial real estate loan mainly related to re-designation of the swap during the first quarter of 2010 and a decline in interest rates. This interest rate swap was terminated in 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 remaining life of the loan.

Noninterest Expense

The operating costs of the Corporation are known as non-interest 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 for the periods indicated:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2011	**2010**	**Amount**	**Percent**	**2011**	**2010**	**Amount**	**Percent**
	(Dollars in thousands)							
Salaries and benefits	$ **9,888**	$ 9,775	$ 113	1.2%	$ **28,505**	$ 29,055	$ (550)	(1.9)%
Net occupancy	**1,361**	1,384	(23)	(1.7)	**4,272**	4,047	225	5.6
Equipment	**1,026**	1,051	(25)	(2.4)	**2,968**	2,889	79	2.7
Marketing and advertising	**305**	365	(60)	(16.4)	**1,287**	1,966	(679)	(34.5)
Deposit insurance premiums	**442**	698	(256)	(36.7)	**1,582**	1,958	(376)	(19.2)
Other	**4,273**	3,898	375	9.6	**11,833**	11,244	589	5.2
Total noninterest expense	**$ 17,295**	$ 17,171	$ 124	0.7	**$ 50,447**	$ 51,159	$ (712)	(1.4)

Three months ended September 30, 2011 versus 2010

Non-interest expense for the three months ended September 30, 2011 was $17.3 million, a slight increase of $124 thousand compared to the same period in 2010. Salaries and benefits expense increased by $113 thousand, due to increased incentive plan expenses, and other expenses increased $375 thousand primarily due to loan workout and legal expenses. The increases for the three months ended September 30, 2011 were partially offset by a decline in deposit insurance premiums of $256 thousand mainly due to the amended assessment calculation requirement through the FDIC rule implemented April 1, 2011. The payment was formerly based on deposits whereas the rule change now bases the payment on the average consolidated total assets less average tangible equity.

Nine months ended September 30, 2011 versus 2010

For the nine months ended September 30, 2011, non-interest expense was $50.4 million, a decrease of $712 thousand or 1.4% compared to the same period in the prior year. This was attributed to a decline of $550 thousand in salaries and benefits as a result of higher deferred loan origination costs on loan credits partially offset by higher commissions expense, restricted stock expense, employee incentive expense and salaries and benefits expense to grow the mortgage banking business. The Corporation implemented higher deferred loan origination costs on loan credits, commencing during the fourth quarter of 2010, based upon an in-depth study performed which incorporated management s additional review time spent as a result of increased scrutiny of loan credits. Additionally, as more loan approvals are currently being approved at the Committee level as opposed to individual relationship managers and as the Corporation proactively manages its credit risk given the current economic environment, increased costs for each loan

credit are being incurred in connection with the loan approval process; and as a result, a higher level of costs are being deferred. Additionally, the decrease was a result of a decline of $679 thousand in marketing and advertising expenses due to higher expenses in 2010 to support a major brand campaign and a decline of $376 thousand in deposit insurance premiums as previously discussed. These decreases were partially offset by increases in occupancy expenses primarily due to increased rent, taxes and other occupancy costs related to a branch relocation and branch improvements and increases in other expenses mostly due to increased loan workout and processing expenses.

Tax Provision

The provision for income taxes for the three months ended September 30, 2011 and 2010 was $1.4 million and $990 thousand, at effective rates of 21.1% and 19.3%, respectively. The provision for income taxes for the nine months ended September 30, 2011 and 2010 was $3.4 million and $2.2 million, at effective rates of 20.1% and 16.8%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities and loans and bank-owned life insurance. The increase in the effective tax rate between the three-month and nine-month periods is primarily due to a smaller percentage of tax-exempt income to pre-tax income.

Financial Condition

Assets

Total assets increased $40.2 million since December 31, 2010 primarily due to an increase in cash and interest bearing deposits with other banks, partially offset by a decrease in loans and leases and investment securities. The following table presents the assets for the periods indicated:

(Dollars in thousands)	At September 30, 2011	At December 31, 2010	Change Amount	Change Percent
Cash, interest-earning deposits and federal funds sold	**$ 147,030**	$ 29,187	$ 117,843	N/M%
Investment securities	**412,340**	467,024	(54,684)	(11.7)
Loans held for sale	**1,724**	4,178	(2,454)	(58.7)
Total loans and leases	**1,436,411**	1,471,186	(34,775)	(2.4)
Reserve for loan and lease losses	**(31,002)**	(30,898)	(104)	(0.3)
Premises and equipment, net	**34,132**	34,605	(473)	(1.4)
Goodwill and other intangibles, net	**56,038**	56,797	(759)	(1.3)
Bank owned life insurance	**60,885**	48,010	12,875	26.8
Accrued interest and other assets	**56,569**	53,804	2,765	5.1
Total assets	**$ 2,174,127**	$ 2,133,893	$ 40,234	1.9

Cash, Interest-earning Deposits and Federal Funds Sold

Cash and interest-earning deposits increased as of September 30, 2011 as compared to December 31, 2010 primarily due to an increase in cash maintained at the Federal Reserve Bank. This was mainly due to the inflow of public funds deposits which were primarily invested in overnight fed funds, as the Corporation s cash position increased by $79.3 million from December 31, 2010 to September 30, 2011.

Investment Securities

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

Total investments decreased by $54.7 million at September 30, 2011 compared to December 31, 2010. Maturities and pay-downs of $50.7 million, calls of $102.4 million, and sales of $40.5 million, were partially offset by purchases of $129.4 million.

Loans and Leases

Total gross loans and leases decreased by $34.8 million at September 30, 2011 as compared to December 31, 2010 mainly due to continued light credit demand and utilization of lines by both business and consumers as a result of the prolonged challenging economic environment. Declines occurred in construction loans of $36.7 million, residential mortgages secured for business purposes of $9.8 million, lease financings of $8.5 million and consumer loans of

$1.8 million while commercial, financial and agricultural loans increased by $10.0 million, commercial real estate increased by $2.4 million, and residential loans secured for personal purposes increased by $9.5 million.

Bank Owned Life Insurance
The Corporation purchased bank owned life insurance policies totaling $12.5 million during the three months ended September 30, 2011. The Bank purchases bank owned life insurance to protect itself against the loss of key employees due to death and to offset or finance the Corporation s future costs and obligations to its employees under its benefit plans.
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 that is 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.
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 $42.1 million at September 30, 2011, $45.8 million at December 31, 2010, and $33.9 million at September 30, 2010; the balance at September 30, 2011 primarily consisted of commercial real estate as well as construction and commercial business loans. For the nine months ended September 30, 2011 and 2010, impaired loans and leases resulted in lost interest income of $2.0 million and $1.5 million, respectively. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 3.48% as of September 30, 2011, compared to 3.32% as of December 31, 2010 and 2.47% as of September 30, 2010. The ratio of nonperforming assets to total assets was 2.31% at September 30, 2011, 2.29% at December 31, 2010 and 1.72% at September 30, 2010.
At September 30, 2011, the recorded investment in loans and leases that were considered to be impaired was $42.1 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan and lease losses for those loans was $2.2 million. At December 31, 2010, the recorded investment in loans and leases that were considered to be impaired was $45.8 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.6 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 at September 30, 2011 declined in all loan categories compared to December 31, 2010. Charge-offs, foreclosures on commercial real estate loans and pay-downs exceeded the additions to impaired loans during the nine months ended September 30, 2011. Impaired loans at September 30, 2011 included one large Shared National Credit to a theatre on nonaccrual status which represented $11.3 million in the aggregate of which a total of $2.6 million was charged-off and the remaining three loans totaling $8.7 million were moved to nonaccrual during the second quarter of 2011. Two of the loans for this customer totaling $6.7 million were restructured into one loan during the third quarter of 2011 with a reduced interest rate. At September 30, 2011, the loan was secured with sufficient estimated collateral and therefore, there was no specific reserve on this credit. The theatre continues to be open and operating. Impaired loans at September 30, 2011 also included several large commercial real estate, construction, and commercial business credits which migrated to non-accrual status during the fourth quarter of 2010 and consisted of a construction company and a manufacturing company. In addition, impaired loans at September 30, 2011 included one large credit which went on non-accrual during the third quarter of 2009 and is for four separate facilities to a local commercial real estate developer/home

builder, aggregating to $14.5 million at September 30, 2011. There was a specific allowance on this credit of $24 thousand at September 30, 2011. The borrower does not have the resources to develop these properties; therefore, the properties must be sold. The Corporation will continue to closely monitor the impaired loans and may have to provide additional reserves in future quarters related to these credits. At September 30, 2010, the recorded investment in loans and leases that were considered to be impaired was $33.9 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.0 million.

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The other real estate owned balance increased from $2.4 million at December 31, 2010 to $7.7 million at September 30, 2011 and consisted of six commercial properties and one residential property. During the first nine months of 2011, eight properties were acquired and three properties were sold. The net loss on sales and write-downs of other real estate owned based on the updated fair values was $758 thousand for the nine months ended September 30, 2011. As of September 30, 2011, a total of three properties totaling $993 thousand are under agreements of sale.

Table 3 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 (including nonaccrual trouble debt restructured loans and leases), past due loans and leases and accruing troubled debt restructured loans and leases as well as other real estate owned as of the dates indicated:

(Dollars in thousands)	**At September 30, 2011**	At December 31, 2010	At September 30, 2010
Nonaccruing loans and leases, including nonaccrual troubled debt restructured loans and leases*:			
Commercial, financial and agricultural	**$ 5,861**	$ 7,627	$ 3,708
Real estate commercial	**26,354**	28,183	19,728
Real estate construction	**4,887**	6,874	6,641
Real estate residential	**358**	1,625	1,983
Loans to individuals		21	
Lease financings	**720**	902	983
Total nonaccruing loans and leases, including nonaccrual troubled debt restructured loans and leases*	**38,180**	45,232	33,043
Accruing troubled debt restructured loans and leases, not included above	**3,925**	550	813
Total impaired loans and leases	**$ 42,105**	$ 45,782	$ 33,856
Accruing loans and leases 90 days or more past due:			
Commercial, financial and agricultural	**$**	$	$ 94
Real estate commercial			
Real estate residential	**111**	314	348
Loans to individuals	**332**	382	457
Lease financings	**6**		
Total accruing loans and leases, 90 days or more past due	**$ 449**	$ 696	$ 899
Total non-performing loans and leases	**$ 42,554**	$ 46,478	$ 34,755
Other real estate owned	**$ 7,711**	$ 2,438	$ 1,557
Total non-performing assets	**$ 50,265**	$ 48,916	$ 36,312

* Includes non-accrual troubled debt restructured loans and leases of $6.8 million, $1.2 million and $1.1 million at September 30, 2011, December, 31, 2010 and September 30, 2010, respectively.

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

(Dollars in thousands)	At September 30, 2011	At December 31, 2010	At September 30, 2010
Total nonaccrual loans, including nonaccrual troubled debt restructured loans and leases	**$ 38,180**	$ 45,232	$ 33,043
Nonaccrual loans and leases with partial charge-offs	**8,804**	10,527	11,923
Life-to-date partial charge-offs on nonaccrual loans and leases	**9,329**	5,497	5,826
Charge-off rate of nonaccrual loans and leases with partial charge-offs	**51.4%**	34.3%	32.8%
Specific reserves on impaired loans	**2,158**	1,623	1,020

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is adequate as of September 30, 2011 to absorb probable losses in the loan and lease portfolio. Management s methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

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. Non-accrual 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 preceding 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, Inc. 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 $3.9 million at September 30, 2011 and $9.4 million at December 31, 2010. The Corporation discontinued the practice of purchasing wholesale leasing portfolios during 2010.

The reserve for loan and lease losses is based on management s evaluation of the loan and lease portfolio under current economic conditions and such other factors, which deserve recognition in estimating loan and lease losses. This evaluation is inherently subjective, as it requires estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Additions to the reserve arise from the provision for loan and lease losses charged to operations or from the recovery of amounts previously charged off. Loan and lease charge-offs reduce the reserve. Loans and leases are charged off when there has been permanent impairment or when in the opinion of management the full amount of the loan or lease, 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 initial effective interest rate, or at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent.

The reserve for loan and lease losses consists of an allocated reserve and unallocated reserve categories. The allocated reserve is comprised of reserves established on specific loans and leases, and class reserves based on historical loan and lease loss experience, 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.

The specific reserve element is based on a regular analysis of impaired commercial and real estate loans. For these loans, the specific reserve established is based on an analysis of related collateral value, cash flow considerations and, if applicable, guarantor capacity.
The class reserve element is determined by an internal loan and lease grading process in conjunction with associated allowance factors. The Corporation revises the class allowance factors whenever necessary, but no less than quarterly, in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.
The Corporation maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded in categories with historical loss experience.
The reserve for loan and lease losses was $31.0 million at September 30, 2011, a slight increase of $104 thousand compared to December 31, 2010. The ratio of the reserve for loan and lease losses to total loans and leases increased to 2.16% at September 30, 2011 from 2.10% at December 31, 2010 and 1.97% at September 30, 2010. Management believes that, as of September 30, 2011, the reserve is maintained at a level that is adequate to absorb losses in the loan and lease portfolio.
Goodwill and Other Intangible Assets
Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has 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 of intangible assets was $344 thousand and $363 thousand for the three months ended September 30, 2011 and 2010, respectively, and $989 thousand and $1.1 million for the nine months ended September 30, 2011 and 2010, respectively. The Corporation also has goodwill with a net carrying amount of $51.3 million at September 30, 2011 and December 31, 2010, which is deemed to be an indefinite intangible asset and is not amortized.
Goodwill and other identifiable intangibles are reviewed for potential impairment on an annual basis, or more often, if events or circumstances indicate 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 completed an annual impairment test for the intangible asset category during 2010 and there were no impairments recorded in 2010. There can be no assurance that future impairment tests will not result in a charge to earnings. Since the last annual impairment date, there were no circumstances to indicate impairment.
Other Assets
At September 30, 2011 and December 31, 2010, the Bank held $3.3 million in Federal Reserve Bank stock as required by member banks of the Federal Reserve System. The Bank is also required to hold stock in the FHLB in relation to the level of outstanding FHLB borrowings by the Bank. The Bank held FHLB stock of $6.1 million and $7.1 million as of September 30, 2011 and December 31, 2010, respectively. On December 23, 2008, the FHLB announced that it would be suspending the payment of its 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 the FHLB s 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. During the fourth quarter of 2010 and the first through third quarters of 2011, 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. Effective February 28, 2011, the FHLB entered into a Joint Capital Enhancement Agreement with the other 11 Federal Home Loan Banks (collectively, the FHLBanks). The agreement calls for a plan for each FHLBank to build additional retained earnings and enhance capital. Under the plan, each FHLBank will, on a quarterly basis, beginning in the third quarter of 2011, allocate at least 20 percent of its net income to a separate restricted retained earnings account until the balance of the account equals one percent of that FHLBank s balance of outstanding obligations. On August 5, and August 8, 2011, the Standard & Poor s Rating Services downgraded the credit ratings of the U.S government and federal agencies, including the FHLB, respectively, from AAA to AA+, with a negative outlook. These recent downgrades, and any future downgrades in the credit ratings of the U.S. government and the FHLB could increase the borrowing costs of the FHLB and possibly have a negative impact on its operations and long-term performance. It is possible this could have an adverse effect on the

value of the Corporation s investment in the FHLB stock. However, based on current information from the FHLB, management believes that if there is any impairment in the FHLB stock, it is temporary. Therefore, as of September 30, 2011 and December 31, 2010, the FHLB stock is recorded at cost.

Liabilities

Total liabilities increased $31.4 million since December 31, 2010 primarily due to increases in deposits. The following table presents the liabilities for the periods indicated:

(Dollars in thousands)	At September 30, 2011	At December 31, 2010	Change Amount	Change Percent
Deposits	$ 1,725,063	$ 1,686,270	$ 38,793	2.3%
Short-term borrowings	107,621	114,871	(7,250)	(6.3)
Long-term borrowings	27,869	28,994	(1,125)	(3.9)
Accrued expenses and other liabilities	38,475	37,534	941	2.5
Total liabilities	$ 1,899,028	$ 1,867,669	$ 31,359	1.7

Deposits

Total deposits increased by $38.8 million primarily the result of an increase of public fund balances of approximately $53.9 million, due to anticipated seasonal collection of tax deposits as well as larger balances being maintained by existing public funds customers. The increases in public fund balances consisted of $38.1 million of time deposits and $15.8 million of core deposits.

Borrowings

Long-term borrowings at September 30, 2011, included $2.3 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 a decrease in federal funds purchased of $24.6 million partially offset by an increase in securities sold under agreements to repurchase of $17.4 million.

Shareholders Equity

Total shareholders equity at September 30, 2011 increased $8.9 million since December 31, 2010. This increase was primarily due to the issuance of stock under the dividend reinvestment and employee stock purchase plans, reductions in unrealized losses on the investment portfolio, and net income exceeding dividends declared.

The following table presents the shareholders equity for the periods indicated:

(Dollars in thousands)	At September 30, 2011	At December 31, 2010	Change Amount	Change Percent
Common stock	**$ 91,332**	$ 91,332	$	%
Additional paid-in capital	**58,326**	59,080	(754)	(1.3)
Retained earnings	**155,617**	151,978	3,639	2.4
Accumulated other comprehensive loss	**(2,251)**	(6,766)	4,515	66.7
Treasury stock	**(27,925)**	(29,400)	1,475	5.0
Total shareholders equity	**$ 275,099**	$ 266,224	$ 8,875	3.3

Retained earnings at September 30, 2011 were impacted by the nine months of net income of $13.6 million offset by cash dividends of $10.0 million declared during the first nine months of 2011. Additional paid-in capital decreased mainly due to shares issued for restricted stock awards. The decrease in accumulated other comprehensive loss was mainly a result of increases in the fair values of municipal bonds and U.S. government agency securities. Treasury stock decreased primarily due to shares issued for the employee stock purchase plan, the dividend reinvestment plan

and restricted stock awards, which were partially offset by purchases of treasury stock.

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Capital Adequacy

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s and the Bank s financial statements. Capital adequacy guidelines, and additionally for the Bank the prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

Table 4 Regulatory Capital

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2011:						
Total Capital (to Risk-Weighted Assets):						
Corporation	**$ 264,429**	**16.00%**	**$ 132,228**	**8.00%**	**$ 165,284**	**10.00%**
Bank	**249,511**	**15.32**	**130,278**	**8.00**	**162,848**	**10.00**
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	**243,436**	**14.73**	**66,114**	**4.00**	**99,171**	**6.00**
Bank	**229,022**	**14.06**	**65,139**	**4.00**	**97,709**	**6.00**
Tier 1 Capital (to Average Assets):						
Corporation	**243,436**	**11.84**	**82,215**	**4.00**	**102,769**	**5.00**
Bank	**229,022**	**11.24**	**81,485**	**4.00**	**101,856**	**5.00**
As of December 31, 2010:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 260,244	15.47%	$ 134,623	8.00%	$ 168,279	10.00%
Bank	243,908	14.71	132,674	8.00	165,842	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	238,393	14.17	67,312	4.00	100,968	6.00
Bank	223,050	13.45	66,337	4.00	99,505	6.00
Tier 1 Capital (to Average Assets):						
Corporation	238,393	11.45	82,649	4.00	103,311	5.00
Bank	223,050	10.89	81,911	4.00	102,389	5.00

As of September 30, 2011 and December 31, 2010, management believes that the Corporation and the Bank met all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 Capital and Total Capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to

at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and Total Capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. As of September 30, 2011, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category.

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Asset/Liability Management

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

The Corporation uses both interest-sensitivity gap analysis and simulation techniques 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.

Liquidity

The Corporation, in its role as a financial intermediary, is exposed to certain liquidity risks. Liquidity refers to the Corporation s ability to ensure that sufficient cash flow and liquid assets are available to satisfy demand for loans and deposit withdrawals. The Corporation manages its liquidity risk by measuring and monitoring its liquidity sources and estimated funding needs. The Corporation has a contingency funding plan in place to address liquidity needs in the event of an institution-specific or a systemic financial crisis.

Sources of Funds

Core deposits and 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 Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $362.9 million. At September 30, 2011 and December 31, 2010, total outstanding short-term and long-term borrowings with the FHLB totaled $5.0 million. At September 30, 2011, the Bank also had outstanding short-term letters of credit with the FHLB totaling $115.5 million which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets as well as the FHLB s internal credit rating of the Bank, and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Corporation maintains federal fund lines with several correspondent banks totaling $82.0 million at September 30, 2011 and December 31, 2010. 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 September 30, 2011 and December 31, 2010, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual 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 agreement 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. Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes in the Corporation s market risk or market strategy occurred during the current period. A detailed discussion of market risk is provided in the Registrant s Annual Report on Form 10-K for the period ended December 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be so disclosed by an issuer is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation s management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures. Based on that evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2011.

Changes in Internal Control over Financial Reporting

There were no changes in the Corporation s internal control over financial reporting (as defined in Rule 13a-15(f)) during the quarter ended September 30, 2011 that materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 1A. Risk Factors

Except for the addition of the risk factor detailed below, there have been no material changes in risk factors from those disclosed under Item 1A, Risk Factors. in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2010.

Downgrades in U.S. Government and federal agency securities could adversely affect the Corporation.

On August 5, 2011, Standard & Poor s downgraded the U.S. long-term debt rating from AAA rating to AA+. On August 8, 2011, Standard & Poor s downgraded the credit ratings of long-term debt instruments issued by ten of the twelve FHLB Banks, including the Federal Home Loan Bank of Pittsburgh from AAA to AA+ (two of the FHLBs were already rated AA+). The full impact of these recent credit rating downgrades is currently unknown. However, in addition to causing potential economic and financial market disruptions, the recent downgrade, and any future downgrades and/or failures to raise the U.S. debt limit if necessary in the future, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that the Corporation holds, the availability of those securities as collateral for borrowing, and the Corporation s ability to access capital markets on favorable terms, as well as have other material adverse effects on the Corporation s business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on repurchases by the Corporation of its common stock during the three months ended September 30, 2011.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 31, 2011				643,782
August 1 31, 2011	9,000	$ 13.22	9,000	634,782
September 1 30, 2011	47,408	$ 13.14	47,408	587,374
Total	56,408	$ 13.15	56,408	

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 August 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 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.

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

a. Exhibits

Exhibit 3.1 Amended and Restated Articles of Incorporation are incorporated by reference to Appendix A of Form DEF14A, filed with the Securities and Exchange Commission (the SEC) on March 9, 2006.

Exhibit 3.2 Amended By-Laws dated September 26, 2007 are incorporated by reference to Exhibit 3.2 of Form 8-K, filed with the SEC on September 27, 2007.

Exhibit 4.1 Shareholder Rights Agreement dated September 30, 2011 is incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the SEC on October 6, 2011.

Exhibit 31.1 Certification of William S. Aichele, Chairman, President and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Jeffrey M. Schweitzer, Senior Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of William S. Aichele, Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Jeffrey M. Schweitzer, Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL Instance Document
Exhibit 101.SCH XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Univest Corporation of Pennsylvania
(Registrant)

Date: November 8, 2011

/s/ William S. Aichele
William S. Aichele, Chairman, President and Chief Executive Officer (Principal Executive Officer)

Date: November 8, 2011

/s/ Jeffrey M. Schweitzer
Jeffrey M. Schweitzer, Senior Executive Vice President,
and Chief Financial Officer
(Principal Financial and Accounting Officer)