UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 02, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
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
Securities registered pursuant to Section 12(g) of the Act:

Title of Class	**Number of shares outstanding at 1/31/12**
Common Stock, $5 par value	16,745,004

Securities registered pursuant to Section 12(b) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. YES þ NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, a non-accelerated file or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller
reporting company)

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

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $251,684,935 as of June 30, 2011 based on the June 30, 2011 closing price of the Registrant s Common Stock of $15.63 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part I and Part III incorporate information by reference from the proxy statement for the annual meeting of shareholders on April 17, 2012.

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PART I

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words believe, anticipate, estimate, expect, project, target, goal expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including but not limited to those set forth below as well as the risk factors described in Item 1A, Risk Factors :

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

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

Item 1. *Business*

General

Univest Corporation of Pennsylvania, (the Corporation), is a Pennsylvania corporation organized in 1973 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956. The Corporation elected to become a Financial Holding Company in 2000 as provided under Title I of the Gramm-Leach-Bliley Act. The Corporation decided to terminate its Financial Holding Company status which became effective in February 2011; this had no material impact on the Corporation. The Corporation owns all of the capital stock of Univest Bank and Trust Co. (the Bank), Univest Delaware, Inc., and Univest Reinsurance Corporation. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation s and the Bank s legal headquarters are located at 14 North Main Street, Souderton, PA 18964.

Effective as of the close of the business on June 29, 2011 and following receipt of required regulatory approvals, the Bank converted from a national bank to a Pennsylvania state-chartered bank and trust company, as authorized by the National Bank Act and Pennsylvania law. 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 is regulated primarily by the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia. The conversion to a state charter did 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. Univest Insurance has two offices in Pennsylvania and one in Maryland. Univest Investments has two offices in Pennsylvania. The Bank is also the parent company of Univest Capital, Inc., a small ticket commercial finance business, and TCG Investment Advisory, a registered investment advisor which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals, municipalities and businesses throughout its markets of operation.

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

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

Univest Investments, Inc., Univest Insurance, Inc., Univest Capital, Inc. and Univest Reinsurance Corporation were formed to enhance the traditional banking and trust services provided by the Bank. Univest Investments, Univest Insurance, Univest Capital and Univest Reinsurance do not currently meet the quantitative thresholds for separate

disclosure as a business segment. Therefore, the Corporation currently has one reportable segment, Community Banking, and strategically is how the Corporation operates and has positioned itself in the marketplace. The Corporation s activities are interrelated, each activity is dependent, and performance is assessed based on how each of these activities supports the others. Accordingly, significant operating decisions are based upon analysis of the Corporation as one Community Banking operating segment.

As of December 31, 2011, the Corporation had total assets of $2.2 billion, net loans and leases of $1.4 billion, total deposits of $1.7 billion and total shareholders equity of $273.0 million.

Employees

As of December 31, 2011, the Corporation and its subsidiaries employed five hundred and sixty-six (566) persons. None of these employees are covered by a collective bargaining agreement and the Corporation believes it enjoys good relations with its personnel.

Market Area

The Corporation is headquartered in Souderton, Pennsylvania, which is located in southeastern Pennsylvania, approximately thirty-five miles north of Philadelphia. The highest concentration of our deposits and loans are in Montgomery and Bucks counties where all of our thirty-two retail financial service centers are located. These are two of the wealthiest counties in Pennsylvania. Significant types of employment industries include pharmaceuticals, health care, electronics, computer services, insurance, industrial machinery, retailing and meat processing. Major companies throughout the two counties include Merck and Company, Jefferson Health Care, Prudential Insurance, Glaxo Smith Kline, Lockheed Martin, Aetna/U.S. Healthcare, Unisys Corporation, St. Mary Medical Center, Healthcare Services, Giant Food Stores LLC, Doylestown Hospital, Grand View Hospital and Northtec LLC. Unemployment rates as of December 2011 were 6.3% and 6.5% in Montgomery and Bucks counties, respectively, significantly lower than Pennsylvania s state unemployment rate of 7.2% and the federal unemployment rate of 8.3%, according to the Bureau of Labor Statistics. In addition to our hub in Montgomery and Bucks counties, we have commercial lending and insurance offices in Lehigh and Chester counties. These areas currently represent a small segment of the Corporation s market area.

The Corporation ranks sixth in market share in Montgomery County with fifteen financial service centers and 5.15% of total market share, and eleventh in Bucks County with seventeen financial service centers and 3.04% of total market share according to data provided by SNL Financial. Montgomery County s population has grown 6.8% to 800,000 since the year 2000, and is expected to grow 2.9% through 2015, while Bucks County s population has grown 5.4% to 630,000 during the same period, and is expected to grow .6% through 2015, according to SNL Financial. The median age is 40.6 years and 42.0 years in Montgomery and Bucks counties, respectively, consistent with the median age of 40.2 years in Pennsylvania and slightly higher than the median age in the Unites States of 37.2 years. County estimates project the median age to increase over the next two decades. Median yearly household income of $81,000 during 2010 for Montgomery County has increased 32.3% since 2000, and is expected to increase 16.6% through 2015; median yearly household income of $79,000 during 2010 for Bucks County has increased 31.9% since 2000 and is expected to increase 15.8% through 2015, according to SNL Financial. The yearly median income for both counties is well above that of both the state of Pennsylvania and the United States of $53,000 and $54,000 during 2010, respectively.

Competition

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

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

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

Supervision and Regulation

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

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

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX was enacted to address corporate and accounting fraud. SOX adopted new standards of corporate governance and imposed additional requirements on the board of directors and management of public companies. SOX also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal controls over financial reporting, identify any material weaknesses in its internal controls over financial reporting and assert that such internal controls are effective. The Corporation has continued to be in compliance with SOX 404 during 2011. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation s Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

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

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

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

- Centralized responsibility for consumer financial protection by the creation of a new agency, the Consumer Financial Protection Bureau, that has rulemaking authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;
- Increased the FDIC assessment for depository institutions with assets of $10 billion or more, changed the basis for determining FDIC premiums from insured deposits to consolidated assets less tangible capital; and increases the minimum reserve ratio for the deposit insurance fund to 1.35% by September 30, 2020;
- Permanently increased the federal deposit insurance coverage to $250 thousand, increased the Securities Investor Protection Corporation protection from $100 thousand to $250 thousand, and provides unlimited federal deposit insurance until December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions;
- Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Amended the Electronic Funds Transfer Act, Regulation E to give the Federal Reserve authority to establish rules to limit debit-card interchange fees and rules regarding overdraft fees;
- Provides for new disclosures and other requirements relating to executive compensation, proxy access by shareholders and corporate governance;
- Provides mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and

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

Credit and Monetary Policies
The Bank is affected by the fiscal and monetary policies of the federal government and its agencies, including the Federal Reserve Board of Governors. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The Board uses its powers to regulate reserve requirements of member banks, the discount rate on member-bank borrowings, interest rates on time and savings deposits of member banks, and to conduct open-market operations in United States Government securities to exercise control over the supply of money and credit. The policies have a direct effect on the amount of bank loans and deposits and on the interest rates charged on loans and paid on deposits, with the result that the policies have a material effect on bank earnings. Future policies of the Board and other authorities cannot be predicted, nor can their effect on future bank earnings.
The Bank is a member of the Federal Home Loan Bank System (FHLBanks), which consists of 12 regional Federal Home Loan Banks, and is subject to supervision and regulation by the Federal Housing Finance Agency. The FHLBanks provide a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank of Pittsburgh (FHLB), is required to acquire and hold shares of capital stock in the FHLB as regulated by the FHLB. In December 2008, the FHLB suspended its dividends and the repurchase of capital stock due to capital compliance requirements. Since October 2010, the FHLB has repurchased a limited amount of excess capital stock each quarter. The FHLB will make decisions on future repurchases of excess capital stock on a quarterly basis. At December 31, 2011, the Bank owned $5.8 million in FHLB capital stock.
The deposits of the Bank are insured under the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. Under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default the other banks may be assessed for the FDIC s loss, subject to certain exceptions. Presently, the Bank has affiliates but none of them is a separate banking institution. During the fourth quarter of 2009, the FDIC Board implemented an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund (DIF) which was finalized in the Fourth Quarter of 2009. The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. At December 31, 2011 $4.0 million remained in a prepaid asset account. The prepaid amount of $4.0 million has a zero percent risk-weighting for risk-based capital ratio calculations. The remaining prepaid amount will be expensed over the 2012 through 2013 period as the actual FDIC assessment is determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.
In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will maintain the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.
In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.
In February 2011, the FDIC issued a final rule regarding deposit insurance assessments. The rule changed the assessment base as required by the Dodd-Frank Act from domestic deposits to average consolidated total assets minus average tangible equity, adopted a new large-bank pricing assessment scheme, and set a target size for the DIF. The changes became effective beginning with the second quarter 2011 and were payable at the end of September 2011. The rule, as mandated by the Dodd-Frank Act, finalizes a target size for the DIF at 2 percent of insured deposits. It also implements a lower assessment rate schedule when the fund reaches 1.15 percent (so that the average rate over time should be about 8.5 basis points) and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. The rule lowers overall assessment rates in order to generate the same approximate amount of revenue under the new larger base as was raised under the old base. The assessment rates in total would be between 2.5 and 9 basis points on the broader base for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category. Nearly all institutions with assets less than $10 billion pay smaller

assessments as a result of this rule. The rule eliminated the adjustment to the rate paid for secured liabilities, including Federal Home Loan Bank advances, since these are part of the new assessment base. It also created a new depository institution debt adjustment that increases the assessment rate of an institution that holds long-term unsecured debt issued by another insured depository institution. This adjustment amounts to 50 basis points for every dollar of long-term unsecured debt held in excess of 3 percent of Tier 1 capital. The final rule also created a scorecard-based assessment system for banks with more than $10 billion in assets. The scorecards include financial measures that the FDIC believes are predictive of long-term performance.

Statistical Disclosure

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

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

Securities and Exchange Commission Reports

The Corporation makes available free-of-charge its reports that are electronically filed with the Securities and Exchange Commission (SEC) including its Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports on its website as a hyperlink to EDGAR. These reports are available as soon as reasonably practicable after the material is electronically filed. The Corporation s website address is www.univest.net. The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2011 to each shareholder who requests one in writing after March 31, 2012. Requests should be directed to: Karen E. Tejkl, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 64197, Souderton, PA 18964.

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

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

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

Risks Relating to Recent Economic Conditions and Governmental Response Efforts

T*he Corporation s earnings are impacted by general business and economic conditions.*

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

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

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***Downgrades in U.S. Government and federal agency securities and Europe s debt crisis 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.

In addition, the possibility that certain European Union (EU) member states will default on their debt obligations have negatively impacted economic conditions and global markets. The continued uncertainty over the outcome of international and the EU s financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our liquidity, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Market and Business

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

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

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

We face substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including commercial banks, community banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and

deposit-gathering services offered by us. Increased competition in our markets may result in reduced loans and deposits.

Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to offer competitive products and services, our business may be negatively affected.
Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

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

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

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

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

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management s attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly received.

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

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

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

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

Our profitability depends in part on our success in attracting and retaining a stable base of low-cost deposits. As of December 31, 2011, 17.4% of our deposit base was comprised of noninterest bearing deposits, of which 13.8%

consisted of business deposits, which are primarily operating accounts for businesses, and 3.6% consisted of consumer deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and customers are increasingly seeking investments that are safe, including the purchase of U.S. Treasury securities and other government-guaranteed obligations, as well as the establishment of accounts at the largest, most-well capitalized banks. If we were to lose a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

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

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

The Corporation continually encounters technological change.

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

The Corporation is subject to claims and litigation.

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

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

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

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

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

Risks Related to the Banking Industry

The Corporation is subject to interest rate risk.

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

Net interest income may decline in a particular period if:

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

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

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

The Corporation is subject to lending risk.

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

As of December 31, 2011, approximately 82.7% of our loan and lease portfolio consisted of commercial, financial and agricultural, commercial real estate and construction loans and leases; these are generally perceived as having more risk of default than residential real estate and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers ability to repay their loans depends on successful development of their properties, as well as the factors affecting residential real estate borrowers. An increase in non-performing loans and leases could result in a net loss of earnings from these loans and leases, an increase in the provision for possible loan and lease losses, and an increase in loan and lease charge-offs. The risk of loan and lease losses will increase if the economy worsens.

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

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

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

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

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

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

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

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

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

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

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

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

The Corporation is subject to extensive government regulation and supervision.

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

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America and the General Assembly of the Commonwealth of Pennsylvania. New financial reform

legislation has been enacted by Congress that will change the bank regulatory framework, create an independent consumer protection bureau that will assume the consumer protection responsibilities of the various federal banking agencies, and establish more stringent capital standards for financial institutions and their holding companies. The legislation will also result in new regulations affecting the lending, funding, trading and investment activities of financial institutions and their holding companies. Such additional regulation and oversight could have a material and adverse impact on us.

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Consumers may decide not to use banks to complete their financial transactions.
The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams could have an adverse effect on our financial condition and results of operations.

Risks Related to Our Common Stock

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

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

- our past and future dividend practice;
- our financial condition, performance, creditworthiness and prospects;
- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events.

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

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

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

Anti-takeover provisions could negatively impact our shareholders.
Certain provisions in the Corporation s Articles of Incorporation and Bylaws, as well as federal banking laws, regulatory approval requirements, and Pennsylvania law could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation s shareholders.

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

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

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

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

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

None.

Item 2. ***Properties***

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

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

Additionally, the Bank provides banking and trust services for the residents and employees of twelve retirement home communities. The Bank has eight off-premise automated teller machines located in Montgomery County, and one off-premise automated teller machine located in Bucks County. The Bank provides banking services nationwide through the internet via its websites www.univestdirect.com or www.univest.net.

Item 3. ***Legal Proceedings***

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

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

Not Applicable.

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PART II

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

The Corporation s common stock is traded on the NASDAQ Global Select Market under the symbol UVSP. At December 31, 2011, the Corporation had 4,856 stockholders.

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

Range of Market Prices of Common Stock and Cash Dividends

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

2011	**Market Price High**	**Market Price Low**	**Cash dividends paid per share**
January March	**$ 19.98**	**$ 15.82**	**$ 0.20**
April June	**17.99**	**15.00**	**0.20**
July September	**16.91**	**12.09**	**0.20**
October December	**16.09**	**12.86**	**0.20**

2010	**Market Price High**	**Market Price Low**	**Cash dividends paid per share**
January March	$ 19.90	$ 16.64	$ 0.20
April June	21.86	17.08	0.20
July September	18.25	15.71	0.20
October December	20.41	17.08	0.20

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Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation s common stock during the five years ended December 31, 2011, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100.00 was invested on December 31, 2006, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

Comparison of Cumulative Total Return on
$100 Investment Made on December 31, 2006
Five Year Cumulative Total Return Summary

	2006	2007	2008	2009	2010	2011
Univest Corporation of Pennsylvania	100.00	71.64	112.31	63.87	72.98	58.73
NASDAQ Stock Market (US)	100.00	110.65	66.44	96.52	114.02	113.14
NASDAQ Banks	100.00	80.13	62.94	52.67	60.11	53.82

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Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and shares under the equity compensation plan, Univest 2003 Long-term Incentive Plan, as of December 31, 2011:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plan approved by security holders	497,499	$ 22.09	762,758
Equity compensation plans not approved by security holders			
Total	497,499	$ 22.09	762,758

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 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
Oct. 1, 2011 Oct. 31, 2011		$		587,374
Nov. 1, 2011 Nov. 30, 2011				587,374
Dec. 1, 2011 Dec. 31, 2011	20,629	13.83	20,629	566,745
Total	20,629	13.83	20,629	

1. Transactions are reported as of trade dates.

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

3. The number of shares approved for repurchase under the Corporation s current stock repurchase program is 643,782.

4. The Corporation s current stock repurchase program does not have an expiration date.

5. No stock repurchase plan or program of the Corporation expired during the period covered by the table.

6. The Corporation has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further purchases. The plans are restricted during certain blackout periods in conformance with the Corporation s Insider Trading Policy.

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

	Years Ended December 31,				
(Dollars in thousands, except per share data)	**2011**	**2010**	**2009**	**2008**	**2007**
Earnings					
Interest income	**$ 85,468**	$ 91,003	$ 96,359	$ 108,057	$ 116,144
Interest expense	**10,728**	17,469	28,723	42,310	54,127
Net interest income	**74,740**	73,534	67,636	65,747	62,017
Provision for loan and lease losses	**17,479**	21,565	20,886	8,769	2,166
Net interest income after provision for loan and lease losses	**57,261**	51,969	46,750	56,978	59,851
Noninterest income	**34,407**	34,418	29,917	26,615	27,268
Noninterest expense	**68,010**	67,349	65,324	57,225	52,211
Income before income taxes	**23,658**	19,038	11,343	26,368	34,908
Applicable income taxes	**4,776**	3,282	563	5,778	9,351
Net income	**$ 18,882**	$ 15,756	$ 10,780	$ 20,590	$ 25,557
Financial Condition at Year End					
Cash, interest-earning deposits and federal funds sold	**$ 107,377**	$ 29,187	$ 68,597	$ 40,066	$ 59,385
Investment securities	**471,165**	467,024	420,045	432,266	415,465
Net loans and leases	**1,416,536**	1,440,288	1,401,182	1,436,774	1,342,356
Assets	**2,206,839**	2,133,893	2,085,421	2,084,797	1,972,505
Deposits	**1,749,232**	1,686,270	1,564,257	1,527,328	1,532,603
Borrowings	**137,234**	143,865	214,063	312,736	208,729
Shareholders equity	**272,979**	266,224	267,807	203,207	198,726
Per Common Share Data					
Average shares outstanding (in thousands)	**16,743**	16,645	14,347	12,873	12,885
Earnings per share basic	**$ 1.13**	$ 0.95	$ 0.75	$ 1.60	$ 1.98
Earnings per share diluted	**1.13**	0.95	0.75	1.60	1.98
Dividends declared per share	**0.80**	0.80	0.80	0.80	0.80
Book value (at year-end)	**16.34**	15.99	16.27	15.71	15.49
Dividend payout ratio	**70.87%**	84.32%	109.33%	50.03%	40.40%
Profitability Ratios					
Return on average assets	**0.89%**	0.75%	0.52%	1.02%	1.32%
Return on average equity	**6.91**	5.82	4.68	10.09	13.44
Average equity to average assets	**12.87**	12.92	11.06	10.08	9.84
Asset Quality Ratios					
Nonperforming loans and leases to total loans and leases	**2.94%**	3.16%	2.65%	0.45%	0.65%

Net charge-offs to average loans and leases outstanding	**1.28**	1.07	0.63	0.62	0.17
Allowance for loan and leases losses to total loans and leases	**2.07**	2.10	1.74	0.90	0.97
Allowance for loan and leases losses to nonperforming loans and leases	**70.34**	66.48	65.54	200.15	148.79

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

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

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

Critical Accounting Policies

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

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

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

Management evaluates debt securities, which comprise 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; except for one corporate bond with a downgraded rating and is closely monitored by management. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be

required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that certain equity securities will not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment and the Corporation s positive intent and ability to hold these securities until recovery to the Corporation s cost basis occurs.

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

Valuation of Goodwill and Other Intangible Assets: Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. The Corporation completes a goodwill impairment analysis at least on an annual basis or more often if events and circumstances indicate that there may be impairment. Identifiable intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. The Corporation elected to early adopt, during the fourth quarter of 2011, new accounting guidance which provides entities the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of the Corporation, including each of its reporting units, is less than its carrying amount prior to performing the two-step quantitative goodwill impairment test. The Corporation performs this assessment at the reporting unit level including the Bank, Univest Insurance and Univest Investments. The Corporation identifies the significant drivers of fair value including macroeconomic and microeconomic conditions, overall financial performance, management s knowledge of the business, key assumptions used in the most recent fair value determination and assumptions at the time of acquisition. As part of this analysis, the Corporation considers the results of the most recent fair value determination performed as of October, 31, 2010, including the amount of excess between the unit s fair value and its carrying amount, and changes in the reporting unit and the economic environment in which it operates. The Corporation performs a qualitative assessment of the likely impact of the factors on the fair value of the reporting unit and considers what events and circumstances have occurred that may have impacted the drivers of fair value. The Corporation considers the overall financial performance of the reporting unit, including current and projected earnings, funding resources, cashflows, salary and benefits expense, capital and tangible capital as well as changes in management and customers, general economic conditions and the regulatory environment. The Corporation considers the reporting unit s performance in comparison to its peers and recent merger and acquisition data including trading multiplies of independent publicly traded entities of comparable sizes. The Corporation also considers changes in its stock price and in comparison to the banking industry. During 2011, the Corporation determined based on the assessment of these qualitative factors and events and circumstances that may impact the drivers of fair value, it was not more likely than not, that the fair value of the Corporation and each of the reporting units was less than its carrying amount; therefore, it was not necessary to perform the two-step impairment test for the Corporation or the reporting units. The Corporation will perform the two-step impairment test as described below when the qualitative assessment indicates a material negative impact of the factors on the operating performance or cashflows of the Corporation and its reporting units which would more likely than not, result in the fair value of the Corporation, including its reporting units, being less than its carrying amount. There can be no assurance that future impairment analyses will not result in a charge to earnings.

The Corporation completed a goodwill impairment test as of October 31, 2010. The Corporation s two-step impairment testing of goodwill is described as follows. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation employs general industry practices in evaluating the fair value of its goodwill and other intangible assets. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units, which are generally the Bank, Univest Investments and Univest Insurance. After this allocation is completed, a two-step valuation process is applied. For the Bank, in Step 1, fair value is determined based on a market approach, which measures fair value based on trading multiples of independent publicly traded entities of comparable sizes. A second fair value analysis is performed using the income approach. The Corporation utilizes a net present value of cash flows of projected net income based on the compound annual growth rate of equity and a discount rate. The discount rate is calculated by utilizing the cost of equity and the cost of debt methods. If the fair

value of the Bank exceeds its adjusted book value, no write-down of goodwill is necessary. If the fair value of any reporting unit is less than its adjusted book value, a Step 2 valuation procedure is required to assess the proper carrying value of the goodwill. The valuation procedures applied in a Step 2 valuation are similar to those that would be performed upon an acquisition, with the Step 1 fair value representing a hypothetical reporting unit purchase price. If the current market value does not exceed the net book value, impairment exists which requires an impairment charge to noninterest expense.

In its two-step impairment analysis of goodwill for Univest Insurance, Inc. and Univest Investments, Inc., the Corporation utilizes a net present value of cash flows of projected net income based on the compound annual growth rate of equity and a discount rate. The discount rate is calculated by utilizing the cost of equity and the cost of debt methods. A second fair value analysis is performed using the market approach which measures fair value based on trading multiples of independent publicly traded entities of comparable sizes. The fair value that is calculated is compared to the net book value

of each company. If the fair value exceeds the net book value, no impairment exists. If the fair value of any reporting unit is less than its adjusted book value, a Step 2 valuation procedure is required to assess the proper carrying value of the goodwill. The valuation procedures applied in a Step 2 valuation are similar to those that would be performed upon an acquisition, with the Step 1 fair value representing a hypothetical reporting unit purchase price. If the current market value does not exceed the net book value, impairment exists which requires an impairment charge to noninterest expense.

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

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

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

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

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

Readers of the Corporation s financial statements should be aware that the estimates and assumptions used in the Corporation s current financial statements may need to be updated in future financial presentations for changes in

circumstances, business or economic conditions in order to fairly represent the condition of the Corporation at that time.

General

The Corporation earns its revenues primarily through its subsidiaries, from the margins and fees it generates from the loan and lease and depository services it provides as well as from trust fees and insurance and investment commissions. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. Growth is pursued through expansion of current customer relationships and development of additional relationships with new offices and strategically related acquisitions. The Corporation has also taken steps in recent years to reduce its dependence on net interest income by intensifying its focus on fee based income from trust, insurance, and investment services to customers.

The principal component of earnings for the Corporation is net interest income, which is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The net interest margin, which is the ratio of net interest income to average earning assets, is affected by several factors including market interest rates, economic conditions, loan and lease demand, and deposit activity. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation 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 maintain a steady net interest margin and consistent growth of net interest income.

Effective as of the close of the business on June 29, 2011 and following receipt of required regulatory approvals, the Bank converted from a national bank to a Pennsylvania state-chartered bank and trust company, as authorized by the National Bank Act and Pennsylvania law. 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 is regulated primarily by the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia. The conversion to a state charter did not have any significant financial or regulatory impact or affect the Corporation s current activities or customers.

Executive Overview

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

	For the Years Ended December 31,		
Dollars in thousands, (except per share data)	**2011**	**2010**	**2009**
Net income	**$ 18,882**	$ 15,756	$ 10,780
Net income per share:			
Basic	**1.13**	0.95	0.75
Diluted	**1.13**	0.95	0.75
Return on average assets	**0.89%**	0.75%	0.52%
Return on average equity	**6.91%**	5.82%	4.68%

2011 versus 2010

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

Net interest income on a tax-equivalent basis increased $1.6 million, or 2.1% during 2011 over 2010. The net interest margin on a tax-equivalent basis increased 4 basis points to 4.15% from 4.11%. The increases in net interest income and net interest margin were a result of declines in the cost of interest-bearing liabilities, exceeding the declines in yields on interest-earning assets. The increases were also attributed to declines in the volume of FHLB borrowings. The Corporation repaid its maturing FHLB advances in 2010 reducing average year-to-date FHLB advances from $45.8 million in 2010 to $5.0 million in 2011. FHLB advances at December 31, 2011 remained at $5.0 million.

The provision for loan and lease losses declined by $4.1 million primarily as a result of the migration and resolution of loans through the loan workout process, lower loan volume and a decrease in historical loss factors.

Non-interest income remained level with the prior year. Non-interest income for 2011 included increases from trust fees, investment advisory commissions and fees, bank owned life insurance, and an increase in the net gain on sales of securities. Additionally, the year ended December 31, 2010 was impacted by fair value write-downs on the ineffective portion of a fair value swap of $1.1 million, which was terminated in August 2010. These favorable variances were partially offset by a decline of $1.6 million in service charges on deposit accounts due to the amendments to Regulation E (requires customers to opt-in for overdraft protection on debit card and point of sale transactions), which was implemented on August 15, 2010; a decline of $1.1 million in the net gain on mortgage banking activities due to weaker mortgage demand in the

first six months of 2011 with significant improvement in the last six months of 2011 due to re-financings; and an increase in the net loss on sales and write downs of other real estate owned.

Non-interest expense increased $661 thousand, or 1.0%. Salaries and benefits increased $196 thousand mainly as a result of higher commissions, employee incentives, special awards and annual performance increases. Salaries and benefits expense also increased as the Corporation continued to grow the mortgage banking business. These increases were partially offset by higher deferred loan origination costs. The Corporation implemented higher deferred loan origination costs commencing during the fourth quarter of 2010 based upon an in-depth study performed which incorporated management s additional review time in connection with the loan approval process in the current environment. In addition, non-interest expense included increases in premises and equipment expenses of $497 thousand and increases in loan workout, legal and other real estate owned expenses. These unfavorable variances were partially offset by a decline of $558 thousand in marketing and advertising expenses and a decline of $631 thousand in deposit insurance premiums mainly due to the amended assessment calculation requirement through the FDIC.

During the third and fourth quarters of 2011, the Corporation deployed $1.0 million of capital to repurchase 77,037 shares of common stock through the stock repurchase program. Maximum shares available for future repurchases through the plan at December 31, 2011 was 566,745. Total shares outstanding at December 31, 2011 were 16,702,376.

2010 versus 2009

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

Net interest income on a tax-equivalent basis increased $6.4 million, or 9.0% during 2010 over 2009. The net interest margin on a tax-equivalent basis increased 32 basis points to 4.11% from 3.79%. The increases in net interest income and the net interest margin during 2010 were mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation experienced core deposit growth which allowed the Corporation to not replace or renew its maturing FHLB advances.

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

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

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

Acquisitions

On December 31, 2008, the Corporation completed the acquisition of the Trollinger Consulting Group and related entities, an independent actuarial, administrative, consulting/compliance, and investment counseling firm that exclusively serves Municipal Pension Plan clients. The Corporation recorded $2.9 million in goodwill and $3.0 million in customer related intangibles as a result of the Trollinger Consulting Group acquisition. The Corporation recorded additional goodwill of $157 thousand in 2009. The Corporation recorded additional goodwill of

$1.8 million and $925 thousand at December 31, 2011 and 2010, respectively for earn-out payments related to the acquisition of Trollinger Consulting Group for achieving specified operating income targets. The Corporation has no remaining contingent earn-out payments.

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

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. Table 1 presents a summary of the Corporation s average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the year ended December 31, 2011 compared to 2010 and for the year ended December 31, 2010 compared to 2009. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

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Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

	For the Years Ended December 31,								
	2011			2010			2009		
(Dollars in thousands)	Average Balance	Income/Expense	Average Rate	Average Balance	Income/Expense	Average Rate	Average Balance	Income/Expense	Average Rate
Assets:									
Interest-earning deposits with other banks	**$ 44,696**	**$ 116**	**0.26%**	$ 24,790	$ 72	0.29%	$ 5,645	$ 16	0.28%
U.S. Government obligations	**145,253**	**2,366**	**1.68**	151,725	3,160	2.08	110,781	3,608	3.26
Obligations of states and political subdivisions	**111,722**	**6,875**	**6.15**	108,694	7,006	6.45	104,481	6,890	6.59
Other debt and equity securities	**172,238**	**5,697**	**3.31**	172,763	7,217	4.18	218,660	10,406	4.76
Federal funds sold							58		
Total interest-earning deposits, investments and federal funds sold	**473,909**	**15,054**	**3.18**	457,972	17,455	3.81	439,625	20,920	4.76
Commercial, financial and agricultural loans	**428,222**	**19,721**	**4.61**	422,401	20,315	4.81	410,729	18,838	4.59
Real estate-commercial and construction loans	**541,073**	**29,152**	**5.39**	534,573	30,834	5.77	521,029	30,549	5.86
Real estate-residential loans	**246,102**	**10,740**	**4.36**	256,427	11,124	4.34	291,229	13,520	4.64
Loans to individuals	**42,760**	**2,433**	**5.69**	45,287	2,698	5.96	49,930	3,440	6.89
Municipal loans and leases	**129,880**	**7,471**	**5.75**	107,832	6,248	5.79	90,238	5,360	5.94
Lease financings	**60,042**	**5,856**	**9.75**	75,565	6,851	9.07	90,019	7,739	8.60
Gross loans and leases	**1,448,079**	**75,373**	**5.21**	1,442,085	78,070	5.41	1,453,174	79,446	5.47
Total interest-earning assets	**1,921,988**	**90,427**	**4.70**	1,900,057	95,525	5.03	1,892,799	100,366	5.30
Cash and due from banks	**41,028**			35,612			33,514		
Reserve for loan and lease losses	**(33,152)**			(28,688)			(18,200)		
Premises and equipment, net	**34,376**			34,914			33,170		
Other assets	**158,548**			151,527			142,164		

Total assets	**$ 2,122,788**			$ 2,093,422			$ 2,083,447		
Liabilities:									
Interest-bearing checking deposits	**$ 206,830**	**238**	**0.12**	$ 178,679	242	0.14	$ 162,615	257	0.16
Money market savings	**299,299**	**701**	**0.23**	303,012	1,060	0.35	305,113	1,724	0.57
Regular savings	**482,064**	**1,468**	**0.30**	445,721	2,555	0.57	353,748	2,955	0.84
Time deposits	**408,638**	**6,576**	**1.61**	432,919	10,054	2.32	508,337	17,371	3.42
Total time and interest-bearing deposits	**1,396,831**	**8,983**	**0.64**	1,360,331	13,911	1.02	1,329,813	22,307	1.68
Securities sold under agreements to repurchase	**102,873**	**286**	**0.28**	97,667	390	0.40	91,390	544	0.60
Other short-term borrowings	**3,407**	**46**	**1.35**	42,109	1,726	4.10	92,209	2,937	3.19
Long-term debt	**5,000**	**190**	**3.80**	5,363	190	3.54	48,979	1,640	3.35
Subordinated notes and capital securities	**23,425**	**1,223**	**5.22**	24,927	1,252	5.02	26,427	1,295	4.90
Total borrowings	**134,705**	**1,745**	**1.30**	170,066	3,558	2.09	259,005	6,416	2.48
Total interest-bearing liabilities	**1,531,536**	**10,728**	**0.70**	1,530,397	17,469	1.14	1,588,818	28,723	1.81
Demand deposits, non-interest bearing	**284,850**			259,303			224,417		
Accrued expenses and other liabilities	**33,147**			33,232			39,817		
Total liabilities	**1,849,533**			1,822,932			1,853,052		
Shareholders Equity:									
Common stock	**91,332**			91,332			80,969		
Additional paid-in capital	**61,457**			61,420			37,844		
Retained earnings and other equity	**120,466**			117,738			111,582		
Total shareholders equity	**273,255**			270,490			230,395		
Total liabilities and shareholders equity	**$ 2,122,788**			$ 2,093,422			$ 2,083,447		
Net interest income		**$ 79,699**			$ 78,056			$ 71,643	
Net interest spread			**4.00**			3.89			3.49
			0.15			0.22			0.30

Effect of net interest-free funding sources			
Net interest margin	**4.15%**	4.11%	3.79%
Ratio of average interest-earning assets to average interest-bearing liabilities	**125.49%**	124.15%	119.13%

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the years ended December 31, 2011, 2010 and 2009 have been calculated using the Corporation s federal applicable rate of 35.0%.

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Table 2 Analysis of Changes in Net Interest Income

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest for the year ended December 31, 2011 compared to 2010 and for the year ended December 31, 2010 compared to 2009, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated proportionately.

	The Years Ended December 31, 2011 Versus 2010			The Years Ended December 31, 2010 Versus 2009		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	**$ 52**	**$ (8)**	**$ 44**	$ 55	$ 1	$ 56
U.S. Government obligations	**(131)**	**(663)**	**(794)**	1,094	(1,542)	(448)
Obligations of states and political subdivisions	**195**	**(326)**	**(131)**	268	(152)	116
Other debt and equity securities	**(22)**	**(1,498)**	**(1,520)**	(2,018)	(1,171)	(3,189)
Interest on deposits, investments and federal funds sold	**94**	**(2,495)**	**(2,401)**	(601)	(2,864)	(3,465)
Commercial, financial and agricultural loans and leases	**273**	**(867)**	**(594)**	550	927	1,477
Real estate-commercial and construction loans	**371**	**(2,053)**	**(1,682)**	769	(484)	285
Real estate-residential loans	**(436)**	**52**	**(384)**	(1,555)	(841)	(2,396)
Loans to individuals	**(147)**	**(118)**	**(265)**	(303)	(439)	(742)
Municipal loans and leases	**1,266**	**(43)**	**1,223**	1,026	(138)	888
Lease financings	**(1,482)**	**487**	**(995)**	(1,294)	406	(888)
Interest and fees on loans and leases	**(155)**	**(2,542)**	**(2,697)**	(807)	(569)	(1,376)
Total interest income	**(61)**	**(5,037)**	**(5,098)**	(1,408)	(3,433)	(4,841)
Interest expense:						
Interest-bearing checking deposits	**35**	**(39)**	**(4)**	22	(37)	(15)
Money market savings	**(12)**	**(347)**	**(359)**	(12)	(652)	(664)
Regular savings	**194**	**(1,281)**	**(1,087)**	675	(1,075)	(400)
Time deposits	**(538)**	**(2,940)**	**(3,478)**	(2,309)	(5,008)	(7,317)
Interest on time and interest-bearing deposits	**(321)**	**(4,607)**	**(4,928)**	(1,624)	(6,772)	(8,396)
Securities sold under agreement to repurchase	**20**	**(124)**	**(104)**	36	(190)	(154)
Other short-term borrowings	**(971)**	**(709)**	**(1,680)**	(1,894)	683	(1,211)
Long-term debt				(1,538)	88	(1,450)
Subordinated notes and capital securities	**(77)**	**48**	**(29)**	(75)	32	(43)
Interest on borrowings	**(1,028)**	**(785)**	**(1,813)**	(3,471)	613	(2,858)

Total interest expense	**(1,349)**	**(5,392)**	**(6,741)**	(5,095)	(6,159)	(11,254)
Net interest income	**$ 1,288**	**$ 355**	**$ 1,643**	$ 3,687	$ 2,726	$ 6,413

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.

Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the years ended December 31, 2011, 2010 and 2009 have been calculated using the Corporation s federal applicable rate of 35.0%.

2011 versus 2010

Net interest income on a tax-equivalent basis for the year ended December 31, 2011was $79.7 million, an increase of $1.6 million, or 2.1% compared to 2010. The tax-equivalent net interest margin for the year ended December 31, 2011 increased 4 basis points to 4.15% from 4.11% for 2010. The increase in net interest income and the net interest margin during 2011 was a result of declines in the cost of interest-bearing liabilities, exceeding the declines in yields on interest-earning assets. The increases were also attributed to declines in the volume of FHLB borrowings. The Corporation repaid its maturing FHLB advances in 2010 reducing average year-to-date FHLB advances from $45.8 million for the year ended December 31, 2010 to $5.0 million for the year ended December 31, 2011. FHLB advances at December 31, 2011 remained at $5.0 million.

2010 versus 2009

Net interest income on a tax-equivalent basis for the year ended December 31, 2010 was $78.1 million, an increase of $6.4 million, or 9.0% compared to 2009. The tax-equivalent net interest margin for the year ended December 31, 2010 increased 32 basis points to 4.11% from 3.79% for 2009. The increase in net interest income and the net interest margin during 2010 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation experienced core deposit growth which allowed the Corporation to not replace or renew its maturing FHLB advances reducing FHLB advances from $92.0 million at December 31, 2009 to $5.0 million at December 31, 2010.

Interest Income

2011 versus 2010

Interest income on a tax-equivalent basis for the year ended December 31, 2011 decreased $5.1 million, or 5.3% from 2010. This decrease was primarily due to a 63 basis point decrease in the average rate earned on investment securities and deposits at other banks as well as a 20 basis point decrease in the average rate earned on loans. The decline in interest income on investment securities and deposits at other banks of $2.4 million for the year ended December 31, 2011 compared to the same period in 2010 was primarily due to maturities, pay-downs and calls of investment securities and replacement with lower yielding investments due to the lower interest rate environment and an increase in interest-bearing deposits as the Corporation continues to keep the investment portfolio short. Interest and fees on loans and leases declined by $2.7 million during the year ended December 31, 2011 compared to the same period in 2010. The Corporation experienced decreases in the average rates on commercial real estate and construction loans and commercial business 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 offset by growth of municipal loans and leases, commercial business loans and commercial real estate and construction loans.

2010 versus 2009

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

Interest Expense

2011 versus 2010

Interest expense for the year ended December 31, 2011 decreased $6.7 million, or 38.6% from 2010. This decrease was primarily due to a 38 basis point decrease in the Corporation s average cost of deposits as well as a $35.4 million decrease in average borrowings and a 79 basis point decrease in the average borrowing rate. The decrease in the Corporation s cost of deposits was largely attributable to re-pricing of time deposit accounts as well as regular savings accounts. For the year ended December 31, 2011, interest expense on time deposits decreased $3.5 million and interest expense on savings accounts decreased by $1.1 million. For the year ended December 31, 2011, average interest-bearing deposits increased by $36.5 million with increases in average interest-bearing checking of $28.2 million, average regular savings of $36.3 million partially offset by a decrease in average time deposits of $24.3 million. The Corporation s focus on growing low cost core deposits by attaining new customers and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts and

interest-bearing checking accounts. Interest on other short-term borrowings mainly includes interest paid on federal funds purchased and short-term FHLB borrowings as well as the amortization of fees on short-term FHLB letters of credit. Interest expense on other short-term borrowings decreased $1.7 million for the year ended December 31, 2011 compared to 2010 primarily due to a decrease in average volume of $38.7 million and a reduction in average rate of 275 basis points. The decreases in average rate and volume were mostly due to maturities of FHLB advances.

2010 versus 2009

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

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rates or the fair value of the collateral for certain collateral dependent loans. Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2011, 2010 and 2009 was $17.5 million, $21.6 million and $20.9 million, respectively. The decrease in the provision during 2011 compared to 2010 was primarily the result of the migration and resolution of loans through the loan workout process, lower loan volume and a decrease in historical loss factors. The increase in provision in 2010 compared to 2009 was primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors that began to manifest in June 2009.

Noninterest Income

Non-interest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities and loans, net gains (losses) on mortgage banking activities, net gains (losses) on interest rate swaps, 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 interchange fees), non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Bank owned life insurance income represents changes in the cash surrender value of bank-owned life insurance policies, which is affected by the market value of the underlying assets, and also includes any excess proceeds from death benefit claims. 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 as of the dates indicated:

(Dollars in thousands)	For the Years Ended December 31, 2011	2010	2009	$ Change 2011 to 2010	2010 to 2009	% Change 2011 to 2010	2010 to 2009
Trust fee income	**$ 6,344**	$ 6,080	$ 5,536	**$ 264**	$ 544	**4.3%**	9.8%
Service charges on deposit accounts	**5,057**	6,693	7,036	**(1,636)**	(343)	**(24.4)**	(4.9)
Investment advisory commission and fee income	**5,373**	4,626	3,427	**747**	1,199	**16.1**	35.0
Insurance commission and fee income	**7,733**	7,694	7,081	**39**	613	**0.5**	8.7
Other service fee income	**5,240**	5,046	3,410	**194**	1,636	**3.8**	48.0
Bank owned life insurance income	**1,668**	1,270	1,321	**398**	(51)	**31.3**	(3.9)
Other-than-temporary impairment on equity securities	**(16)**	(62)	(1,708)	**46**	1,646	**74.2**	96.4
Other-than-temporary impairment on other long lived assets			(500)		500		N/M
Net gain on sales of securities	**1,417**	432	1,150	**985**	(718)	**N/M**	(62.4)
Net gain on mortgage banking activities.	**1,868**	2,960	2,378	**(1,092)**	582	**(36.9)**	24.5
Net (loss) gain on interest rate swap		(1,072)	641	**1,072**	(1,713)	**N/M**	N/M
Net loss on dispositions of fixed assets	**(12)**	(11)	(144)	**(1)**	133	**(9.1)**	92.4
Net loss on sales and write-downs of other real estate owned	**(798)**	(377)	(207)	**(421)**	(170)	**N/M**	(82.1)
Other	**533**	1,139	496	**(606)**	643	**(53.2)**	N/M
Total noninterest income	**$ 34,407**	$ 34,418	$ 29,917	**$ (11)**	$ 4,501		15.0

2011 versus 2010

Non-interest income for the year ended December 31, 2011 was $34.4 million, remaining level with the prior year. Non-interest income for 2011 included increases from trust fees of $264 thousand, investment advisory commissions and fees of $747 thousand, bank owned life insurance income of $398 thousand and an increase in the net gain on sales of securities of $985 thousand. Additionally, the year ended December 31, 2010 was impacted by fair value write-downs on the ineffective portion of a fair value swap of $1.1 million, which was terminated in August 2010 due to the forecasted low interest rate environment. These favorable variances were partially offset by a decline of $1.6 million in service charges on deposit accounts due to the amendments to Regulation E which were implemented on August 15, 2010; a decline of $1.1 million in the net gain on mortgage banking activities due to weaker mortgage demand in the first six months of 2011 with significant improvement in the last six months of 2011 due to

re-financings; and an increase in the net loss on sales and fair value write-downs of other real estate owned properties of $421 thousand. The first quarter of 2010 also included proceeds from a litigation settlement which is reflected in other income.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased $747 thousand for the year December 31, 2011 over 2010 mostly as a result of attaining several new customers.

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

Other service fee income for the year ended December 31, 2011 included increases in interchange fees compared to 2010 which were mostly offset by an increase in unfavorable valuation adjustments on mortgage servicing rights of $641 thousand in 2011 due to the decline in interest rates which increased the projected speeds of prepayment.

The sale of available for sale investment securities during the year ended December 31, 2011 and 2010 amounted to $40.5 million and $13.5 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 year ended December 31, 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.

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2010 versus 2009

For the year ended December 31, 2010, total non-interest income was $34.4 million, an increase of $4.5 million, or 15.0% compared to 2009. This was primarily due to increased income from trust fees, investment advisory commissions and fees, insurance commissions and fees, other service fee income primarily related to interchange fees, a higher net gain of mortgage banking activities and a litigation settlement reflected in other income. Additionally, the year ended December 31, 2009 was impacted by other-than-temporary impairments of $1.7 million on equity securities and $500 thousand on other long-lived assets compared to $62 thousand of other-than-temporary impairments recorded in the year ended December 31, 2010. These favorable variances were partially offset by a decline in service charges on deposit accounts in part due to Regulation E which was implemented during the third quarter of 2010, a reduction in the net gain on sales of securities and a net loss on the interest rate swap of $1.1 million during 2010 compared to a net gain of $641 thousand during the same period in the prior year.

Investment advisory commissions and fee income increased $1.2 million for the year December 31, 2010 over 2009 primarily due to an increase in the market value of client assets as well as higher business volume. Insurance commission and fee income increased by $613 thousand during the year ended December 31, 2010 primarily attributable to increased volume. The increase in the net gain on mortgage banking activities of $3.0 million was primarily due to an increase in volume.

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

For the year ended December 31, 2010, the Corporation recognized a loss of $1.1 million related to fair value adjustments on an interest rate swap for a commercial real estate loan, due to the decline in interest rates during 2010. This interest rate swap was terminated during the third quarter of 2010 due to the forecasted low interest rate environment. Fair value adjustments on the interest rate swap for the year ended December 31, 2009 resulted in a net gain of $641 thousand.

Noninterest Expense

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

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

	For the Years Ended December 31,			**$ Change**		**% Change**	
(Dollars in thousands)	**2011**	**2010**	**2009**	**2011 to 2010**	**2010 to 2009**	**2011 to 2010**	**2010 to 2009**
Salaries and benefits	**$ 38,230**	$ 38,034	$ 37,422	**$ 196**	$ 612	**0.5%**	1.6%
Net occupancy	**5,782**	5,476	5,274	**306**	202	**5.6**	3.8
Equipment	**4,002**	3,811	3,438	**191**	373	**5.0**	10.8
Marketing and advertising	**1,760**	2,318	1,840	**(558)**	478	**(24.1)**	26.0
Deposit insurance premiums	**2,039**	2,670	3,185	**(631)**	(515)	**(23.6)**	(16.2)
Other	**16,197**	15,040	14,165	**1,157**	875	**7.7**	6.2
Total noninterest expense	**$ 68,010**	$ 67,349	$ 65,324	**$ 661**	$ 2,025	**1.0**	3.1

2011 versus 2010

Non-interest expense for the year ended December 31, 2011 was $68.0 million, an increase of $661 thousand or 1.0% compared to 2010. Salaries and benefits increased $196 thousand for the year ended December 31, 2011 as compared 2010 mainly as a result of higher commissions, employee incentives, special awards for employees up through senior vice president and annual performance increases. Salaries and benefits expense also increased as the Corporation continued to grow the mortgage banking business. These increases were partially offset by higher deferred loan origination costs. The Corporation implemented higher deferred loan origination costs on loan credits, commencing during the fourth quarter of 2010, based upon an in-depth study performed which incorporated management s additional review time spent as a result of

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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. In addition, non-interest expense included increases in occupancy expenses of $497 thousand primarily due to increased rent, taxes and other occupancy costs related to a branch relocation and branch improvements and increases in other expenses mostly due to increased loan workout, legal and other real estate owned expenses. These unfavorable variances were partially offset by a decline of $558 thousand in marketing and advertising expenses due to a major brand campaign in 2010 and a decline of $631 thousand in deposit insurance premiums mainly due to the amended assessment calculation requirement through the FDIC implemented April 1, 2011. 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.

2010 versus 2009

For the year ended December 31, 2010, non-interest expense was $67.3 million, an increase of $2.0 million or 3.1% compared to 2009. Salaries and benefits increased $612 thousand for the year ended December 31, 2010 as compared to the same period in the prior year mainly due to additional personnel to grow the commercial lending and mortgage banking businesses, higher restricted stock expense and increased incentive awards partially offset by reduced pension plan expenses and higher deferred loan origination costs. The reduction in pension plan expenses was primarily a result of the Corporation s conversion to a cash balance plan effective December 31, 2009 as well as a change in the valuation of the Corporation non-qualified pension plans associated with projecting future changes in the Consumer Price Index. The Corporation implemented higher deferred loan origination costs commencing during the fourth quarter of 2010 as previously discussed. Equipment expense increased $373 thousand primarily as a result of increased computer software contract expenses. Marketing and advertising expenses increased $478 thousand mainly to support a major brand campaign to position the Corporation to take advantage of the disruption in its markets. Deposit insurance premiums decreased $515 thousand primarily due to the FDIC special assessment which affected all banks and resulted in an additional charge of $947 thousand to the Corporation in the second quarter of 2009 partially offset by higher deposit insurance premiums in 2010 due to the growth in deposits. Other expenses increased $875 thousand primarily due to increased director fees resulting mainly from fair value adjustments on directors deferred fees, increased legal fees resulting from non-performing loan activity, increased audit expenses and increased interchange expenses.

Tax Provision

The provision for income taxes was $4.8 million, $3.3 million and $563 thousand for the years ended December 31, 2011, 2010 and 2009, respectively at effective rates of 20.2%, 17.2% and 5.0%, respectively. The effective tax rates reflect tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. Additionally, 2009 reflects the benefits of tax credits generated from investments in low-income housing projects. The increase in the effective tax rate between the years of 2011 and 2010 was primarily due to a smaller percentage of tax-exempt income to pre-tax income in 2011. The increase in the effective tax rate between the years of 2010 and 2009 was also primarily due to a smaller percentage of tax-exempt income to pre-tax income in 2010.

Financial Condition

During 2011, total assets increased primarily due to an increase in cash and other short-term interest-earning deposits, as well as growth in bank-owned life insurance, partially offset by a decrease in total loans and leases. Detailed explanations of these fluctuations are discussed as follows.

ASSETS

The following table presents assets as of the dates indicated:

	At December 31,			
(Dollars in thousands)	**2011**	**2010**	**$ Change**	**% Change**
Cash and interest-earning deposits	**$ 107,377**	$ 29,187	$ 78,190	N/M%
Investment securities	**471,165**	467,024	4,141	0.9
Loans held for sale	**3,157**	4,178	(1,021)	(24.4)
Total loans and leases	**1,446,406**	1,471,186	(24,780)	(1.7)
Reserve for loan and lease losses	**(29,870)**	(30,898)	1,028	3.3
Premises and equipment, net	**34,303**	34,605	(302)	(0.9)
Goodwill and other intangibles, net.	**58,039**	56,797	1,242	2.2
Bank owned life insurance	**61,387**	48,010	13,377	27.9
Accrued interest and other assets	**54,875**	53,804	1,071	2.0
Total assets	**$ 2,206,839**	$ 2,133,893	$ 72,946	3.4

Cash and Interest-earning Deposits

Interest-earning deposits increased $50.0 million as of December 31, 2011 as compared to December 31, 2010. Excess funds generated from increases in public funds as well as lower loan volume from continued light credit demand were invested in Federal Reserve interest-earning deposits as the Corporation continues to keep the investment portfolio short.

Investment Securities

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

Table 3 Investment Securities

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

	At December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
U.S. treasury	**$ 2,525**	$	$
U.S. government corporations and agencies	**154,264**	188,100	119,992
State and political subdivisions	**117,005**	108,048	107,566
Residential mortgage-backed securities	**78,801**	85,116	101,376
Commercial mortgage obligations	**61,464**	73,091	79,454
Asset-backed securities			573
Corporate bonds	**50,571**	7,974	7,192
Money market mutual funds	**3,851**	1,710	1,968
Equity securities	**2,684**	2,985	1,924

Total investment securities	**$ 471,165**	$ 467,024	$ 420,045

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Table 4 Investment Securities (Yields)

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

	At December 31,					
(Dollars in thousands)	**2011 Amount**	**2011 Yield**	**2010 Amount**	**2010 Yield**	**2009 Amount**	**2009 Yield**
1 Year or less	**$ 17,219**	**0.89%**	$ 12,205	1.58%	$ 14,495	1.91%
After 1 Year to 5 Years	**205,123**	**1.79**	195,127	1.89	125,349	3.01
After 5 Years to 10 Years	**39,666**	**3.53**	38,812	4.12	54,795	4.48
After 10 Years	**206,473**	**3.62**	217,895	4.10	223,482	4.48
No stated maturity	**2,684**	**1.82**	2,985	1.39	1,924	2.42
Total	**$ 471,165**	**2.71**	$ 467,024	3.10	$ 420,045	3.94

Loans and Leases

Total gross loans and leases decreased $24.8 million at December 31, 2011 as compared to December 31, 2010 primarily due to decreases of $49.6 million in construction loans, $7.0 million in residential real estate loans and $8.8 million in lease financings, net of unearned income. These decreases were partially offset by increases of $21.2 million in commercial, financial and agricultural loans and $18.6 million in commercial real estate loans. While the Corporation experienced increased loan activity in the fourth quarter of 2011, overall credit demand and utilization of lines by businesses and consumers remains light as a result of the prolonged challenging economic environment.

At December 31, 2011 there were no concentrations of loans or leases exceeding 10% of total loans and leases other than as disclosed in Table 5.

Table 5 Loan and Lease Portfolio

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

	At December 31,				
(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Commercial, financial and agricultural	**$ 484,687**	$ 463,518	$ 447,495	$ 424,649	$ 381,826
Real estate commercial	**514,953**	496,357	467,320	395,855	390,568
Real estate construction	**90,397**	139,958	112,259	156,654	137,566
Real estate residential	**238,179**	245,210	266,622	316,039	310,571
Loans to individuals	**44,965**	44,087	46,761	54,212	72,476
Lease financings	**73,225**	82,056	85,523	102,483	62,435
Total loans and leases, net of deferred income	**$ 1,446,406**	$ 1,471,186	$ 1,425,980	$ 1,449,892	$ 1,355,442

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

The following table presents the maturity and interest rate sensitivity of the loan and lease portfolio at December 31, 2011:

(Dollars in thousands)	Total	Due in One Year or Less	Due after One Year to Five Years	Due after Five Years
Commercial, financial and agricultural	$ 484,687	$ 335,454	$ 135,411	$ 13,822
Real estate commercial	514,953	160,244	322,709	32,000
Real estate construction	90,397	59,172	20,237	10,988
Real estate residential	238,179	90,168	41,680	106,331
Loans to individuals	44,965	18,130	10,721	16,114
Leases financings	73,225	32,634	40,543	48
Total gross loans and leases	$ 1,446,406	$ 695,802	$ 571,301	$ 179,303
Loans and leases with fixed predetermined interest rates	$ 712,279	$ 144,010	$ 438,529	$ 129,740
Loans and leases with variable or floating interest rates	734,127	551,792	132,772	49,563
Total gross loans and leases	$ 1,446,406	$ 695,802	$ 571,301	$ 179,303

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

Asset Quality

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

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

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 December 31, 2011, $45.8 million at December 31, 2010, and $37.1 million at December 31, 2009; the balance at December 31,

2011 and 2010 primarily consisted of commercial real estate, construction and commercial, financial and agricultural loans. For the years ended December 31, 2011, 2010, and 2009, interest income that would have been recognized under the original terms for impaired loans was $2.6 million, $2.1 million, and $969 thousand, respectively. Interest income recognized in the years ending December 31, 2011, 2010 and 2009, was $261 thousand, $119 thousand and $79 thousand, respectively. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 3.38% as of December 31, 2011, 3.32% as of December 31, 2010, and 2.89% as of December 31, 2009. The ratio of nonperforming assets to total assets was 2.22% at December 31, 2011, 2.29% at December 31, 2010, and 1.98% at December 31, 2009.

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At December 31, 2011, the recorded investment in loans and leases that are considered to be impaired was $42.1 million, all of which were on a nonaccrual basis or troubled debt restructured. The related reserve for loan losses was $1.3 million. At December 31, 2010, the recorded investment in loans and leases that are considered to be impaired was $45.8 million, all of which were on a nonaccrual basis or troubled debt restructured. The related reserve for loan losses 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 decreased $3.7 million during 2011 mainly consisting of decreases in commercial, financial and agricultural of $3.1 million, construction loans of $1.6 million and residential real estate loans of $1.2 million, partially offset by an increase in commercial real estate of $2.8 million. Charge-offs, foreclosures and pay-downs exceeded the additions to impaired loans during 2011. Impaired loans at December 31, 2011 included one large Shared National Credit to a theatre with an outstanding balance of $7.7 million. At December 31, 2011, the credit was secured with sufficient estimated collateral and therefore, there was no specific reserve on this credit. The theatre continues to be open and operating. In addition, impaired loans at December 31, 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 $14.4 million at December 31, 2011. There is no specific allowance on this credit as the credit was secured with sufficient estimated collateral. The borrower does not have the resources to develop these properties; therefore, the properties must be sold.

During 2010, the Corporation acquired two other real estate owned properties, one of which was sold during the fourth quarter of 2010 and the other was sold during 2011. Eight other real estate owned properties were acquired in 2011, four of which were sold in 2011. At December 31, 2011, the Corporation owned four other real estate owned properties which were commercial properties. For the years ended December, 31, 2011, 2010 and 2009, the net loss on sales and write-downs of other real estate owned was $798 thousand, $377 thousand and $207 thousand, respectively. The other real estate owned balance was $6.6 million and $2.4 million at December 31, 2011 and 2010, respectively.

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

The following table details the aggregate principal balance of loans and leases classified as nonaccrual (including nonaccrual troubled 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:

			At December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and leases*:					
Commercial, financial and agricultural	**$ 4,614**	$ 7,627	$ 3,275	$ 520	$ 3,473
Real estate commercial	**18,085**	17,750	3,482	1,758	1,036
Real estate construction	**14,479**	17,307	25,395	1,640	2,308
Real estate residential	**191**	1,625	572	813	
Loans to individuals		21			
Leases financings	**838**	902	774	298	61
Total nonaccrual loans and leases, including nonaccrual troubled debt restructured loans and leases*	**38,207**	45,232	33,498	5,029	6,878
Accruing troubled debt restructured loans and leases, not	**3,893**	550	3,611	380	

included above					
Total impaired loans and leases	**$ 42,100**	$ 45,782	$ 37,109	$ 5,409	$ 6,878
Accruing loans and leases 90 days or more past due:					
Commercial, financial and agricultural	**$**	$	$ 134	$ 315	$ 1,147
Real estate commercial				299	243
Real estate residential	**117**	314	273	175	401
Loans to individuals	**204**	382	319	356	126
Leases financings	**44**				
Total accruing loans and leases, 90 days or more past due	**$ 365**	$ 696	$ 726	$ 1,145	$ 1,917
Total non-performing loans and leases	**$ 42,465**	$ 46,478	$ 37,835	$ 6,554	$ 8,795
Other real estate owned	**$ 6,600**	$ 2,438	$ 3,428	$ 346	$
Total non-performing assets	**$ 49,065**	$ 48,916	$ 41,263	$ 6,900	$ 8,795
* Nonaccrual troubled debt restructured loans and leases included in nonaccrual loans and leases in the above table	**$ 8,551**	$ 1,155	$ 575	$ 807	$

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

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

Reserve for Loan and Lease Losses

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

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Nonaccrual loans and leases, and those which are troubled debt restructured, are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience, loss factors are determined giving consideration to the areas noted in the first paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve. 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 were purchased by the Bank s subsidiary, Univest Capital. The Corporation discontinued the practice of purchasing wholesale leasing portfolios during 2010. 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 were $3.0 million and $9.4 million at December 31, 2011 and 2010, respectively.

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

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

and lease loss experience, current trends, and management assessments. The unallocated reserve is based on both general economic conditions and other risk factors in the Corporation s individual markets and portfolios and is to account for a level of imprecision in management s estimation process and the potential volatility in the aforementioned markets and portfolios.

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

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

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

Table 8 Summary of Loan and Lease Loss Experience

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

	For the Years Ended December 31,				
(Dollars in thousands)	**2011**	**2010**	**2009**	**2008**	**2007**
Average amount of loans and leases outstanding	**$ 1,448,079**	$ 1,442,085	$ 1,453,174	$ 1,401,971	$ 1,367,017
Loan and lease loss reserve at beginning of period	**$ 30,898**	$ 24,798	$ 13,118	$ 13,086	$ 13,283
Charge-offs:					
Commercial, financial and agricultural loans	**6,784**	3,436	4,116	6,194	1,143
Real estate loans	**10,435**	10,573	2,167	1,392	499
Loans to individuals	**968**	883	1,470	1,217	1,272
Lease financings	**1,516**	2,213	2,695	502	106
Total charge-offs	**19,703**	17,105	10,448	9,305	3,020
Recoveries:					
Commercial, financial and agricultural loans	**318**	129	332	134	225
Real estate loans	**213**	772	33	28	95
Loans to individuals	**174**	227	434	315	337
Lease financings	**491**	512	443	91	
Total recoveries	**1,196**	1,640	1,242	568	657
Net charge-offs	**18,507**	15,465	9,206	8,737	2,363
Provisions to loan and lease loss reserve	**17,479**	21,565	20,886	8,769	2,166
Loan and lease loss reserve at end of period	**$ 29,870**	$ 30,898	$ 24,798	$ 13,118	$ 13,086
Ratio of net charge-offs to average loans and leases	**1.28%**	1.07%	0.63%	0.62%	0.17%

The increase in charge-offs during 2011 compared to 2010 was mainly due to the increased charge-off activity for commercial, financial and agricultural loans. The increase in charge-offs during 2010 compared to 2009 was primarily due to the increase in real estate loans charge-offs due to the prolonged down economic cycle and were not

concentrated in any one industry.

Table 9 Allocated, Other Loan and Lease Loss Reserves

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

	At December 31,									
(Dollars in thousands)	**2011**		2010		2009		2008		2007	
Commercial, financial and agricultural loans	**$ 11,262**	**33.5%**	$ 9,630	31.5%	$ 12,148	31.4%	$ 6,432	29.3%	$ 6,295	28.2%
Real estate loans	**14,875**	**58.3**	17,165	59.9	9,534	59.3	4,800	59.9	4,836	61.9
Loans to individuals	**730**	**3.1**	734	3.0	887	3.3	581	3.7	730	5.3
Lease financings	**1,344**	**5.1**	1,950	5.6	1,175	6.0	574	7.1	356	4.6
Unallocated	**1,659**	**N/A**	1,419	N/A	1,054	N/A	731	N/A	869	N/A
Total	**$ 29,870**	**100.0%**	$ 30,898	100.0%	$ 24,798	100.0%	$ 13,118	100.0%	$ 13,086	100.0%

The allowance for loan and lease losses to nonperforming loans and leases equaled 70.34% at December 31, 2011, 66.48% at December 31, 2010, and 65.54% at December 31, 2009. At December 31, 2011 the specific allowance on impaired loans was $1.3 million, or 3.0% of the balance of impaired loans and leases of $42.1 million. At December 31, 2010 the specific allowance on impaired loans was $1.6 million, or 3.5% of the balance of impaired loans and leases of $45.8 million. At December 31, 2009, the specific allowance on impaired loans was $1.4 million, or 3.8% of the impaired loan and lease balance of $37.1 million. Management closely monitors the credit worthiness and the value of underlying collateral as a commercial credit becomes past-due. These factors along with historical and economic trends, and management s assumptions, are taken into consideration in providing the allowance for loan and lease losses. When the loan becomes impaired and is placed on non-accrual, a specific allowance is created for the impaired loan.

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

The ratio of the reserve for loan and lease losses to total loans and leases was 2.10% at December 31, 2010 compared to 1.74% at December 31, 2009. Allocated reserves at December 31, 2010 increased by $5.7 million compared to December 31, 2009. The allocation of the allowance for real estate loans increased by $7.6 million at December 31, 2010 compared to December 31, 2009 mainly due to an increase in the historical loss factor related to non-criticized commercial real estate/construction loans which incorporated the Corporation s higher level of net charge-offs during 2010 relative to its previous historical average for these types of loans. In addition, the allowance was impacted slightly by increased volume of non-criticized commercial real estate/construction loans. Allocated reserves for lease financings increased by $775 thousand at December 31, 2010 compared to December 31, 2009 mainly due to an increase in the historical loss factor based upon the Corporation s higher level of net charge-offs. Allocated reserves for commercial, financial and agricultural loans decreased by $2.5 million at December 31, 2010 from December 31, 2009 primarily due to a decrease in the level of criticized loans as well as a decrease in the adjusted historical loss factor related to criticized loans. Unallocated reserves increased in 2010 by $365 thousand primarily due to economic volatility.

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 these intangible assets for the years ended December 31, 2011, 2010 and 2009 was $1.6 million, $1.5 million and $1.5 million respectively. The Corporation also has goodwill of $53.2 million, which is deemed to be an indefinite intangible asset and is not amortized. The Corporation completes a goodwill impairment analysis at least on an annual basis or more often if events and circumstances indicate that there may be impairment. Identifiable intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. There was no goodwill impairment and no material impairment to identifiable intangibles recorded during 2011, 2010 or 2009. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Accrued Interest Receivable and Other Assets

The FDIC Board implemented an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund in the Fourth Quarter of 2009. The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. At December 31, 2011, $4.0 million remained in a prepaid asset account. The prepaid amount of $4.0 million has a zero percent risk-weighting for risk-based capital ratio calculations. The remaining prepaid amount will be expensed over the 2012 though 2013 period as the actual FDIC assessment is determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.

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At December 31, 2011 and 2010, the Bank held $3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $5.8 million and $7.1 million as of December 31, 2011 and 2010, respectively. On December 23, 2008, the FHLB announced that it would be suspending the payment of dividends and the repurchase of excess capital stock in-order to rebuild its capital levels. Additionally, the FHLB might require its members to increase its capital stock requirement. During the fourth quarter of 2010 and the first through fourth 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. 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 December 31, 2011, the FHLB stock is recorded at cost.

LIABILITIES

The following table presents liabilities as of the dates indicated:

	At December 31,			
(Dollars in thousands)	**2011**	**2010**	**$ Change**	**% Change**
Deposits	**$ 1,749,232**	$ 1,686,270	$ 62,962	3.7%
Short-term borrowings	**109,740**	114,871	(5,131)	(4.5)
Long-term borrowings	**27,494**	28,994	(1,500)	(5.2)
Accrued expenses and other liabilities	**47,394**	37,534	9,860	26.3
Total liabilities	**$ 1,933,860**	$ 1,867,669	$ 66,191	3.5

Deposits

Total deposits increased during 2011 primarily due to increases in noninterest-bearing demand deposits of $32.9 million, interest-bearing demand deposits of $17.2 million and savings deposits of $22.1 million. These increases were partially offset by decreases in time deposits of $9.3 million. Core deposits increased $72.2 million for the year ended December 31, 2011 primarily due to the Corporation s focus on growing low cost core deposits and attaining new customers.

Table 10 Deposits

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

	For the Years Ended December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
Noninterest-bearing demand deposits	**$ 284,850**	$ 259,303	$ 224,417
Interest-bearing checking deposits	**206,830**	178,679	162,615
Money market savings	**299,299**	303,012	305,113
Regular savings	**482,064**	445,721	353,748
Time deposits	**408,638**	432,919	508,337
Total average deposits	**$ 1,681,681**	$ 1,619,634	$ 1,554,230

The following table summarizes the maturities of time deposits with balances of $100 thousand or more at December 31, 2011:

(Dollars in thousands)	Due Three Months or Less	Due Over Three Months to Six Months	Due Over Six Months to Twelve Months	Due Over Twelve Months
Time deposits	$ 36,395	$ 45,600	$ 38,055	$ 41,637

Borrowings

Long-term borrowings at December 31, 2011, included $1.9 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. At December 31, 2011, the Bank also had outstanding short-term letters of credit with the FHLB totaling $55.0 million, which were utilized to collateralize seasonal public funds deposits.

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Table 11 Short Term Borrowings

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

(Dollars in thousands)	2011	2010	2009
Balance at December 31	**$ 109,740**	$ 90,271	$ 95,624
Weighted average interest rate at year end	**0.20%**	0.30%	0.50%
Maximum amount outstanding at any month s end	**$ 111,724**	$ 109,712	$ 133,140
Average amount outstanding during the year	**$ 102,873**	$ 97,667	$ 91,390
Weighted average interest rate during the year	**0.28%**	0.40%	0.60%

SHAREHOLDERS EQUITY

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

	At December 31,			
(Dollars in thousands)	2011	2010	$ Change	% Change
Common stock	**$ 91,332**	$ 91,332	$	%
Additional paid-in capital	**58,495**	59,080	(585)	(1.0)
Retained earnings	**157,566**	151,978	5,588	3.7
Accumulated other comprehensive loss	**(6,101)**	(6,766)	665	9.8
Treasury stock	**(28,313)**	(29,400)	1,087	3.7
Total shareholders equity	**$ 272,979**	$ 266,224	$ 6,755	2.5

Total shareholders equity increased since December 31, 2010 primarily due to an increase in retained earnings of $5.6 million.

Retained earnings during the year ended December 31, 2011 was impacted by net income of $18.9 million partially offset by cash dividends of $13.4 million. Treasury stock decreased primarily due to shares issued for the employee stock purchase plan, the dividend reinvestment plan and restricted stock awards, partially offset by purchases of treasury stock. There is a buyback program in place that allows the Corporation to purchase an additional 566,745 shares of its outstanding common stock in the open market or in negotiated transactions.

Accumulated other comprehensive income related to securities of $7.3 million and $884 thousand, net of taxes, is included in shareholders equity at December 31, 2011 and 2010, respectively. Accumulated other comprehensive income (loss) related to securities is the unrealized gain (loss), or difference between the book value and fair value, on the available-for-sale investment portfolio, net of taxes. The period-to-period gain in accumulated other comprehensive income (loss) was mainly a result of increases in the fair values of municipal bonds and U.S. Government agency securities.

Accumulated other comprehensive loss related to an interest rate swap, net of taxes, amounted to $932 thousand and accumulated other comprehensive income of $320 thousand at December 31, 2011 and 2010, respectively. Accumulated other comprehensive income (loss) related to an interest-rate swap reflects the current fair value of the swap used for cash flow hedging purposes, net of taxes.

Accumulated other comprehensive loss related to pension and other post-retirement benefits, net of taxes, amounted to $12.5 million and $8.0 million at December 31, 2011 and 2010, respectively. The change in the accumulated other comprehensive income loss related to pension and other post-retirement benefits represent the changes in the actuarial gains and losses and the prior service costs and credits that arise during the period. The significant change in the actuarial loss was due to a decrease in the discount rate of 100 basis points.

Capital Adequacy

Capital guidelines which banking regulators have adopted assign minimum capital requirements for categories of assets depending on their assigned risks. The components of risk-based capital for the Corporation are Tier 1 and Tier 2. Minimum required total risk-based capital is 8.00%. At December 31, 2011, the Corporation had a Tier 1 capital ratio of 14.29% and total risked-based capital ratio of 15.56%. At December 31, 2010, the Corporation had a Tier 1 capital ratio of 14.17% and total risked-based capital ratio of 15.47%. The Corporation continues to be in the well-capitalized category under regulatory standards. Details on the capital ratios can be found in Note 19 Regulatory Matters, included in the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K along with a discussion on dividend and other restrictions.

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

The Corporation 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 s credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. The Corporation accounts for its interest-rate swap contracts in cash flow hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows of assets or liabilities that are being hedged.

Credit Risk

Extending credit exposes the Corporation to credit risk, which is the risk that the principal balance of a loan and any related interest will not be collected due to the inability of the borrower to repay the loan. The Corporation manages credit risk in the loan portfolio through adherence to consistent standards, guidelines and limitations established by the Board of Directors. Written loan policies establish underwriting standards, lending limits and other standards or limits as deemed necessary and prudent.

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

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

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

Credit risk in the direct consumer loan portfolio and credit card portfolio is controlled by strict adherence to conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. In the home equity loan portfolio, combined loan-to-value ratios at origination are generally limited to 80%. Other credit considerations may warrant higher combined loan-to-value ratios and are generally insured by private mortgage insurance.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or

otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk by using $1.00 buyout leases, in which the entire cost of the leased equipment is included in the contractual payments, leaving no residual payment at the end of the lease terms.

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

Liquidity

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

Sources of Funds

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

The Corporation supplements its core funding with money market funds it holds for the benefit of various trust accounts. These funds are fully collateralized by the Bank s investment portfolio and are at current money market mutual fund rates. This funding source is subject to changes in the asset allocations of the trust accounts. The Bank may purchase Certificates from the Pennsylvania Local Government Investment Trust (PLGIT) to augment its short-term fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the FHLB; therefore, the Bank is not required to provide collateral on these deposits. At December 31, 2011 and 2010, the Bank had no PLGIT deposits.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $371.5 million. At December 31, 2011 and 2010, total outstanding short-term and long-term borrowings with the FHLB totaled $5.0 million. At December 31, 2011, the Bank also had outstanding short-term letters of credit with the FHLB totaling $55.0 million, which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity changes as a function of qualifying collateral assets as well as the FHLB s internal credit rating of the Bank and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Bank maintains federal fund credit lines with several correspondent banks totaling $82.0 million at December 31, 2011 and 2010. There were no outstanding borrowings under these lines at December 31, 2011 and $24.6 million outstanding at 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 December 31, 2011 and 2010, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements including various financial obligations, including contractual obligations and commitments that require cash payments. The following contractual obligations and commitments table presents, as of December 31, 2011, significant fixed and determinable contractual obligations to third parties. The most significant obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Short-term borrowings consisting of securities sold under agreements to repurchase constitute the next largest payment obligation. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its branch network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market.

The table also shows the amounts and expected maturities of significant commitments as of December 31, 2011. These commitments do not necessarily represent future cash requirements in that these commitments often expire

without being drawn upon. Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods.

Contractual Obligations and Commitments

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

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

The Corporation s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Corporation does not require and is not required to pledge collateral or other security to support financial instruments with credit risk. These commitments expire over time as detailed in Table 12. The Corporation also had possible future commitments on Risk Participation Agreements, totaling $2.3 million at December 31, 2011. For further information regarding the Corporation s commitments, refer to Footnote 15 of the Consolidated Financial Statements, herein.

Table 12 Contractual Obligations

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows, including interest payable, as of December 31, 2011:

		Payments Due by Period			
(Dollars in thousands)	Total	Due in One Year or Less	Due after One Year to Three Years	Due after Four Years to Five Years	Due in Over Five Years
Securities sold under agreement to repurchase(a)	$ 109,740	$ 109,740	$	$	$
Long-term debt(b)	5,192	188	5,004		
Subordinated capital notes(c)	1,899	1,147	752		
Trust preferred securities(d)	36,283	712	1,424	1,424	32,723
Time deposits(e)	421,892	254,482	73,912	72,140	21,358
Operating leases	28,312	2,086	3,937	3,555	18,734
Standby and commercial letters of credit	47,786	30,209	2,236	15,341	
Commitments to extend credit (f)	473,789	167,530	52,651	18,241	235,367
Derivative loan commitments (g)	777	777			
Total contractual obligations	$ 1,125,670	$ 566,871	$ 139,916	$ 110,701	$ 308,182

Notes:

(a) Includes interest on variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

(b) Interest expense is projected based upon the weighted average interest rate of long-term debt.

(c) Includes interest on variable rate obligations. The interest expense associated with the variable rate obligations is based upon interest rates in effect at December 31, 2011. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

(d) Includes interest on variable rate obligations. The interest expense is based upon interest rates in effect at December 31, 2011. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid. The trust preferred securities mature in 2033 and interest is calculated to this maturity date. The Corporation may choose to call these securities as a result of interest rate fluctuations and capital needs without penalty for the remainder of the term.

(e) Includes interest on both fixed and variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

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

(g) Includes the fair value of these contractual arrangements at December 31, 2011.

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

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

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

At December 31, 2011, the simulation, based upon forward-looking assumptions, projects that the Corporation s greatest interest margin exposure to interest-rate risk would occur if interest rates decreased from present levels. Given the assumptions, a 200 basis point parallel shift in the yield curve applied on a ramp-up basis would cause the Corporation s net interest margin, over a 1-year horizon, to be approximately 2.95% more than it would be if market rates would remain unchanged. A 100 basis point (a 200 basis point ramp down would not be relevant in the current market conditions) parallel shift in the yield curve applied on a ramp-down basis would cause the Corporation s net interest margin, over a 1-year horizon, to be approximately 2.84% less than it would be if market rates would remain unchanged. Policy limits have been established which allow a tolerance for no more than approximately a 5.0% negative impact to the interest margin resulting from a 200 basis point parallel yield curve shift over a forward looking 12-month period. See Management s Discussion and Analysis of Financial Condition and Results of Operations Net Interest Income and Asset/Liability Management, Liquidity and Table 13.

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Table 13 Interest Sensitivity Analysis
Interest Sensitivity Analysis at December 31, 2011:

(Dollars in thousands)	Within Three Months	After Three Months to Twelve Months	After One Year to Five Years	Over Five Years	Non-Rate Sensitive	Total
Assets:						
Cash and due from banks	$	$	$	$	$ 39,857	$ 39,857
Interest-earning deposits with other banks	67,520					67,520
Investment securities	44,214	86,627	215,329	124,995		471,165
Loans held for sale	3,157					3,157
Loans and leases, net of reserve for loan and lease losses	660,023	257,167	446,204	83,012	(29,870)	1,416,536
Other assets					208,604	208,604
Total assets	$ 774,914	$ 343,794	$ 661,533	$ 208,007	$ 218,591	$ 2,206,839
Liabilities and shareholders equity:						
Demand deposits noninterest-bearing	$	$	$	$	$ 304,006	$ 304,006
Demand deposits interest-bearing	335,560	33,391	178,083			547,034
Savings deposits	27,835	73,700	388,157			489,692
Time deposits	57,711	145,105	183,681	22,003		408,500
Borrowed funds	131,984		5,250			137,234
Other liabilities					47,394	47,394
Shareholders equity					272,979	272,979
Total liabilities and shareholders equity	$ 553,090	$ 252,196	$ 755,171	$ 22,003	$ 624,379	$ 2,206,839
Incremental gap	$ 221,824	$ 91,598	$ (93,638)	$ 186,004	$ (405,788)	
Cumulative gap	$ 221,824	$ 313,422	$ 219,784	$ 405,788		
Cumulative gap as a percentage of interest-earning assets	11.16%	15.76%	11.05%	20.41%		

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

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

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

	Page
Report of Independent Registered Public Accounting Firm	47
Consolidated Balance Sheets	48
Consolidated Statements of Income	49
Consolidated Statements of Changes in Shareholders Equity	50
Consolidated Statements of Cash Flows	51
Notes to Consolidated Financial Statements	53

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Univest Corporation of Pennsylvania:

We have audited the accompanying consolidated balance sheets of Univest Corporation of Pennsylvania and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2012 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Philadelphia, Pennsylvania
March 2, 2012

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	At December 31, 2011	2010
ASSETS		
Cash and due from banks	**$ 39,857**	$ 11,624
Interest-earning deposits with other banks	**67,520**	17,563
Investment securities held-to-maturity (fair value $45,639 and $32 at December 31, 2011 and 2010, respectively)	**45,804**	32
Investment securities available-for-sale	**425,361**	466,992
Loans held for sale	**3,157**	4,178
Loans and leases	**1,446,406**	1,471,186
Less: Reserve for loan and lease losses	**(29,870)**	(30,898)
Net loans and leases	**1,416,536**	1,440,288
Premises and equipment, net	**34,303**	34,605
Goodwill	**53,169**	51,320
Other intangibles, net of accumulated amortization and fair value adjustments of $11,646 and $9,495 at December 31, 2011 and 2010, respectively	**4,870**	5,477
Bank owned life insurance	**61,387**	48,010
Accrued interest receivable and other assets	**54,875**	53,804
Total assets	**$ 2,206,839**	$ 2,133,893
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 304,006**	$ 271,125
Demand deposits, interest-bearing	**547,034**	529,884
Savings deposits	**489,692**	467,511
Time deposits	**408,500**	417,750
Total deposits	**1,749,232**	1,686,270
Securities sold under agreements to repurchase	**109,740**	90,271
Other short-term borrowings		24,600
Accrued interest payable and other liabilities	**47,394**	37,534
Long-term debt	**5,000**	5,000
Subordinated notes	**1,875**	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	**1,933,860**	1,867,669
SHAREHOLDERS EQUITY		
Common stock, $5 par value; 48,000,000 shares authorized at December 31, 2011 and 2010; 18,266,404 shares issued at December 31, 2011 and 2010; and 16,702,376 and 16,648,303 shares outstanding at December 31, 2011 and 2010, respectively	**91,332**	91,332

Additional paid-in capital	**58,495**	59,080
Retained earnings	**157,566**	151,978
Accumulated other comprehensive loss, net of tax benefit	**(6,101)**	(6,766)
Treasury stock, at cost; 1,564,028 shares and 1,618,101 shares at December 31, 2011 and 2010, respectively	**(28,313)**	(29,400)
Total shareholders equity	**272,979**	266,224
Total liabilities and shareholders equity	**$ 2,206,839**	$ 2,133,893

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	For the Years Ended December 31, 2011	2010	2009
Interest income			
Interest and fees on loans and leases:			
Taxable	**$ 67,902**	$ 71,822	$ 74,086
Exempt from federal income taxes	**4,918**	4,178	3,731
Total interest and fees on loans and leases	**72,820**	76,000	77,817
Interest and dividends on investment securities:			
Taxable	**8,063**	10,377	14,014
Exempt from federal income taxes	**4,469**	4,554	4,512
Other interest income	**116**	72	16
Total interest income	**85,468**	91,003	96,359
Interest expense			
Interest on demand deposits	**939**	1,302	1,981
Interest on savings deposits	**1,468**	2,555	2,955
Interest on time deposits	**6,576**	10,054	17,371
Interest on short-term borrowings	**332**	2,116	3,481
Interest on long-term borrowings	**1,413**	1,442	2,935
Total interest expense	**10,728**	17,469	28,723
Net interest income	**74,740**	73,534	67,636
Provision for loan and lease losses	**17,479**	21,565	20,886
Net interest income after provision for loan and lease losses	**57,261**	51,969	46,750
Noninterest income			
Trust fee income	**6,344**	6,080	5,536
Service charges on deposit accounts	**5,057**	6,693	7,036
Investment advisory commission and fee income	**5,373**	4,626	3,427
Insurance commission and fee income	**7,733**	7,694	7,081
Other service fee income	**5,240**	5,046	3,410
Bank owned life insurance income	**1,668**	1,270	1,321
Other-than-temporary impairment on equity securities	**(16)**	(62)	(1,708)
Other-than-temporary impairment on other long lived assets			(500)
Net gain on sales of securities	**1,417**	432	1,150
Net gain on mortgage banking activities	**1,868**	2,960	2,378
Net (loss) gain on interest rate swap		(1,072)	641
Net loss on dispositions of fixed assets	**(12)**	(11)	(144)
Net loss on sales and write-downs of other real estate owned	**(798)**	(377)	(207)
Other	**533**	1,139	496

Total noninterest income	**34,407**	34,418	29,917
Noninterest expense			
Salaries and benefits	**38,230**	38,034	37,422
Net occupancy	**5,782**	5,476	5,274
Equipment	**4,002**	3,811	3,438
Marketing and advertising	**1,760**	2,318	1,840
Deposit insurance premiums	**2,039**	2,670	3,185
Other	**16,197**	15,040	14,165
Total noninterest expense	**68,010**	67,349	65,324
Income before income taxes	**23,658**	19,038	11,343
Applicable income taxes	**4,776**	3,282	563
Net income	**$ 18,882**	$ 15,756	$ 10,780
Net income per share:			
Basic	**$ 1.13**	$ 0.95	$ 0.75
Diluted	**1.13**	0.95	0.75
Dividends declared	**0.80**	0.80	0.80

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2008	12,938,514	$ (8,619)	$ 74,370	$ 22,459	$ 151,816	$ (36,819)	$ 203,207
Comprehensive income:							
Net income for 2009					10,780		10,780
Other comprehensive income, net of income tax of $4,359:							
Unrealized gain on investment securities available-for-sale		3,092					3,092
Unrealized gain on swap		1,299					1,299
Unrecognized pension benefits		3,704					3,704
Total comprehensive income							18,875
Cash dividends declared ($0.80 per share)					(11,786)		(11,786)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	95,973			27	(344)	2,375	2,058
Issuance of common stock	3,392,500		16,962	38,635			55,597
Exercise of stock options	2,547			(10)	(3)	60	47
Cancelled stock options and awards					46		46
Purchases of treasury stock	(11,642)					(370)	(370)
Restricted stock awards granted	47,191			(1,118)	(2)	1,120	
Vesting of restricted stock awards				133			133
Balance at December 31, 2009	16,465,083	(524)	91,332	60,126	150,507	(33,634)	267,807
Comprehensive income:							
Net income for 2010					15,756		15,756
Other comprehensive loss, net of income tax benefit of $3,362:							
Unrealized loss on investment securities available-for-sale		(4,489)					(4,489)
Unrealized loss on swap		(830)					(830)
Unrecognized pension costs		(923)					(923)
Total comprehensive income							9,514
Cash dividends declared ($0.80 per share)					(13,284)		(13,284)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	123,750				(605)	2,794	2,189
Purchases of treasury stock	(8,512)					(153)	(153)

Restricted stock awards granted	67,982			(1,206)	(396)	1,593	(9)
Vesting of restricted stock awards				160			160
Balance at December 31, 2010	16,648,303	(6,766)	91,332	59,080	151,978	(29,400)	266,224
Comprehensive income:							
Net income for 2011					**18,882**		**18,882**
Other comprehensive income, net of income tax of $358:							
Unrealized gain on investment securities available-for-sale		**6,422**					**6,422**
Unrealized loss on swap		**(1,252)**					**(1,252)**
Unrecognized pension costs		**(4,505)**					**(4,505)**
Total comprehensive income							**19,547**
Cash dividends declared ($0.80 per share)					**(13,382)**		**(13,382)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**141,485**			**65**	**13**	**2,209**	**2,287**
Cancelled stock options and awards	**(8,654)**			**166**	**28**	**(166)**	**28**
Purchases of treasury stock	**(137,494)**					**(1,928)**	**(1,928)**
Restricted stock awards granted	**58,736**			**(1,019)**	**47**	**972**	
Vesting of restricted stock awards				**203**			**203**
Balance at December 31, 2011	**16,702,376**	**$ (6,101)**	**$ 91,332**	**$ 58,495**	**$ 157,566**	**$ (28,313)**	**$ 272,979**

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
Cash flows from operating activities:			
Net income	**$ 18,882**	$ 15,756	$ 10,780
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**17,479**	21,565	20,886
Depreciation of premises and equipment	**2,591**	2,517	2,357
Other-than-temporary impairment on equity securities	**16**	62	1,708
Other-than-temporary impairment on other long-lived assets			500
Net gain on sales of investment securities	**(1,417)**	(432)	(1,150)
Net gain on mortgage banking activities	**(1,868)**	(2,960)	(2,378)
Net loss (gain) on interest rate swap		1,072	(641)
Net loss on dispositions of fixed assets	**12**	11	144
Net loss on sales and write-downs of other real estate owned	**798**	377	207
Bank owned life insurance income	**(1,668)**	(1,270)	(1,321)
Net amortization (accretion) on investment securities	**641**	(18)	97
Amortization, fair market value adjustments and capitalization of other intangibles	**607**	100	238
Premium accretion on deposits and FHLB borrowings		(190)	(447)
Deferred tax expense (benefit)	**1,613**	(2,247)	(4,480)
Other adjustments to reconcile net income to cash provided by operating activities			(115)
Originations of loans held for sale	**(176,503)**	(170,266)	(143,615)
Proceeds from the sale of loans held for sale	**179,414**	170,098	144,688
Decrease (increase) in accrued interest receivable and other assets	**692**	3,734	(10,168)
Increase (decrease) in accrued interest payable and other liabilities	**1,409**	(3,063)	2,939
Net cash provided by operating activities	**42,698**	34,846	20,229
Cash flows from investing activities:			
Net cash paid due to acquisitions, net of cash acquired	**(1,849)**	(927)	(157)
Net capital expenditures	**(2,301)**	(2,932)	(3,289)
Proceeds from maturities and calls of securities held-to-maturity	**32**	72	336
Proceeds from maturities and calls of securities available-for-sale	**212,964**	287,035	208,612
Proceeds from sales of securities held-to-maturity			930
Proceeds from sales of securities available-for-sale	**40,481**	13,466	48,647
Purchases of investment securities held-to-maturity	**(45,952)**		
Purchases of investment securities available-for-sale	**(201,025)**	(352,989)	(242,202)
Purchases of lease financings		(4,816)	(4,178)
Net (increase) decrease loans and leases	**(1,153)**	(55,800)	15,153
(Increase) decrease in interest-bearing deposits	**(49,957)**	30,499	(42,796)
Proceeds from sales of other real estate owned	**2,681**	1,843	304
Purchases of bank owned life insurance	**(12,500)**		
Proceeds from bank owned life insurance	**791**		

Net cash used in investing activities	**(57,788)**	(84,549)	(18,640)
Cash flows from financing activities:			
Net increase in deposits	**62,962**	122,013	36,929
Net decrease in short-term borrowings	**(5,131)**	(68,508)	(97,162)
Repayment of subordinated debt	**(1,500)**	(1,500)	(1,875)
Issuance of common stock			55,597
Proceeds from exercise of stock options			47
Purchases of treasury stock	**(1,928)**	(153)	(370)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**2,287**	2,189	2,058
Cash dividends paid	**(13,367)**	(13,249)	(11,078)
Net cash provided by (used in) financing activities	**43,323**	40,792	(15,854)
Net increase (decrease) in cash and due from banks	**28,233**	(8,911)	(14,265)
Cash and due from banks at beginning of year	**11,624**	20,535	34,800
Cash and due from banks at end of year	**$ 39,857**	$ 11,624	$ 20,535

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ 11,202**	$ 21,202	$ 30,440
Income taxes, net of refunds received	**4,626**	2,730	5,080
Goodwill and other intangibles due to acquisitions	**1,849**	927	157
Noncash transfer of loans to other real estate owned	**7,426**	1,205	3,289

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
Notes to Consolidated Financial Statements

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

Note 1. Summary of Significant Accounting Policies

Organization

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

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (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.

Interest-earning Deposits with Other Banks

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

Investment Securities

Securities are classified as investment securities held-to-maturity and carried at amortized cost if management has the positive intent and ability to hold the securities to maturity. Securities purchased with the intention of recognizing short-term profits are placed in the trading account and are carried at fair value. The Corporation did not have any trading account securities as of December 31, 2011 or 2010. Securities not classified as held-to-maturity or trading are designated securities available-for-sale and carried at fair value with unrealized gains and losses reflected in accumulated other comprehensive income, net of estimated income taxes. Realized gains and losses on the sale of investment securities are recognized using the specific identification method and are included in the consolidated statements of income. The amortization of premiums and accretion of discounts are included in interest income and calculated using the effective yield method for mortgage-backed securities and the constant yield method for all other

securities.

Management evaluates debt securities, which comprise of U. S. Government, Government Sponsored Agencies, municipalities, 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; except for one corporate bond with a downgraded rating and is closely monitored by management. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation has not recognized any other-than-temporary impairment charges on debt securities during 2009 through 2011.

The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that certain equity securities will not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the positive intent to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs.

Loans and Leases

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

A loan or lease is classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan or lease is currently performing. When a loan or lease, including an impaired loan or lease, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. Loans and leases are usually restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. A loan or lease is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest on impaired loans and leases, which are not classified as nonaccrual, is recognized on the accrual basis.

Loan and Lease Fees

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

Reserve for Loan and Lease Losses

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

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

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

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

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

The class reserve element is determined by an internal loan and lease grading process in conjunction with associated allowance factors. The Corporation revises the class allowance factors whenever necessary in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.

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

Premises and Equipment

Land is stated at cost, and bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method and charged to operating expenses over the estimated useful lives of the assets. The estimated useful life for new buildings constructed on land owned is forty years, and for new buildings

constructed on leased land, is the lesser of forty years or the lease term including anticipated renewable terms. The useful life of purchased existing buildings is the estimated remaining useful life at the time of the purchase. Land improvements are considered to have estimated useful lives of fifteen years or the lease term including anticipated renewable terms. Furniture, fixtures and equipment have estimated useful lives ranging from three to ten years.

Goodwill and Other Intangible Assets

The Corporation accounts for its acquisitions using the purchase accounting method. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. Typically, this allocation results in the purchase price exceeding the fair value of net assets acquired, which is recorded as goodwill. Core deposit intangibles are a measure of the value of checking, money market and savings deposits acquired in business combinations accounted for under the purchase method. Core deposit intangibles and other identified intangibles with finite useful lives are amortized using the sum of the year s digits over their estimated useful lives of up to fifteen years. Customer related intangibles are being amortized over their estimated useful lives of five to twelve years. The covenants not to compete are being amortized over their three- to five-year contractual lives. The Corporation completes an annual goodwill analysis at least on an annual basis or more often if events and circumstances indicate that there may be impairment. The Corporation elected to early adopt, during the fourth quarter of 2011, new accounting guidance which allows entities the option to perform a qualitative assessment of goodwill. In accordance with the new accounting guidance, the Corporation determined, based on the assessment of qualitative factors and events and circumstances that may impact the drivers of fair value, it was not more likely than not, that the fair value of the Corporation, and each of its reporting units, was less than its carrying amount; therefore, it was not necessary to perform the two-step impairment test for the Corporation or the reporting units. Identifiable intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. There can be no assurance that future impairment analyses will not result in a charge to earnings.

Mortgage servicing rights (MSRs) are recognized as separate assets when mortgage loans are sold and the rights are retained. Capitalized MSRs are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing period of the underlying mortgage loans. MSRs are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The Corporation estimates the fair value of MSRs using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. MSRs are carried at the lower of amortized cost or estimated fair value. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the unamortized capitalized amount.

Bank Owned Life Insurance

The Corporation carries bank owned life insurance (BOLI) at the net cash surrender value of the policy. Changes in the net cash surrender value of these policies are reflected in noninterest income. Proceeds from and purchases of bank owned life insurance are reflected on the statement of cash flows under investing activities. The Corporation recognizes a liability for the future death benefit for certain endorsement split-dollar life insurance arrangements that provide an employee with a death benefit in a postretirement/ termination period.

Other Real Estate Owned

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

Derivative Financial Instruments

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

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

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

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

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

Income Taxes

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

Retirement Plan, Supplemental Plans and Other Postretirement Benefit Plans

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, was

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

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

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

Stock Based Compensation

The fair value of share based awards is recognized as compensation expense over the vesting period based on the grant-date fair value of the awards. The Corporation uses the Black-Scholes Model to estimate the fair value of each option on the date of grant. The Black-Scholes Model estimates the fair value of employee stock options using a pricing model which takes into consideration the exercise price of the option, the expected life of the option, the current market price and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Corporation grants stock options to employees with an exercise price equal to the fair value of the shares at the date of grant. The fair value of restricted stock is equivalent to the fair value on the date of grant and is amortized over the vesting period.

Dividend Reinvestment and Employee Stock Purchase Plans

The Univest Dividend Reinvestment Plan (the Reinvestment Plan) allows for the issuance of 1,968,750 shares of common stock. During 2011 and 2010, 106,827 and 98,158 shares, respectively, were issued under the Reinvestment Plan, with 834,549 shares available for future purchase as of December 31, 2011.

The 1996 Employee Stock Purchase Plan (the Purchase Plan) allows for the issuance of 984,375 shares of common stock. Employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% nor more than 10% of such employee s total compensation. These contributions are then used to purchase stock during an offering period determined by the Corporation s Administrative Committee. The purchase price of the stock is based solely on the market price of the shares at the date of purchase. Compensation expense is recognized if the discount is greater than 5% of the fair value. During 2011 and 2010, 21,266 and 25,514 shares, respectively, were issued under the Purchase Plan, with 797,023 shares available for future purchase as of December 31, 2011.

Marketing and Advertising Costs

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

Statement of Cash Flows

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

Trust Assets

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

Earnings Per Share

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

Variable Interest Entities

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

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

Recent Accounting Pronouncements

In 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 elected to early adopt this standard during the fourth quarter of 2011 and it did not have a material impact on the Corporation s financial statements.

In June 2011, the FASB issued an ASU regarding the presentation of comprehensive income and to increase the prominence of items reported in other comprehensive income and facilitate the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). The guidance requires entities to report the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This update is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied retrospectively. In December 2011, the FASB issued an ASU deferring the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. The Corporation 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 and implemented commencing 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 roll-forward 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, Loans and Leases.

Note 2. Restrictions on Cash and Due from Banks and Interest-earning Deposit Accounts

The Bank maintains reserve balances under Federal Reserve Bank requirements. The reserve requirement at December 31, 2011 and 2010 was $6.2 million and $5.8 million, respectively, and was satisfied by vault cash held at the Bank s branches. No additional reserves were required to be maintained at the Federal Reserve Bank of Philadelphia in excess of the required $25 thousand clearing balance requirement. The average balances at the Federal Reserve Bank of Philadelphia were $60.7 million and $47.9 million for the years ended December 31, 2011 and 2010, respectively.

The Corporation also maintains interest-earning deposit accounts at other financial institutions as collateral for Risk Participation Agreements. The pledging requirement at December 31, 2011 and 2010 was $1.5 million and $430 thousand, respectively. See Note 15 Commitments and Contingencies for additional information.

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Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at December 31, 2011 and 2010, by contractual maturity within each type:

	December 31, 2011				**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	**45,804**	**154**	**(319)**	**45,639**				
	45,804	**154**	**(319)**	**45,639**				
Other securities:								
Within 1 year					17			17
					17			17
Total	**$ 45,804**	**$ 154**	**$ (319)**	**$ 45,639**	$ 32	$	$	$ 32
Securities Available-for-Sale								
U.S. treasuries:								
Within 1 year	**$ 2,525**	**$**	**$**	**$ 2,525**	$	$	$	$
	2,525			**2,525**				
U.S. government corporations and agencies:								
Within 1 year	**10,009**	**77**		**$ 10,086**	7,000			7,000
After 1 year to 5 years	**143,189**	**1,022**	**(33)**	**144,178**	182,585	515	(2,000)	181,100
	153,198	**1,099**	**(33)**	**154,264**	189,585	515	(2,000)	188,100

State and political subdivisions:								
Within 1 year	**752**	**5**		**757**	451			451
After 1 year to 5 years	**10,082**	**308**	**(16)**	**10,374**	8,801	281		9,082
After 5 years to 10 years	**11,846**	**664**	**(3)**	**12,507**	14,042	281	(69)	14,254
Over 10 years	**87,896**	**5,472**	**(1)**	**93,367**	86,315	639	(2,693)	84,261
	110,576	**6,449**	**(20)**	**117,005**	109,609	1,201	(2,762)	108,048
Residential mortgage-backed securities:								
After 5 years to 10 years	**20,745**	**743**		**21,488**	14,709	743		15,452
Over 10 years	**55,328**	**2,665**	**(680)**	**57,313**	66,919	3,222	(492)	69,649
	76,073	**3,408**	**(680)**	**78,801**	81,628	3,965	(492)	85,101
Commercial mortgage obligations:								
After 5 years to 10 years	**5,547**	**124**		**5,671**	8,855	252		9,107
Over 10 years	**54,994**	**799**		**55,793**	63,827	1,321	(1,164)	63,984
	60,541	**923**		**61,464**	72,682	1,573	(1,164)	73,091
Corporate bonds:								
Within 1 year					2,999	30		3,029
After 1 year to 5 years	**4,991**		**(224)**	**4,767**	4,988		(43)	4,945
	4,991		**(224)**	**4,767**	7,987	30	(43)	7,974
Money market mutual funds								
Within 1 year	**3,851**			**3,851**	1,693			1,693
	3,851			**3,851**	1,693			1,693
Equity securities:								
No stated maturity	**2,364**	**544**	**(224)**	**2,684**	2,447	680	(142)	2,985
	2,364	**544**	**(224)**	**2,684**	2,447	680	(142)	2,985
Total	**$ 414,119**	**$ 12,423**	**$ (1,181)**	**$ 425,361**	$ 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.

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Securities with a fair value of $338.5 million and $347.3 million at December 31, 2011 and 2010, respectively, were pledged to secure public deposits and for other purposes as required by law.
The following table presents information related to sales of securities available for sale during the years ended December 31, 2011, 2010 and 2009.

	Years Ended December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
Securities available for sale:			
Proceeds from sales	**$ 40,481**	$ 13,466	$ 48,647
Gross realized gains on sales	**1,428**	453	1,178
Gross realized losses on sales	**11**	21	28
Tax expense related to net realized gains on sales	**496**	151	403

Accumulated other comprehensive income related to securities of $7.3 million and $884 thousand, net of taxes, has been included in shareholders equity at December 31, 2011 and 2010, respectively. Unrealized losses in investment securities at December 31, 2011 and 2010 do not represent other-than-temporary impairments.
The Corporation realized other-than-temporary impairment charges of $16 thousand and $62 thousand, respectively, to noninterest income on its equity portfolio during the years ended December 31, 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 under-water equity securities, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced recent declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the positive intent and ability to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. The Corporation did not consider those investments to be other-than-temporarily impaired at December 31, 2011 and 2010.
At December 31, 2011 and 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 December 31, 2011 and 2010:

	At December 31, 2011					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government corporations and agencies	$ 24,967	$ (33)	$	$	$ 24,967	$ (33)
State and political subdivisions 16			1,997	(20)	1,997	(20)
Residential mortgage-backed securities	5,184	(20)	3,311	(660)	8,495	(680)
Corporate bonds	34,851	(543)			34,851	(543)
Equity securities	920	(224)			920	(224)

Total	**$**	**65,922**	**$**	**(820)**	**$**	**5,308**	**$**	**(680)**	**$**	**71,230**	**$**	**(1,500)**

	At December 31, 2010					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government corporations and agencies	$ 107,978	$ (2,000)	$	$	$ 107,978	$ (2,000)
State and political subdivisions	52,531	(2,589)	1,589	(173)	54,120	(2,762)
Residential mortgage-backed securities	10,096	(38)	4,419	(454)	14,515	(492)
Commercial mortgage obligations	19,322	(1,164)			19,322	(1,164)
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)

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

	At December 31,	
(Dollars in thousands)	**2011**	**2010**
Commercial, financial and agricultural	**$ 484,687**	$ 463,518
Real estate-commercial	**514,953**	496,357
Real estate-construction	**90,397**	139,958
Real estate-residential secured for business purpose	**32,481**	42,459
Real estate-residential secured for personal purpose	**125,220**	121,876
Real estate-home equity secured for personal purpose	**80,478**	80,875
Loans to individuals	**44,965**	44,087
Lease financings	**73,225**	82,056
Total loans and leases, net of deferred income	**$ 1,446,406**	$ 1,471,186
Unearned lease income, included in the above table	**$ (9,965)**	$ (10,561)
Net deferred costs (fees), included in the above table	**$ 876**	$ (228)
Overdraft deposits included in the above table	**$ 123**	$ 199

Overdraft deposits are re-classified as loans and are included in the total loans and leases on the balance sheet.

The Corporation is a lessor of primarily small-ticket equipment under agreements expiring at various dates through the year 2018. At December 31, 2011 and 2010, the schedule of minimum lease payments is as follows:

	At December 31	
(Dollars in thousands)	**2011**	**2010**
Within 1 year	**$ 37,552**	$ 42,310
After 1 year through 2 years	**22,670**	27,071

After 2 years through 3 years		**13,688**		13,595
After 3 years through 4 years		**6,769**		7,460
After 4 years through 5 years		**2,461**		2,132
Thereafter		**50**		49
Total future minimum lease payments receivable		**83,190**		92,617
Less: Unearned income		**(9,965)**		(10,561)
Total lease financing receivables, net of unearned income	**$**	**73,225**	$	82,056

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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 December 31, 2011 and 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 December 31, 2011							
Commercial, financial and agricultural	**$ 3,741**	**$ 33**	**$**	**$ 3,774**	**$ 476,222**	**$ 484,687**	**$**
Real estate-commercial real estate and construction:							
Commercial real estate	**2,212**	**723**		2,935	**491,498**	**514,953**	
Construction					**74,656**	**90,397**	
Real estate-residential and home equity:							
Residential secured for business purpose	**340**			**340**	**32,026**	**32,481**	
Residential secured for personal purpose	**1,783**			**1,783**	**123,380**	**125,220**	
Home equity secured for personal purpose	**298**	**68**	**117**	**483**	**79,968**	**80,478**	**117**
Loans to individuals	**386**	**236**	**204**	**826**	**44,089**	**44,965**	**204**
Lease financings	**1,203**	**544**	**44**	**1,791**	**70,535**	**73,225**	**44**
Total	**$ 9,963**	**$ 1,604**	**$ 365**	**$ 11,932**	**$ 1,392,374**	**$ 1,446,406**	**$ 365**
At December 31, 2010							
Commercial, financial and agricultural	$ 924	$	$	$ 924	$ 454,792	$ 463,518	$
Real estate-commercial real estate and construction:							
Commercial real estate	1,377			1,377	477,230	496,357	
Construction	2,615			2,615	120,036	139,958	

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.

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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 December 31, 2011 and 2010:

	At December 31,					
	2011			**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	**$ 4,614**	**$ 77**	**$ 4,691**	$ 7,627	$ 175	$ 7,802
Real estate-commercial real estate and construction:						
Commercial real estate	**18,085**	**2,435**	**20,520**	17,750		17,750
Construction	**14,479**	**1,262**	**15,741**	17,307		17,307
Real estate-residential and home equity:						
Residential secured for business purpose	**107**	**8**	**115**	361	90	451
Residential secured for personal purpose	**57**		**57**	1,264		1,264
Home equity secured for personal purpose	**27**		**27**			
Loans to individuals		**50**	**50**	21	60	81
Lease financings	**838**	**61**	**899**	902	225	1,127
Total	**$ 38,207**	**$ 3,893**	**$ 42,100**	$ 45,232	$ 550	$ 45,782

Credit Quality Indicators

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

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	**Commercial, Financial and Agricultural At December 31, 2011**	**2010**	**Real Estate Commercial At December 31, 2011**	**2010**	**Real Estate Construction At December 31, 2011**	**2010**	**Real Estate Residential Secured for Business Purpose At December 31, 2011**	**2010**
Grade:								
1. Cash secured/ 2. Fully secured	**$ 2,426**	$ 2,714	**$**	$	**$**	$	**$**	$
3. Strong	**4,441**	16,350	**9,365**	10,268	**1,124**	3,948		28
4. Satisfactory	**32,730**	71,258	**28,517**	47,755	**89**	12,217	**1,309**	1,836
5. Acceptable	**296,860**	254,422	**296,499**	256,788	**35,207**	82,848	**18,990**	24,987
6. Pre-watch	**79,402**	70,259	**100,581**	108,784	**33,993**	12,005	**8,853**	6,322
7. Special Mention	**26,162**	8,476	**29,055**	17,596	**1,715**	684	**663**	700
8. Substandard	**40,634**	36,933	**49,943**	53,905	**18,269**	28,256	**2,666**	8,586
9. Doubtful	**2,032**	3,106	**993**	1,261				
10.Loss								
Total	**$ 484,687**	$ 463,518	**$ 514,953**	$ 496,357	**$ 90,397**	$ 139,958	**$ 32,481**	$ 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.

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

(Dollars in thousands)	**Real Estate Residential Secured for Personal Purpose At December 31, 2011**	**2010**	**Real Estate Home Equity Secured for Personal Purpose At December 31, 2011**	**2010**	**Loans to individuals At December 31, 2011**	**2010**	**Lease Financing At December 31, 2011**	**2010**
Performing	**$ 125,163**	$ 120,342	**$ 80,334**	$ 80,831	**$ 44,711**	$ 43,624	**$ 72,282**	$ 80,929
Nonperforming	**57**	1,534	**144**	44	**254**	463	**943**	1,127
Total	**$ 125,220**	$ 121,876	**$ 80,478**	$ 80,875	**$ 44,965**	$ 44,087	**$ 73,225**	$ 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 leases losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the years ended December 31, 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 Year Ended December 31, 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	**(6,784)**	**(10,033)**	**(323)**	**(79)**	**(968)**	**(1,516)**		**(19,703)**
Recoveries	**318**	**151**	**43**	**19**	**174**	**491**		**1,196**
Provision (recovery of provision)	**8,098**	**7,911**	**(230)**	**251**	**790**	**419**	**240**	**17,479**
Ending balance	**$ 11,262**	**$ 13,317**	**$ 823**	**$ 735**	**$ 730**	**$ 1,344**	**$ 1,659**	**$ 29,870**
For the Year Ended December 31, 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	(3,436)	(9,267)	(1,298)	(8)	(883)	(2,213)		(17,105)
Recoveries	129	651	45	76	227	512		1,640
Provision (recovery of provision)	789	15,929	1,528	(25)	503	2,476	365	21,565

Ending balance	$ 9,630	$ 15,288	$ 1,333	$ 544	$ 734	$ 1,950	$ 1,419	$ 30,898

(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 December 31, 2011								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 510**	**$ 743**	**$**	**$**	**$**	**$**	**$ N/A**	**$ 1,253**
Ending balance: collectively evaluated for impairment	**10,752**	**12,574**	**823**	**735**	**730**	**1,344**	**1,659**	**28,617**
Ending balance	**$ 11,262**	**$ 13,317**	**$ 823**	**$ 735**	**$ 730**	**$ 1,344**	**$ 1,659**	**$ 29,870**
Loans and leases:								
Ending balance: individually evaluated for impairment	**$ 4,691**	**$ 36,261**	**$ 115**	**$ 84**	**$ 50**	**$**		**$ 41,201**
Ending balance: collectively evaluated for impairment	**479,996**	**569,089**	**32,366**	**205,614**	**44,915**	**73,225**		**1,405,205**
Ending balance	**$ 484,687**	**$ 605,350**	**$ 32,481**	**$ 205,698**	**$ 44,965**	**$ 73,225**		**$ 1,446,406**

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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 December 31, 2010								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 650	$ 942	$ 29	$ 2	$	$	$ N/A	$ 1,623
Ending balance: collectively evaluated for impairment	9,160	14,166	1,304	542	734	1,950	1,419	29,275
Ending balance	$ 9,810	$ 15,108	$ 1,333	$ 544	$ 734	$ 1,950	$ 1,419	$ 30,898
Loans and leases:								
Ending balance: individually evaluated for impairment	$ 7,802	$ 35,057	$ 451	$ 1,264	$ 81	$		$ 44,655
Ending balance: collectively evaluated for impairment	455,716	601,258	42,008	201,487	44,006	82,056		1,426,531
Ending balance	$ 463,518	$ 636,315	$ 42,459	$ 202,751	$ 44,087	$ 82,056		$ 1,471,186

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

	For the Years Ended December 31, 2011	2010	2009
Balance at beginning of year	**$ 30,898**	$ 24,798	$ 13,118
Provision for loan and lease losses	**17,479**	21,565	20,886
Loans and leases charged off	**(19,703)**	(17,105)	(10,448)
Recoveries	**1,196**	1,640	1,242
Balance at end of year	**$ 29,870**	$ 30,898	$ 24,798

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Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at December 31, 2011 and 2010.

	At December 31,					
	2011			2010		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	**$ 3,384**	**$ 4,422**		$ 4,761	$ 5,074	
Real estate commercial real estate	**19,453**	**27,146**		13,634	14,610	
Real estate construction	**15,741**	**17,268**		13,994	16,509	
Real estate residential secured for business purpose	**115**	**631**		361	730	
Real estate residential secured for personal purpose	**57**	**57**		632	632	
Real estate home equity secured for personal purpose	**27**	**27**				
Loans to individuals	**50**	**58**		81	81	
Total impaired loans with no related allowance recorded:	**$ 38,827**	**$ 49,609**		$ 33,463	$ 37,636	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 1,307**	**$ 1,700**	**$ 510**	$ 3,041	$ 3,058	$ 650
Real estate commercial real estate	**1,067**	**1,067**	**743**	4,116	5,231	765
Real estate construction				3,313	3,739	177
Real estate residential secured for business purpose				90	90	29
Real estate residential secured for personal purpose				632	632	2
Total impaired loans with an allowance recorded	**$ 2,374**	**$ 2,767**	**$ 1,253**	$ 11,192	$ 12,750	$ 1,623
Total impaired loans:						
Commercial, financial and agricultural	**$ 4,691**	**$ 6,122**	**$ 510**	$ 7,802	$ 8,132	$ 650

Real estate commercial real estate	**20,520**	**28,213**	**743**	17,750	19,841	765
Real estate construction	**15,741**	**17,268**		17,307	20,248	177
Real estate residential secured for business purpose	**115**	**631**		451	820	29
Real estate residential secured for personal purpose	**57**	**57**		1,264	1,264	2
Real estate home equity secured for personal purpose	**27**	**27**				
Loans to individuals	**50**	**58**		81	81	
Total impaired loans:	**$ 41,201**	**$ 52,376**	**$ 1,253**	$ 44,655	$ 50,386	$ 1,623

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The following presents by class of loans, the average recorded investment in impaired loans and an analysis of interest on impaired loans for the years ended December 31, 2011 and 2010:

	For the Years Ended December 31,					
	2011			2010		
(Dollars in thousands)	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	**$ 6,357**	**$ 30**	**$ 377**	$ 3,790	$ 13	$ 234
Real estate commercial real estate	**18,850**	**130**	**1,300**	8,280	63	744
Real estate construction	**16,720**	**64**	**886**	20,228		1,062
Real estate residential secured for business purpose	**306**	**6**	**14**	928	29	63
Real estate residential secured for personal purpose	**491**	**25**	**25**	1,201	13	62
Real estate home equity secured for personal purpose	**25**	**1**	**1**	231		9
Loans to individuals	**57**	**5**	**1**	62	4	
Total	**$ 42,806**	**$ 261**	**$ 2,604**	$ 34,720	$ 122	$ 2,174

* Includes interest income recognized on accruing troubled debt restructured loans of $196 thousand and $97 thousand for the years ended December 31, 2011 and 2010, respectively.

Any income accrued on one-to-four family residential properties after the loan becomes 90 days past due is held in a reserve for uncollected interest. The reserve for uncollected interest was $0 and $42 thousand at December 31, 2011 and 2010, respectively. Other real estate owned was $6.6 million and $2.4 million at December 31, 2011 and 2010, respectively.

The Bank maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded. The reserve for off-balance sheet credits was $220 thousand and $178 thousand at December 31, 2011 and 2010, respectively.

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 year ended December 31, 2011:

	For the Year Ended December 31, 2011	
	Pre-	Post-