UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
May 10, 2011

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

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

for the quarterly period ended March 31, 2011.

or

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

for the transition period from __________ to __________.

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

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

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

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

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

Common Stock, $5 par value	16,772,222

(Title of Class)	(Number of shares outstanding at April 29, 2011)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At March 31, 2011	(SEE NOTE) At December 31, 2010
ASSETS		
Cash and due from banks	$ **40,998**	$ 11,624
Interest-earning deposits with other banks	**14,251**	17,563
Investment securities held-to-maturity (fair value $21 and $32 at March 31, 2011 and December 31, 2010, respectively)	**21**	32
Investment securities available-for-sale	**445,777**	466,992
Loans held for sale	**1,451**	4,178
Loans and leases	**1,442,137**	1,471,186
Less: Reserve for loan and lease losses	**(32,804)**	(30,898)
Net loans and leases	**1,409,333**	1,440,288
Premises and equipment, net	**34,363**	34,605
Goodwill	**51,320**	51,320
Other intangibles, net of accumulated amortization of $9,062 and $9,495 at March 31, 2011 and December 31, 2010, respectively	**5,579**	5,477
Bank owned life insurance	**48,354**	48,010
Accrued interest and other assets	**57,132**	53,804
Total assets	$ **2,108,579**	$ 2,133,893
LIABILITIES		
Demand deposits, noninterest-bearing	$ **280,337**	$ 271,125
Demand deposits, interest-bearing	**487,945**	529,884
Savings deposits	**486,213**	467,511
Time deposits	**410,730**	417,750
Total deposits	**1,665,225**	1,686,270
Securities sold under agreements to repurchase	**96,551**	90,271
Other short-term borrowings		24,600
Accrued expenses and other liabilities	**49,136**	37,534
Long-term debt	**5,000**	5,000
Subordinated notes	**3,375**	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	**1,839,906**	1,867,669

SHAREHOLDERS EQUITY				
Common stock, $5 par value: 48,000,000 shares authorized at March 31, 2011 and December 31, 2010; 18,266,404 shares issued at March 31, 2011 and December 31, 2010; 16,745,935 and 16,648,303 shares outstanding at March 31, 2011 and December 31, 2010, respectively		**91,332**		91,332
Additional paid-in capital		**58,276**		59,080
Retained earnings		**152,567**		151,978
Accumulated other comprehensive loss, net of taxes		**(5,768)**		(6,766)
Treasury stock, at cost; 1,520,469 shares and 1,618,101 shares at March 31, 2011 and December 31, 2010, respectively		**(27,734)**		(29,400)
Total shareholders equity		**268,673**		266,224
Total liabilities and shareholders equity	**$**	**2,108,579**	$	2,133,893

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

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share data)	For the Three Months Ended March 31, 2011	2010
Interest income		
Interest and fees on loans and leases:		
Taxable	**$ 17,207**	$ 17,606
Exempt from federal income taxes	**1,131**	977
Total interest and fees on loans and leases	**18,338**	18,583
Interest and dividends on investment securities:		
Taxable	**2,246**	2,761
Exempt from federal income taxes	**1,119**	1,130
Other interest income	**3**	11
Total interest income	**21,706**	22,485
Interest expense		
Interest on deposits	**2,466**	4,220
Interest on short-term borrowings	**80**	802
Interest on long-term borrowings	**351**	358
Total interest expense	**2,897**	5,380
Net interest income	**18,809**	17,105
Provision for loan and lease losses	**5,134**	4,895
Net interest income after provision for loan and lease losses	**13,675**	12,210
Noninterest income		
Trust fee income	**1,625**	1,500
Service charges on deposit accounts	**1,336**	1,782
Investment advisory commission and fee income	**1,162**	1,056
Insurance commission and fee income	**2,200**	2,243
Other service fee income	**1,355**	909
Bank owned life insurance income	**344**	332
Other-than-temporary impairment on equity securities	**(7)**	(5)
Net gain on sales of securities		49
Net (loss) gain on mortgage banking activities	**(25)**	460
Net loss on interest rate swap		(310)
Net loss on dispositions of fixed assets		(6)
Net loss on sales and write-downs of other real estate owned	**(352)**	(347)
Other	**121**	544

Total noninterest income		**7,759**		8,207
Noninterest expense				
Salaries and benefits		**8,983**		9,811
Net occupancy		**1,550**		1,354
Equipment		**977**		938
Marketing and advertising		**589**		684
Deposit insurance premiums		**713**		597
Other		**3,934**		3,695
Total noninterest expense		**16,746**		17,079
Income before income taxes		**4,688**		3,338
Applicable income taxes		**826**		368
Net income	**$**	**3,862**	$	2,970
Net income per share:				
Basic	**$**	**.23**	$	.18
Diluted		**.23**		.18
Dividends declared		**.20**		.20

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

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

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Three Months Ended March 31, 2011							
Balance at December 31, 2010:	16,648,303	$ (6,766)	$ 91,332	$ 59,080	$ 151,978	$ (29,400)	$ 266,224
Comprehensive income:							
Net income					3,862		3,862
Other comprehensive income, net of income tax:							
Unrealized gain on investment securities available for sale		757					757
Unrealized gain on swap		149					149
Unrecognized pension benefits		92					92
Total comprehensive income							4,860
Cash dividends declared ($0.20 per share)					(3,333)		(3,333)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	41,862			15	13	745	773
Purchases of treasury stock	(2,966)					(51)	(51)
Restricted stock awards granted	58,736			(1,019)	47	972	
Vesting of restricted stock awards				200			200
Balance at March 31, 2011	16,745,935	$ (5,768)	$ 91,332	$ 58,276	$ 152,567	$ (27,734)	$ 268,673

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Three Months Ended March 31, 2010							
Balance at December 31, 2009:	16,465,083	$ (524)	$ 91,332	$ 60,126	$ 150,507	$ (33,634)	$ 267,807
Comprehensive income:							
Net income					2,970		2,970
Other comprehensive income, net of income tax:							

Unrealized loss on investment securities available for sale		(38)					(38)
Unrealized loss on swap		(219)					(219)
Unrecognized pension benefits		86					86
Total comprehensive income							2,799
Cash dividends declared ($0.20 per share)					(3,313)		(3,313)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	30,067				(195)	707	512
Purchases of treasury stock	(325)					(6)	(6)
Restricted stock awards granted	66,982			(1,177)	(393)	1,570	
Vesting of restricted stock awards				51			51
Balance at March 31, 2010	16,561,807	$ (695)	$ 91,332	$ 59,000	$ 149,576	$ (31,363)	$ 267,850

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

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

(Dollars in thousands)	For the Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	**$ 3,862**	$ 2,970
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**5,134**	4,895
Depreciation of premises and equipment	**637**	622
Other-than-temporary impairment on equity securities	**7**	5
Net gain on sales of investment securities		(49)
Net loss (gain) on mortgage banking activities	**25**	(460)
Net loss on interest rate swap		310
Net loss on dispositions of fixed assets		6
Net loss on sales and write-downs of other real estate owned	**352**	347
Bank owned life insurance income	**(344)**	(332)
Other adjustments to reconcile net income to cash provided by operating activities	**829**	1,439
Originations of loans held for sale	**(44,261)**	(24,934)
Proceeds from the sale of loans held for sale	**47,576**	25,822
Increase in interest receivable and other assets	**(1,463)**	(4,110)
Increase (decrease) in accrued expenses and other liabilities	**11,921**	(2,477)
Net cash provided by operating activities	**24,275**	4,054
Cash flows from investing activities:		
Net capital expenditures	**(395)**	(1,319)
Proceeds from maturities of securities held-to-maturity	**11**	18
Proceeds from maturities of securities available-for-sale	**23,264**	23,241
Proceeds from sales and calls of securities available-for-sale	**35,837**	59,517
Purchases of investment securities available-for-sale	**(36,834)**	(98,038)
Purchases of lease financings		(3,393)
Net decrease (increase) in loans and leases	**21,861**	(1,037)
Net decrease in interest-bearing deposits	**3,312**	30,411
Proceeds from sales of other real estate owned		641
Net cash provided by investing activities	**47,056**	10,041
Cash flows from financing activities:		
Net (decrease) increase in deposits	**(21,045)**	8,424
Net decrease in short-term borrowings	**(18,320)**	(26,342)
Purchases of treasury stock	**(51)**	(6)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**773**	512
Cash dividends paid	**(3,314)**	(3,293)

Net cash used in financing activities		**(41,957)**		(20,705)
Net increase (decrease) in cash and due from banks		**29,374**		(6,610)
Cash and due from banks at beginning of year		**11,624**		20,535
Cash and due from banks at end of period	**$**	**40,998**	$	13,925
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	**$**	**3,437**	$	7,450
Income taxes, net of refunds received		**85**		68
Noncash transfer of loans to other real estate owned		**3,960**	$	

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

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

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

Use of Estimates

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

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Codification Update 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. The guidance clarifies on a creditor s evaluation of whether it has granted a concession as follows: 1) if a borrower does not have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate the creditor has granted a concession; 2) a temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics; 3) a restructuring that results in a delay in payment that is insignificant is not a concession. The guidance clarifies on a creditor s evaluation of whether a borrower is experiencing financial difficulties as follows: a creditor may conclude that a borrower is experiencing financial difficulties, even though the borrower is not currently in payment default; a creditor should evaluate whether it is probable that the borrower would be in payment default on any of its debt in the foreseeable future without the modification. 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 is effective for interim and annual periods beginning on or after June 15, 2011 or September 30, 2011 for the Corporation and applies 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 is effective on a prospective basis. The Corporation is in the process of evaluating the impact of the adoption of this troubled debt restructuring guidance on its financial statements.

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In July 2010, the FASB issued an Accounting Standards Codification Update for improving disclosures about the credit quality of financing receivables and the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. For disclosures required as of the end of a reporting period, the update was effective and implemented commencing as of December 31, 2010 for the Corporation s financial statements, Disclosures that relate to activity during a reporting period is required for financial statements that include periods beginning on or after January 1, 2011, or March 31, 2011 for the Corporation. The application of the provisions of these standards did not have a material impact on the Corporation s financial statements although it resulted in expanded disclosures effective March 31, 2011, which are included under Note 4, Credit Quality of Loans and Leases and the Reserve for Loans and Lease Losses. The guidance related to troubled debt restructurings is 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 Accounting Standards Update issued in April 2011 regarding a creditor s determination of whether a restructuring is a troubled debt restructuring. The guidance applies retrospectively to troubled debt restructures occurring on or after January 1, 2011.

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Note 2. Investment Securities

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

	March 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	$ 3	$	$	$ 3	$ 15	$	$	$ 15
	3			3	15			15
Other securities:								
Within 1 year	18			18	17			17
	18			18	17			17
Total	$ 21	$	$	$ 21	$ 32	$	$	$ 32
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	$	$	$	$	$ 7,000	$	$	$ 7,000
After 1 year to 5 years	167,538	302	(2,208)	165,632	182,585	515	(2,000)	181,100
	167,538	302	(2,208)	165,632	189,585	515	(2,000)	188,100
State and political subdivisions:								
Within 1 year	450	1		451	451			451
After 1 year to 5 years	9,783	344		10,127	8,801	281		9,082
After 5 years to 10 years	12,555	214	(74)	12,695	14,042	281	(69)	14,254
Over 10 years	86,317	936	(1,171)	86,082	86,315	639	(2,693)	84,261
	109,105	1,495	(1,245)	109,355	109,609	1,201	(2,762)	108,048

Residential mortgage-backed securities:								
After 5 years to 10 years	13,448	694		14,142	14,709	743		15,452
Over 10 years	71,561	3,050	(550)	74,061	66,919	3,222	(492)	69,649
	85,009	3,744	(550)	88,203	81,628	3,965	(492)	85,101
Commercial mortgage obligations:								
After 5 years to 10 years	7,803	202		8,005	8,855	252		9,107
Over 10 years	63,313	988	(853)	63,448	63,827	1,321	(1,164)	63,984
	71,116	1,190	(853)	71,453	72,682	1,573	(1,164)	73,091
Other securities:								
Within 1 year	3,053			3,053	4,692	30		4,722
After 1 year to 5 years	4,989	5		4,994	4,988		(43)	4,945
	8,042	5		8,047	9,680	30	(43)	9,667
Equity securities:								
No stated maturity	2,441	784	(138)	3,087	2,447	680	(142)	2,985
	2,441	784	(138)	3,087	2,447	680	(142)	2,985
Total	$ 443,251	$ 7,520	$ (4,994)	$ 445,777	$ 465,631	$ 7,964	$ (6,603)	$ 466,992

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

Securities with a fair value of $315.3 million and $347.3 million at March 31, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes as required by law.

During the three months ended March 31, 2011, there were no sales of available-for-sale securities. During the three months ended March 31, 2010, available-for-sale securities with a fair value at the date of sale of $466 thousand were sold. Gross realized gains on such sales totaled $49 thousand in 2010 with related tax expense of $17 thousand; there were no gross realized losses on sales in 2010. Accumulated other comprehensive income related to securities of $1.6 million and $884 thousand, net of taxes, has been included in shareholders equity at March 31, 2011 and December 31, 2010, respectively. Unrealized losses in investment securities at March 31, 2011 and December 31, 2010 do not represent other-than-temporary impairments.

The Corporation realized other-than-temporary impairment charges to noninterest income of $7 thousand and $5 thousand, respectively, on its equity portfolio during the three months ended March 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 to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. The Corporation does not consider these investments to be other-than-temporarily impaired at March 31, 2011 and December 31, 2010.

Management evaluates debt securities, which comprises U. S. Government, Government Sponsored Agencies, municipalities and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation has not recognized any other-than-temporary impairment charges on debt securities for the three months ended March 31, 2011 and 2010.

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

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

	At March 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	**$ 107,738**	**$ (2,208)**	**$**	**$**	**$ 107,738**	**$ (2,208)**
State and political subdivisions	**34,133**	**(1,023)**	**2,580**	**(222)**	**36,713**	**(1,245)**
Residential mortgage-backed securities	**9,852**	**(71)**	**4,170**	**(479)**	**14,022**	**(550)**
Commercial mortgage obligations	**24,517**	**(853)**			**24,517**	**(853)**
Equity securities	**944**	**(138)**			**944**	**(138)**
Total	**$ 177,184**	**$ (4,293)**	**$ 6,750**	**$ (701)**	**$ 183,934**	**$ (4,994)**

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

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Note 3. Loans and Leases
The following is a summary of the major loan and lease categories:

(Dollars in thousands)	At March 31, 2011	At December 31, 2010
Commercial, financial and agricultural	**$ 457,463**	$ 463,518
Real estate-commercial	**520,836**	516,546
Real estate-construction	**102,144**	119,769
Real estate-residential secured for business purpose	**36,753**	42,459
Real estate-residential secured for personal purpose	**126,481**	121,876
Real estate-home equity secured for personal purpose	**79,133**	80,875
Loans to individuals	**42,149**	44,087
Lease financings	**87,054**	92,617
Total gross loans and leases	**1,452,013**	1,481,747
Less: Unearned income	**(9,876)**	(10,561)
Total loans and leases, net of unearned income	**$ 1,442,137**	$ 1,471,186

Note 4. Credit Quality of Loans and Leases and the Reserve for Loan and Lease Losses
Age Analysis of Past Due Loans and Leases
The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases greater than 90 days past due which are accruing interest at March 31, 2011 and December 31, 2010:

(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At March 31, 2011							
Commercial, financial and agricultural**	**$ 5,290**	**$ 24**	**$**	**$ 5,314**	**$ 445,243**	**$ 457,463**	**$**
Real estate-commercial real estate and construction:							
Commercial real estate	**596**	**210**		**806**	**494,839**	**520,836**	
Construction**	**6,081**			**6,081**	**86,859**	**102,144**	
Real estate-residential and home equity:							

Residential secured for business purpose	**93**	**212**		**305**	**36,055**	**36,753**	
Residential secured for personal purpose	**697**			**697**	**124,884**	**126,481**	
Home equity secured for personal purpose	**294**	**35**	**44**	**373**	**78,760**	**79,133**	**44**
Loans to individuals	**410**	**103**	**471**	**984**	**41,105**	**42,149**	**471**
Lease financings	**1,572**	**383**	**1**	**1,956**	**74,134**	**77,178**	**1**
Total	**$ 15,033**	**$ 967**	**$ 516**	**$ 16,516**	**$ 1,381,879**	**$ 1,442,137**	**$ 516**

* Excludes impaired loans and leases.

** The 30-59 days past due category for commercial, financial and agricultural includes one loan for $4.6 million which matured in March 2011 and has been renewed in May 2011. The 30-59 days past due category for construction consists of one loan for $6.1 million which matured in January 2011 and has been renewed in April 2011. As of the date of issuance of this report on Form 10-Q, these two loans are in accordance with their terms.

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

* Excludes impaired loans and leases.

Nonaccrual and Troubled Debt Restructured Loans and Leases

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

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

Commercial, financial and agricultural	**$ 6,735**	**$ 171**	**$ 6,906**	$ 7,627	$ 175	$ 7,802
Real estate-commercial real estate and construction:						
Commercial real estate	**22,756**	**2,435**	**25,191**	28,183		28,183
Construction	**7,022**	**2,182**	**9,204**	6,874		6,874
Real estate-residential and home equity:						
Residential secured for business purpose	**303**	**90**	**393**	361	90	451
Residential secured for personal purpose	**900**		**900**	1,264		1,264
Home equity secured for personal purpose						
Loans to individuals		**60**	**60**	21	60	81
Lease financings	**915**	**173**	**1,088**	902	225	1,127
Total	**$ 38,631**	**$ 5,111**	**$ 43,742**	$ 45,232	$ 550	$ 45,782

* Includes non-accrual troubled debt restructured loans and leases of $3.5 million and $1.2 million at March 31, 2011 and December, 31, 2010, respectively.

Credit Quality Indicators

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

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

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

Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	**Commercial, Financial and Agricultural At March 31, 2011**	**At December 31, 2010**	**Real Estate-Commercial At March 31, 2011**	**At December 31, 2010**	**Real Estate-Construction At March 31, 2011**	**At December 31, 2010**	**Real Estate-Residential Secured for Business Purpose At March 31, 2011**	**At December 31, 2010**
Grade:								
1. Cash secured/Fully secured	$ 1,468	$ 2,714	$	$	$	$	$	$
2. Strong	14,219	16,350	10,442	11,542	2,673	2,674		28
3. Satisfactory	59,438	71,258	29,507	47,755	1,587	12,217	3,137	1,836
4. Acceptable	245,062	254,422	287,585	261,520	69,409	78,116	20,327	24,987
5. Pre-watch	84,454	70,259	111,833	109,493	15,218	11,296	8,712	6,322
6. Special Mention	9,996	8,476	14,059	17,596	377	684	953	700
7. Substandard	39,752	36,933	66,317	67,379	12,880	14,782	3,624	8,586
8. Doubtful	3,074	3,106	1,093	1,261				
9. Loss								

Total	$ 457,463	$ 463,518	$ 520,836	$ 516,546	$ 102,144	$ 119,769	$ 36,753	$ 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

	Real Estate-Residential Secured for Personal Purpose		**Real Estate-Home Equity Secured for Personal Purpose**		**Loans to individuals**		**Lease Financing**	
((Dollars in thousands)	**At March 31, 2011**	**At December 31, 2010**	**At March 31, 2011**	**At December 31, 2010**	**At March 31, 2011**	**At December 31, 2010**	**At March 31, 2011**	**At December 31, 2010**
Performing	$ 125,581	$ 120,342	$ 79,089	$ 80,831	$ 41,618	$ 43,624	$ 76,089	$ 80,929
Nonperforming	900	1,534	44	44	531	463	1,089	1,127
Total	$ 126,481	$ 121,876	$ 79,133	$ 80,875	$ 42,149	$ 44,087	$ 77,178	$ 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.

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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.

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

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three months ended March 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 Three Months Ended March 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	(1,130)	(1,688)	(58)	(3)	(201)	(468)		(3,548)
Recoveries	132	63	3	2	44	76		320
Provision (recovery of provision)	2,466	2,801	(283)	51	124	388	(413)	5,134
Ending balance	$ 11,098	$ 16,464	$ 995	$ 594	$ 701	$ 1,946	$ 1,006	$ 32,804
	$ 661	$ 1,176	$ 48	$	$ 9	$		$ 1,894

Ending balance: individually evaluated for impairment								
Ending balance: collectively evaluated for impairment	10,437	15,288	947	594	692	1,946	1,006	30,910
Total ending balance	$ 11,098	$ 16,464	$ 995	$ 594	$ 701	$ 1,946	$ 1,006	$ 32,804
Loans and leases:								
Ending balance: individually evaluated for impairment	$ 6,906	$ 34,395	$ 393	$ 900	$ 60	$ 1,088		$ 43,742
Ending balance: collectively evaluated for impairment	450,557	588,585	36,360	204,714	42,089	76,090		1,398,395
Total ending balance	$ 457,463	$ 622,980	$ 36,753	$ 205,614	$ 42,149	$ 77,178		$ 1,442,137

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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
For the Three Months Ended March 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	(1,168)	(800)			(285)	(589)		(2,842)
Recoveries	25	4	1		76	108		214
Provision (recovery of provision)	3,083	1,132	(199)	(15)	144	805	(55)	4,895
Ending balance	$ 14,088	$ 8,311	$ 860	$ 486	$ 822	$ 1,499	$ 999	$ 27,065
Ending balance: individually evaluated for impairment	$ 953	$ 576	$ 65	$	$	$		$ 1,594
Ending balance: collectively evaluated for impairment	13,135	7,735	795	486	822	1,499	999	25,471
Total ending balance	$ 14,088	$ 8,311	$ 860	$ 486	$ 822	$ 1,499	$ 999	$ 27,065
Loans and leases:								
Ending balance: individually evaluated for impairment	$ 2,869	$ 30,138	$ 765	$ 1,675	$ 62	$ 1,038		$ 36,547
Ending balance: collectively evaluated for impairment	442,686	554,945	45,969	212,626	47,336	87,696		1,391,258
Total ending balance	$ 445,555	$ 585,083	$ 46,734	$ 214,301	$ 47,398	$ 88,734		$ 1,427,805

Impaired Loans and Leases

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

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
At March 31, 2011			
Impaired loans and leases with no related allowance recorded:			
Commercial, financial and agricultural	**$ 4,604**	**$ 4,950**	
Real estate-commercial real estate	**17,573**	**18,391**	
Real estate-construction	**5,598**	**5,598**	
Real estate-residential secured for business purpose	**115**	**542**	
Real estate-residential secured for personal purpose	**900**	**900**	
Lease financings	**1,088**	**1,088**	
Total impaired loans and leases with no related allowance recorded	**$ 29,878**	**$ 31,469**	
Impaired loans and leases with an allowance recorded:			
Commercial, financial and agricultural	**$ 2,302**	**$ 2,319**	**$ 661**
Real estate-commercial real estate	**7,618**	**8,053**	**850**
Real estate-construction	**3,606**	**5,414**	**326**
Real estate-residential secured for business purpose	**278**	**278**	**48**
Loans to individuals	**60**	**60**	**9**
Total impaired loans and leases with an allowance recorded	**$ 13,864**	**$ 16,124**	**$ 1,894**

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
At March 31, 2011			
Total impaired loans and leases:			
Commercial, financial and agricultural	**$ 6,906**	**$ 7,269**	**$ 661**
Real estate-commercial real estate	**25,191**	**26,444**	**850**
Real estate-construction	**9,204**	**11,012**	**326**
Real estate-residential secured for business purpose	**393**	**820**	**48**
Real estate-residential secured for personal purpose	**900**	**900**	
Loans to individuals	**60**	**60**	**9**
Lease financings	**1,088**	**1,088**	
Total impaired loans and leases	**$ 43,742**	**$ 47,593**	**$ 1,894**

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

Real estate-construction	6,874	8,674	33
Real estate-residential secured for business purpose	451	820	29
Real estate-residential secured for personal purpose	1,264	1,264	2
Loans to individuals	81	81	
Lease financings	1,127	1,127	
Total impaired loans and leases	$ 45,782	$ 51,513	$ 1,623

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

(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
At March 31, 2011			
Commercial, financial and agricultural	**$ 7,157**	**$ 2**	**$ 88**
Real estate-commercial real estate	**25,389**	**4**	**392**
Real estate-construction	**7,454**		**87**
Real estate-residential secured for business purpose	**437**	**2**	**6**
Real estate-residential secured for personal purpose	**992**	**17**	**15**
Real estate-home equity secured for personal purpose			
Loans to individuals	**66**	**1**	**1**
Lease financings	**1,110**		
Total	**$ 42,605**	**$ 26**	**$ 589**

(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
At March 31, 2010			
Commercial, financial and agricultural	$ 3,399	$ 3	$ 54
Real estate-commercial real estate	15,907	22	250
Real estate-construction	14,715		193
Real estate-residential secured for business purpose	864	9	6
Real estate-residential secured for personal purpose	1,272	13	5
Real estate-home equity secured for personal purpose	248		2
Loans to individuals	63	1	
Lease financings	931		
Total	$ 37,399	$ 48	$ 510

* Includes interest income recognized on accruing troubled debt restructured loans of $6 thousand and $48 thousand for the three months ended March 31, 2011 and 2010, respectively.

Note 5. Mortgage Servicing Rights

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method using an accelerated amortization method and are subject to periodic impairment testing. The fair value of mortgage servicing rights was determined using discount rates ranging from 3.46% to 7.32% for the three months ended March 31, 2011.

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

(Dollars in thousands)	For the Three Months Ended March 31, 2011	2010
Beginning of period	**$ 2,441**	$ 1,437
Servicing rights capitalized	**452**	249
Amortization of servicing rights	**(77)**	(64)
Changes in valuation	**(44)**	(2)
End of period	**$ 2,772**	$ 1,620
Mortgage loans serviced for others, end of period	**$ 339,357**	$ 195,037

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

	For the Three Months Ended March 31,	
(Dollars in thousands)	**2011**	**2010**
Valuation allowance, beginning of period	**$ (201)**	$ (250)
Additions	**(44)**	(2)
Reductions		
Direct write-downs		
Valuation allowance, end of period	**$ (245)**	$ (252)

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

Year	(Dollars in thousands)	**Amount**
2011		$ 325
2012		384
2013		333
2014		291
2015		253
Thereafter		1,186

Note 6. Income Taxes

As of March 31, 2011 and December 31, 2010, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. As of March 31, 2011, the Corporation s 2007 federal tax return was examined and tax years 2007 through 2010 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, 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. Information on these plans are aggregated and reported under Retirement Plans within this footnote.

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

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

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

Components of net periodic benefit cost were as follows:

	For the Three Months Ended March 31,			
	2011	**2010**	**2011**	**2010**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 94**	$ 101	**$ 16**	$ 20
Interest cost	**430**	429	**29**	26
Expected return on plan assets	**(472)**	(431)		
Amortization of net loss	**188**	169	**17**	10
Amortization (accretion) of prior service cost	**12**	30	**(5)**	(5)
Accretion of transition asset	**(71)**	(71)		
Net periodic cost	**$ 181**	$ 227	**$ 57**	$ 51

The Corporation previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to make contributions of $54 thousand to its qualified and non-qualified retirement plans and $97 thousand to its other postretirement benefit plans in 2011. During the three months ended March 31, 2011, the Corporation contributed $10 thousand and $20 thousand to its qualified and non-qualified retirement plans and other postretirement plans, respectively. As of March 31, 2011, $355 thousand has been paid to participants from the qualified and non-qualified retirement plans and $20 thousand has been paid to participants from the other postretirement plans.

Note 8. Earnings Per Share

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

	For the Three Months Ended March 31,	
(Dollars and shares in thousands, except per share data)	**2011**	**2010**
Numerator:		
Numerator for basic and diluted earnings per share Income available to common shareholders	**$ 3,862**	$ 2,970
Denominator:		
Denominator for basic earnings per share weighted-average shares outstanding	**16,712**	16,535
Effect of dilutive securities:		
Employee stock options		
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**16,712**	16,535
Basic earnings per share	**$ 0.23**	$ 0.18
Diluted earnings per share	**$ 0.23**	$ 0.18

Anti-dilutive options have been excluded in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common stock. For the three months ended March 31, 2011 and 2010, there were 488,032 and 403,032 anti-dilutive options at an average exercise price of $22.35 and $23.41, per share, respectively.

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

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

(Dollars in thousands)	For the Three Months Ended March 31, 2011	2010
Net income	**$ 3,862**	$ 2,970
Net unrealized gains on available-for-sale investment securities:		
Net unrealized gains (losses) arising during the period	**752**	(9)
Less: reclassification adjustment for net losses on sales realized in net income		32
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	**(5)**	(3)
Total net unrealized gains (losses) on available-for-sale investment securities	**757**	(38)
Net change in fair value of derivative used for cash flow hedges	**149**	(219)
Defined benefit pension plans:		
Less: amortization of net loss included in net periodic pension costs	**(133)**	(116)
Less: amortization of prior service cost included in net periodic pension costs	**(5)**	(16)
Less: accretion of transition asset included in net periodic pension costs	**46**	46
Total defined benefit pension plans	**92**	86
Total comprehensive income, net of tax	**$ 4,860**	$ 2,799

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

(Dollars in thousands)	Net Unrealized (Losses) Gains on Available for Sale Investment Securities	Net Change in Fair Value of Derivative Used for Cash Flow Hedges	Net Change Related to Defined Benefit Pension Plan	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2009	$ 5,373	$ 1,150	$ (7,047)	$ (524)
Net Change	(38)	(219)	86	(171)
Balance, March 31, 2010	$ 5,335	$ 931	$ (6,961)	$ (695)
Balance, December 31, 2010	**$ 884**	**$ 320**	**$ (7,970)**	**(6,766)**

Net Change	**757**	**149**	**92**	**998**
Balance, March 31, 2011	**$ 1,641**	**$ 469**	**$ (7,878)**	**$ (5,768)**

Note 10. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to floating in order to reduce the impact of interest rate changes on future net interest income. The Corporation accounts for its interest-rate swap contracts in cash flow and fair value hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows or fair value of assets or liabilities that are being hedged. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in fair value of the ineffective part of the instrument would need to be charged to the statement of operations, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods.

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

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Derivative loan commitments represent agreements for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. The Corporation s derivative loan commitments are commitments to sell loans secured by 1-to-4 family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Loans held for sale are included as forward loan commitments. At March 31, 2011, the notional amounts of interest rate locks with customers and forward loan commitments were $14.8 million and $16.2 million, respectively, with fair values of a positive $190 thousand and a negative $3 thousand, respectively. At December 31, 2010, the notional amounts of interest rate locks with customers and forward loan commitments were $37.7 million and $41.8 million, respectively, with positive fair values of $530 thousand and $269 thousand, respectively. For the interest rate locks with customers, the Corporation recognized fair value adjustments which resulted in losses of $562 thousand and gains of $19 thousand for the three months ended March 31, 2011 and 2010, respectively. For the forward loan commitments, the Corporation recognized fair value adjustments which resulted in losses of $51 thousand and gains of $81 thousand for the three months ended March 31, 2011 and 2010, respectively. The fair value gains and losses related to interest rate locks and forward loan commitments are classified as a component of net gain on mortgage banking activities in the Corporation s consolidated statements of income.

On March 24, 2009, the Corporation entered into a $22.0 million notional interest rate swap, which had been classified as a fair value hedge on a real estate-commercial loan. Under the terms of the swap agreement, the Corporation paid a fixed rate of 6.49% and received a floating rate which was based on the one month U.S. London Interbank Borrowing Rate (LIBOR) with a 357 basis point spread and a maturity date of April 1, 2019. The Corporation performed an assessment of the hedge at inception and at re-designation. During the fourth quarter of 2009, the Corporation participated $5.0 million of the hedged real estate-commercial loan and de-designated the hedge relationship. During the first quarter of 2010, the Corporation re-designated $17.0 million of the interest rate swap. Upon re-designation, $17.0 million of the swap had some ineffectiveness and the $5.0 million remained undesignated. During the third quarter of 2010, the Corporation terminated the swap. The underlying commercial loan had a positive fair value adjustment on the termination date of $859 thousand which is being amortized through a reduction of interest income over the remaining life. For this interest rate swap, the Corporation recognized fair value adjustments which resulted in a loss of $310 thousand for the three months ended March 31, 2010. The fair value gains and losses related to this interest rate swap are classified as a component of net (loss) gain on interest rate swap in the Corporation s consolidated statements of income.

On December 23, 2008, the Corporation entered into a cash flow hedge with a notional amount of $20.0 million that had the effect of converting the variable rates on trust preferred securities to a fixed rate. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.65% and receives a floating rate based on the three month LIBOR with a maturity date of January 7, 2019. The Corporation has performed an assessment of the hedge at inception and determined that this derivative is highly effective in offsetting the changes in the cash flows of the hedged item. At March 31, 2011, the interest rate swap had a positive fair value of $721 thousand, which was classified on the balance sheet as a component of other assets, and was determined to be highly effective in offsetting the changes in the cash flows of the hedged item. The fair value of the interest rate swap, net of taxes, of $469 thousand was recorded as a component of accumulated other comprehensive loss on the balance sheet. At December 31, 2010, the interest rate swap had a positive fair value of $492 thousand, which was classified on the balance sheet as a component of other assets, and was determined to be highly effective in offsetting the changes in the cash flows of the hedged item. The fair value of the interest rate swap, net of taxes, of $320 thousand was recorded as a component of accumulated other comprehensive loss on the balance sheet. The cash payments on the interest rate swap of $117 thousand and $120 thousand during the three months ended March 31, 2011 and 2010, respectively, were recorded as a component of interest expense on the income statement. The Corporation expects that approximately $421 thousand of the net gain in accumulated other comprehensive loss will be reclassified as a reduction of interest expense within the next twelve months.

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Note 11. Fair Value Disclosures

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

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

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

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

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

Investment Securities

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid U.S. Treasury securities and most equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. Government sponsored enterprises, certain MBS, CMOs, and municipal bonds and certain equity securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain CMO securities.

Derivative Financial Instruments

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

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

	At March 31, 2011			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S government corporations and agencies	**$**	**$ 165,632**	**$**	**$ 165,632**
State and political subdivisions		**109,355**		**109,355**
Mortgage-backed securities		**88,203**		**88,203**
Commercial mortgage obligations		**71,453**		**71,453**
Other securities		**8,047**		**8,047**
Equity securities	**3,087**			**3,087**
Total available-for-sale securities	**3,087**	**442,690**		**445,777**
Interest rate swap		**721**		**721**
Interest rate locks with customers		**190**		**190**
Total assets	**$ 3,087**	**$ 443,601**	**$**	**$ 446,688**
Liabilities:				
Forward loan commitments		**3**		**3**
Total liabilities	**$**	**$ 3**	**$**	**$ 3**

	At December 31, 2010			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S government corporations and agencies	$	$ 188,100	$	$ 188,100
State and political subdivisions		108,048		108,048
Mortgage-backed securities		85,101		85,101
Commercial mortgage obligations		68,760	4,331	73,091
Other securities		9,667		9,667
Equity securities	2,985			2,985
Total available-for-sale securities	2,985	459,676	4,331	466,992
Interest rate swaps		492		492
Interest rate locks with customers		530		530

Forward loan commitments				269				269
Total assets	$	2,985	$	460,967	$	4,331	$	468,283
Liabilities:								
Liabilities	$		$		$		$	
Total liabilities	$		$		$		$	

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The following table presents a reconciliation for all assets measured at fair value on a recurring basis and for which the Corporation utilized Level 3 inputs to determine fair value for the three ended March 31, 2011 and 2010:

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

(Dollars in thousands)	Balance at December 31, 2009	Total Unrealized Gains or (Losses)	Total Realized Gains or (Losses)	Paydowns	Balance at March 31, 2010
	Three Months Ended March 31, 2010				
Available-for-sale securities:					
Commercial mortgage obligations	$ 5,172	$ 122	$	$ (243)	$ 5,051
Asset-backed securities	573	(5)		(130)	438
Total Level 3 assets	$ 5,745	$ 117	$	$ (373)	$ 5,489

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

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

(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
	At March 31, 2011			
Real estate-commercial loan		17,549		17,549
Impaired loans and leases			41,848	41,848
Mortgage servicing rights		2,772		2,772
Total	$	$ 20,321	$ 41,848	$ 62,169

	At December 31, 2010			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Loans held for sale	$	$ 4,178	$	$ 4,178
Real estate-commercial loan		17,650		17,650
Impaired loans and leases			44,159	44,159
Mortgage servicing rights		2,441		2,441
Total	$	$ 24,269	$ 44,159	$ 68,428

The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including, interest rates, and bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale at March 31, 2011 were carried at the lower of cost or estimated fair value.

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

Impaired loans and leases include those collateral-dependent loans and leases for which the practical expedient was applied, resulting in a fair-value adjustment to the loan or lease. Impaired loans and leases are evaluated and valued at the time the loan and lease is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and leases less cost to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At March 31, 2011, impaired loans and leases had a carrying amount of $43.7 million with a valuation allowance of $1.9 million. At December 31, 2010, impaired loans and leases had a carrying amount of $45.8 million with a valuation allowance of $1.6 million.

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

Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other intangible assets. During the three months ended March 31, 2011, there were no triggering events to fair value goodwill and other intangible assets.

The following table represents the estimates of fair value of financial instruments:

	At March 31, 2011		**At December 31, 2010**	
(Dollars in thousands)	**Carrying, Notional or Contract Amount**	**Fair Value**	**Carrying, Notional or Contract Amount**	**Fair Value**
Assets:				
Cash and short-term assets	**$ 55,249**	**$ 55,249**	$ 29,187	$ 29,187
Investment securities	**445,798**	**445,798**	467,024	467,024
Loans held for sale	**1,451**	**1,451**	4,178	4,178
Net loans and leases	**1,409,333**	**1,466,440**	1,440,288	1,499,065
Interest rate swaps	**20,000**	**721**	20,000	492
Interest rate locks with customers	**14,764**	**190**	37,691	530
Forward loan commitments			41,842	269
Liabilities:				
Deposits	**1,665,225**	**1,642,335**	1,686,270	1,666,566
Short-term borrowings	**96,551**	**96,593**	114,871	114,908
Long-term borrowings	**28,994**	**29,309**	28,994	29,363
Forward loan commitments	**16,198**	**3**		
Off-Balance-Sheet:				
Commitments to extend credit		**(1,076)**		(1,069)

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

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

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

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

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

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

Deposit liabilities: The fair values for deposits with fixed maturities are estimated by discounting the final maturity, and the fair values for non-maturity deposits are established using a decay factor estimate of cash flows based upon industry-accepted assumptions. The discount rate applied to deposits consists of an appropriate risk free rate and includes components for operating expense.

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

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

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

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

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

Forward-Looking Statements

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words believe, anticipate, estimate, expect, project, target, goal expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including those set forth below:

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

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

Critical Accounting Policies

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

General

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

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

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Executive Overview

The Corporation reported net income for the three months ended March 31, 2011 of $3.9 million or $0.23 diluted earnings per share compared to net income of $3.0 million or $0.18 diluted earnings per share for the three months ended March 31, 2010.

Net interest income on a tax-equivalent basis for the three months ended March 31, 2011 was up $1.8 million, or 10.2% compared to the same period in 2010. The first quarter 2011 net interest margin was 4.24% compared to 4.18% for the fourth quarter of 2010 and 3.99% for the first quarter of 2010. The increase in net interest income and the net interest margin for the three months ended March 31, 2011 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits as well as regular savings accounts, and declines in the volume of Federal Home Loan Bank of Pittsburgh (FHLB) borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation experienced core deposit growth during 2010 which allowed the Corporation to not replace or renew its maturing FHLB advances reducing FHLB advances from $64.0 million at March 31, 2010 to $5.0 million at December 31, 2010. FHLB advances at March 31, 2011 remained at $5.0 million.

The provision for loan and lease losses increased slightly by $239 thousand for the three months ended March 31, 2011 compared to the same period in 2010.

Non-interest income decreased $448 thousand, or 5.5% during the three months ended March 31, 2011 compared to the same period in 2010 primarily due to the challenging economic environment and increased regulatory requirements. Service charges on deposit accounts decreased by $446 thousand mostly due to amendments to Regulation E which were implemented in August 2010. The Corporation recognized a net loss on mortgage banking activities of $25 thousand as compared to a net gain of $460 thousand for the same period in the prior year as a result of negative fair value adjustments on the mortgage pipeline as mortgage demand has softened due to a continued slow purchase market for housing. These unfavorable variances were partially offset by increases in trust fee income and investment advisory commissions and fees due to a rebounding equity market and customers willingness to invest, as well as an increase in other service fees. Additionally, the three months ended March 31, 2010 was impacted by a net loss on the ineffective portion of a fair value swap of $310 thousand which was terminated in August 2010 as well as other income from a litigation settlement.

Non-interest expense decreased $333 thousand, or 1.9% for the three months ended March 31, 2011 compared to the same period in 2010. Salaries and benefit expense decreased $828 thousand during the three months ended March 31, 2011 compared to the same period in 2010 mainly due to increased deferred loan origination costs on individual loan credits as well as lower healthcare costs and reduced pension plan expenses. The Corporation implemented higher deferred loan origination costs on individual loan credits 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 economic environment. These decreases were partially offset by increases in occupancy expense, deposit insurance premiums and interchange expenses.

Nonperforming loans and leases were $44.3 million at March 31, 2011 compared to $46.5 million at December 31, 2010 and $36.9 million at March 31, 2010. Nonperforming loans and leases as a percentage of total loans and leases were 3.07% at March 31, 2011 compared to 3.16% at December 31, 2010 and 2.58% at March 31, 2010. Net charge-offs for the three months ended March 31, 2011 were $3.2 million compared to $2.6 million for the three months ended March 31, 2010. The increase in loan and lease charge-offs was primarily due to deterioration of underlying collateral and economic factors. The charge-offs occurred across various loan and lease categories.

The Corporation earns its revenues primarily from the margins and fees it generates from loans and leases and depository services it provides as well as from trust fees and insurance and investment commissions. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board of Directors approved levels. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation is in a more asset sensitive position; although interest rates are expected to remain low for the foreseeable future, it anticipates increasing interest rates over the longer term, which it expects would benefit its net interest margin.

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

Results of Operations

The Corporation s consolidated net income and earnings per share for the three months ended March 31, 2011 and 2010 were as follows:

	For the Three Months Ended March 31,		Change	
(Dollars in thousands, except per share data)	**2011**	**2010**	**Amount**	**Percent**
Net income	**$ 3,862**	$ 2,970	$ 892	30.0%
Net income per share:				
Basic	**$ 0.23**	$ 0.18	$ 0.05	27.8%
Diluted	**0.23**	0.18	0.05	27.8

Return on average shareholders equity was 5.84% and return on average assets was 0.74% for the three months ended March 31, 2011, compared to 4.48% and 0.59%, respectively, for the same period in 2010.

Net Interest Income

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

Net interest income on a tax-equivalent basis for the three months ended March 31, 2011 increased $1.8 million, or 10.2% compared to the same period in 2010. The tax-equivalent net interest margin for the three months ended March 31, 2011 increased 25 basis points to 4.24% from 3.99% for the three-months ended March 31, 2010. The increase in net interest income and the net interest margin for the three months ended March 31, 2011 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits as well as regular savings accounts, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation experienced core deposit growth during 2010 which allowed the Corporation to not replace or renew its maturing FHLB advances reducing FHLB advances from $64.0 million at March 31, 2010 to $5.0 million at December 31, 2010. FHLB advances at March 31, 2011 remained at $5.0 million.

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Table 1 Average Balances and Interest Rates Tax-Equivalent Basis

	For the Three Months Ended March 31,					
	2011			2010		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	$ 6,279	$ 3	0.19%	$ 14,293	$ 11	0.31%
U.S. Government obligations	170,658	717	1.70	114,164	742	2.64
Obligations of states and political subdivisions	109,026	1,721	6.40	106,634	1,739	6.61
Other debt and equity securities	164,978	1,529	3.76	188,390	2,019	4.35
Total interest-earning deposits and investments	450,941	3,970	3.57	423,481	4,511	4.32
Commercial, financial and agricultural loans	428,636	5,171	4.89	409,663	4,666	4.62
Real estate-commercial and construction loans	558,304	7,251	5.27	524,084	7,561	5.85
Real estate-residential loans	244,305	2,641	4.38	260,959	2,858	4.44
Loans to individuals	43,010	626	5.90	47,509	798	6.81
Municipal loans and leases	122,478	1,731	5.73	97,448	1,425	5.93
Lease financings	64,304	1,518	9.57	81,167	1,723	8.61
Gross loans and leases	1,461,037	18,938	5.26	1,420,830	19,031	5.43
Total interest-earning assets	1,911,978	22,908	4.86	1,844,311	23,542	5.18
Cash and due from banks	36,101			31,621		
Reserve for loan and lease losses	(32,402)			(26,579)		
Premises and equipment, net	34,624			34,859		
Other assets	155,975			154,527		
Total assets	$ 2,106,276			$ 2,038,739		
Liabilities:						
Interest-bearing checking deposits	$ 192,676	64	0.13	$ 171,978	57	0.13
Money market savings	308,797	201	0.26	279,912	317	0.46
Regular savings	481,404	463	0.39	415,934	781	0.76
Time deposits	411,030	1,738	1.71	434,166	3,065	2.86
Total time and interest-bearing deposits	1,393,907	2,466	0.72	1,301,990	4,220	1.31

Securities sold under agreements to repurchase	96,446	71	0.30	95,841	117	0.50
Other short-term borrowings	10,269	9	0.36	71,266	685	3.90
Long-term debt	5,000	47	3.81	5,746	47	3.32
Subordinated notes and capital securities	23,994	304	5.14	25,494	311	4.95
Total borrowings	135,709	431	1.29	198,347	1,160	2.37
Total interest-bearing liabilities	1,529,616	2,897	0.77	1,500,337	5,380	1.45
Demand deposits, non-interest bearing	276,155			235,686		
Accrued expenses and other liabilities	32,162			33,686		
Total liabilities	1,837,933			1,769,709		
Shareholders Equity:						
Common stock	91,332			91,332		
Additional paid-in capital	61,411			61,420		
Retained earnings and other equity	115,600			116,278		
Total shareholders equity	268,343			269,030		
Total liabilities and shareholders equity	$ 2,106,276			$ 2,038,739		
Net interest income		$ 20,011			$ 18,162	
Net interest spread			4.09			3.73
Effect of net interest-free funding sources			0.15			0.26
Net interest margin			4.24%			3.99%
Ratio of average interest-earning assets to average interest-bearing liabilities	125.00%			122.93%		

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the three months ended March 31, 2011 and 2010 have been calculated using the Corporation s federal applicable rate of 35.0%.

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Table 2 Analysis of Changes in Net Interest Income

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

(Dollars in thousands)	For the Three Months Ended March 31, 2011 Versus 2010 Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	$ (5)	$ (3)	$ (8)
U.S. Government obligations	294	(319)	(25)
Obligations of states and political subdivisions	38	(56)	(18)
Other debt and equity securities	(234)	(256)	(490)
Interest on deposits and investments	93	(634)	(541)
Commercial, financial and agricultural loans	223	282	505
Real estate-commercial and construction loans	473	(783)	(310)
Real estate-residential loans	(179)	(38)	(217)
Loans to individuals	(71)	(101)	(172)
Municipal loans and leases	355	(49)	306
Lease financings	(383)	178	(205)
Interest and fees on loans and leases	418	(511)	(93)
Total interest income	511	(1,145)	(634)
Interest expense:			
Interest-bearing checking deposits	7		7
Money market savings	31	(147)	(116)
Regular savings	108	(426)	(318)
Time deposits	(155)	(1,172)	(1,327)
Interest on time and interest-bearing deposits	(9)	(1,745)	(1,754)
Securities sold under agreement to repurchase	1	(47)	(46)
Other short-term borrowings	(328)	(348)	(676)
Long-term debt			
Subordinated notes and capital securities	(19)	12	(7)
Interest on borrowings	(346)	(383)	(729)
Total interest expense	(355)	(2,128)	(2,483)
Net interest income	$ 856	$ 993	$ 1,849

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the three months ended March 31, 2011 and 2010 have been calculated using the Corporation s federal applicable rate of 35.0%.

Interest Income

Interest income on a tax-equivalent basis for the three months ended March 31, 2011 decreased $634 thousand, or 2.7% from the same period in 2010. This decrease was mainly due to a 75 basis point decrease in the average rate earned on investment securities and deposits at other banks as well as a 17 basis point decrease in the average rate earned on loans partially offset by a $40.2 million increase in average loan volume. The decline in interest income on investment securities and deposits at other banks of $541 thousand for the three months ended March 31, 2011 compared to the same period in 2010 was mostly due to maturities, pay-downs and calls of investment securities and replacement with lower yielding investments due to the lower interest rate environment. Interest and fees on loans and leases declined by $93 thousand during the three months ended March 31, 2011 compared to the same period in 2010. The Corporation experienced decreases in the average rates on commercial real estate and construction loans as well as decreases in average volume for lease financings and residential real estate loans. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity as well as reduced leasing origination volume. These unfavorable variances were partially offset by growth 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

Interest expense on a tax-equivalent basis for the three months ended March 31, 2011 decreased $2.5 million, or 46.2% from the comparable period in 2010. This decrease was mainly due to a 59 basis point decrease in the Corporation s average cost of deposits as well as a $62.6 million decrease in average borrowings and a 108 basis point decrease in the average borrowing rate. The decrease in the Corporation s cost of deposits was largely attributable to re-pricing of time deposit accounts as well as regular savings accounts. For the three months ended March 31, 2011, interest expense on time deposits decreased $1.3 million and interest expense on savings accounts decreased by $318 thousand. For the three months ended March 31, 2011, average deposits increased by $91.9 million with increases in average regular savings of $65.5 million, interest-bearing checking of $20.7 million and money market savings of $28.9 million partially offset by a decrease in average time deposits of $23.1 million. The Corporation s focus on growing low cost core deposits and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts. Interest on other short-term borrowings mainly includes interest paid on federal funds purchased and short-term FHLB borrowings. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account. Interest expense on other short-term borrowings decreased $676 thousand for the three months ended March 31, 2011 compared to the same period in 2010 primarily due to a decrease in average volume of $61.0 million and a reduction in average rate of 354 basis points. Interest on long-term debt, which consists of long-term FHLB borrowings, remained at the same level.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charged-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans and leases initial effective interest rates or the fair value of the collateral for certain collateral dependent loans and leases. Any of the above criteria may cause the reserve to fluctuate. The provision for the three months ended March 31, 2011 and 2010 was $5.1 million and $4.9 million, respectively.

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 fees), non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Bank owned life insurance income represents changes in the cash surrender value of bank-owned life insurance policies, which is affected by the market value of the underlying assets, and also includes any excess proceeds from death benefit claims. Other non-interest income includes gains (losses) on investments in partnerships, gains (losses) on sales of other real estate owned, reinsurance income and other miscellaneous income.

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The following table presents noninterest income for the periods indicated:

(Dollars in thousands)	For the Three Months Ended March 31, 2011	2010	Change Amount	Percent
Trust fee income	**$ 1,625**	$ 1,500	$ 125	8.3%
Service charges on deposit accounts	**1,336**	1,782	(446)	(25.0)
Investment advisory commission and fee income	**1,162**	1,056	106	10.0
Insurance commission and fee income	**2,200**	2,243	(43)	(1.9)
Other service fee income	**1,355**	909	446	49.1
Bank owned life insurance income	**344**	332	12	3.6
Other-than-temporary impairment on equity securities	**(7)**	(5)	(2)	(40.0)
Net gain on sales of securities		49	(49)	N/M
Net (loss) gain on mortgage banking activities	**(25)**	460	(485)	N/M
Net loss on interest rate swap		(310)	310	N/M
Net loss on dispositions of fixed assets		(6)	6	N/M
Net loss on sales and write-downs of other real estate owned	**(352)**	(347)	(5)	(1.4)
Other	**121**	544	(423)	(77.8)
Total noninterest income	**$ 7,759**	$ 8,207	$ (448)	(5.5)

Total non-interest income decreased $448 thousand, or 5.5% during the three months ended March 31, 2011 compared to the same period in 2010 primarily due to a decline in service charges on deposit accounts mostly due to Regulation E, a net loss on mortgage banking activities of $25 thousand as compared to a net gain of $460 thousand for the same period in the prior year and a reduction in other income mainly due to a litigation settlement during the first quarter of 2010. These unfavorable variances were partially offset by increases in trust fee income, investment advisory commissions and fees, and other service fees. Additionally, the three months ended March 31, 2010 was impacted by a net loss on the ineffective portion of a fair value swap of $310 thousand which was terminated in third quarter of 2010.

Trust fee income increased by $125 thousand and investment advisory commissions and fee income increased by $106 thousand during the three months ended March 31, 2011 from the comparable period in 2010 primarily related to increases in the market values of the assets and increased volume.

Service charges on deposit accounts decreased $446 thousand during the three months ended March 31, 2011 from the comparable period in 2010 primarily due to decreased levels of insufficient fund charges. In November 2009, the Federal Reserve Board issued a final rule that, effective July 1, 2010, in accordance with Regulation E, prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The Corporation implemented the provisions of Regulation E in the third quarter of 2010.

Other service fee income increased by $446 thousand during the three months ended March 31, 2011 thousand primarily attributable to increases in Mastermoney fees, servicing income and check charges.

The Corporation realized other-than-temporary impairment charges of $7 thousand on its equity portfolio during the three months ended March 31, 2011 as compared to $5 thousand for the same period in the prior year. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other under-water securities, at this time, as the financial performance and near-term prospects of the underlying companies are not indicative of the market deterioration of their stock. The Corporation has the positive intent and ability to hold these securities 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. During the three months ended March 31, 2011, the Corporation did not sell any available for sale securities. During the three months ended March 31, 2010, the Corporation sold $466 thousand in available for sale securities that resulted in a net gain of $49 thousand.

For the three months ended March 31, 2011, the Corporation recognized a net loss on mortgage banking activities of $25 thousand compared to a net gain of $460 thousand for the same period in 2010. The net gain/loss consists of gains on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan commitments. The net loss on mortgage banking activities during the first quarter of 2011 resulted mainly from negative fair market value adjustments on the interest rate locks partially offset by an increase in the gains on sales of mortgages held for sale due to increased volume during the first quarter of 2011 over the same period in 2010.

For the three months ended March 31, 2010, the Corporation recognized a loss of $310 thousand on an interest rate swap for a commercial real estate loan mainly related to re-designation of the swap during the first quarter of 2010. This interest rate swap was terminated in the third quarter of 2010 due to the forecasted low interest rate environment. The underlying commercial loan had a positive fair value adjustment at the termination date of $859 thousand which is being amortized through a reduction of interest income over the remaining life of the loan.

For the three months ended March 31, 2011, the Corporation recognized a net loss on sales and write-downs of other real estate owned of $352 thousand compared to a net loss of $347 thousand for the same period in 2010.

Other income for the three months ended March 31, 2011 decreased $423 thousand from the same period in the prior year mainly due to income received from a litigation settlement during the first quarter of 2010.

Noninterest Expense

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

The following table presents noninterest expense for the periods indicated:

	For theThree Months Ended March 31,		Change	
	2011	**2010**	**Amount**	**Percent**
Salaries and benefits	**$ 8,983**	$ 9,811	$ (828)	(8.4)%
Net occupancy	**1,550**	1,354	196	14.5
Equipment	**977**	938	39	4.2
Marketing and advertising	**589**	684	(95)	(13.9)
Deposit insurance premiums	**713**	597	116	19.4
Other	**3,934**	3,695	239	6.5
Total noninterest expense	**$ 16,746**	$ 17,079	$ (333)	(1.9)

Total non-interest expense decreased $333 thousand, or 1.9% for the three months ended March 31, 2011 compared to the same period in 2010. Salaries and benefit expense decreased $828 thousand during the three months ended March 31, 2011 compared to the same period in 2010 mainly due to increased deferred loan origination costs on individual loan credits as well as lower healthcare costs and reduced pension plan expenses. The Corporation implemented higher deferred loan origination costs on individual loan credits commencing during the fourth quarter of 2010 based upon an in-depth study performed which incorporated management s additional review time spent on loan credits as a result of increased scrutiny of loan credits. Additionally, as more loan approvals are currently being approved at the Committee level as opposed to individual relationship managers, as the Corporation proactively manages its credit risk given the current economic environment, 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. These favorable variances were partially offset by increased salaries and benefits expense to grow the mortgage banking business and higher restricted stock expense. Occupancy expense increased $196 thousand for the three months ended March 31, 2011 primarily due to increased rent, taxes and other occupancy costs related to a branch relocation and branch improvements. Deposit insurance premiums increased $116 thousand for the three months ended March 31, 2011 mainly due to the growth in deposits. Other expenses increased $239 thousand primarily due to increased interchange expenses and loan processing expenses.

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Tax Provision

The provision for income taxes for the three months ended March 31, 2011 and 2010 was $826 thousand and $368 thousand, at effective rates of 17.62% and 11.02%, respectively. The effective tax rates reflect the benefits of tax-exempt income from investments in municipal securities and loans and bank-owned life insurance. The increase in the effective tax rate between the three-month periods is primarily due to a smaller percentage of tax-exempt income to pre-tax income.

Financial Condition

Assets

Total assets decreased $25.3 million since December 31, 2010 primarily due to a decrease in loans and leases. The following table presents the assets for the periods indicated:

(Dollars in thousands)	At March 31, 2011	At December 31, 2010	Change Amount	Change Percent
Cash, interest-earning deposits and federal funds sold	**$ 55,249**	$ 29,187	$ 26,062	89.3%
Investment securities	**445,798**	467,024	(21,226)	(4.5)
Loans held for sale	**1,451**	4,178	(2,727)	(65.3)
Total loans and leases	**1,442,137**	1,471,186	(29,049)	(2.0)
Reserve for loan and lease losses	**(32,804)**	(30,898)	(1,906)	(6.2)
Premises and equipment, net	**34,363**	34,605	(242)	(0.7)
Goodwill and other intangibles, net	**56,899**	56,797	102	0.2
Bank owned life insurance	**48,354**	48,010	344	0.7
Accrued interest and other assets	**57,132**	53,804	3,328	6.2
Total assets	**$ 2,108,579**	$ 2,133,893	$ (25,314)	(1.2)

Cash, Interest-earning Deposits and Federal Funds Sold

Cash, interest-earning deposits and federal funds sold increased as of March 31, 2011 as compared to December 31, 2010 primarily due to an increase in cash maintained at the Federal Reserve Bank, the source of funds which came from maturing investment securities held for sale.

Investment Securities

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

Total investments decreased by $21.2 million at March 31, 2011 compared to December 31, 2010. Maturities and paydowns of $23.3 million and calls of $35.8 million were partially offset by purchases of $36.8 million.

Loans and Leases

Total gross loans and leases decreased by $29.0 million at March 31, 2011 as compared to December 31, 2010 mainly due to less credit demand and utilization of lines by both business and consumers responding to the current economic environment. Declines occurred in construction loans of $17.6 million, commercial, financial and agricultural loans of $6.1 million, lease financings of $4.9 million and consumer loans of $1.9 million while residential and home equity mortgage loans secured for personal purposes increased by $2.9 million.

Asset Quality

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

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

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

Total cash basis, troubled debt restructured and nonaccrual loans and leases totaled $43.7 million at March 31, 2011, $45.8 million at December 31, 2010, and $36.5 million at March 31, 2010; the balance at March 31, 2011 primarily consisted of commercial real estate, construction and commercial, financial and agricultural loans. For the three months ended March 31, 2011 and 2010, impaired loans and leases resulted in lost interest income of $589 thousand and $510 thousand, respectively. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 3.48% as of March 31, 2011, compared to 3.32% as of December 31, 2010 and 2.75% as of March 31, 2010. The ratio of nonperforming assets to total assets was 2.39% at March 31, 2011, 2.29% at December 31, 2010 and 1.90% at March 31, 2010.

At March 31, 2011, the recorded investment in loans and leases that were considered to be impaired was $43.7 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.9 million. At December 31, 2010, the recorded investment in loans and leases that were considered to be impaired was $45.8 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.6 million. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits. The decrease in impaired loans and leases at March 31, 2011 compared to December 31, 2010 was mainly due to the foreclosure on three commercial real estate loan relationships and transfer of the collateral to other real estate owned for $4.0 million partially offset by the addition of two large real estate construction loan relationships to accruing troubled debt restructured status totaling $2.8 million. Due to the stagnant real estate market, these borrower s properties have not been selling or are selling slow and therefore the maturity dates on these construction loans have been extended. The related specific reserve for these loans is $45 thousand. Impaired loans at March 31, 2011 included several large commercial real estate, construction, and commercial business credits which migrated to non-accrual status during the fourth quarter of 2010 and were not concentrated in any one industry consisting of hotel/office space; investment commercial real estate; a construction company; and a manufacturing company. Impaired loans at March 31, 2011 also 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 $14.6 million at March 31, 2011. There is a specific allowance on this credit of $168 thousand at March 31, 2011 to cover deficiencies in the underlying real estate value under current market conditions. The borrower does not have the resources to develop these properties themselves; therefore, the properties must be sold. The Corporation will continue to closely monitor this credit relationship and may have to provide additional reserve in future quarters related to this credit. The Corporation will continue to closely monitor the impaired loans and may have to provide additional reserves in future quarters related to these credits. At March 31, 2010, the recorded investment in loans and leases that were considered to be impaired was $36.5 million, all of which were on a nonaccrual basis or accruing trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.6 million.

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The other real estate owned balance increased from $2.4 million at December 31, 2010 to $6.1 million at March 31, 2011 and consisted of five commercial properties, three of which aggregating to $3.0 million, are currently under agreements of sale. During the first quarter of 2011, three properties were acquired and one property had a negative valuation adjustment of $352 thousand based on the updated fair value.

Table 3 Nonaccrual, Past Due and Troubled Debt Restructured Loans and Leases, and Other Real Estate Owned

The following table details the aggregate principal balance of loans and leases classified as nonaccrual (including nonaccrual trouble debt restructured loans and leases), past due loans and leases and accruing troubled debt restructured loans and leases as well as other real estate owned as of the dates indicated:

(Dollars in thousands)	At March 31, 2011	At December 31, 2010	At March 31, 2010
Nonaccruing loans and leases, including nonaccrual troubled debt restructured loans and leases*:			
Commercial, financial and agricultural	**$ 6,735**	$ 7,627	$ 2,689
Real estate commercial	**22,756**	28,183	15,148
Real estate construction	**7,022**	6,874	14,244
Real estate residential	**1,203**	1,625	1,910
Loans to individuals		21	
Leases financings	**915**	902	865
Total nonaccruing loans and leases, including nonaccrual troubled debt restructured loans and leases*	**38,631**	45,232	34,856
Accruing troubled debt restructured loans and leases, not included above	**5,111**	550	1,691
Total impaired loans and leases	**$ 43,742**	$ 45,782	$ 36,547
Accruing loans and leases 90 days or more past due:			
Commercial, financial and agricultural	**$**	$	$
Real estate commercial			
Real estate residential	**44**	314	141
Loans to individuals	**471**	382	162
Lease financings	**1**		
Total accruing loans and leases, 90 days or more past due	**$ 516**	$ 696	$ 303
Total non-performing loans and leases	**$ 44,258**	$ 46,478	$ 36,850
Other real estate owned	**$ 6,135**	$ 2,438	$ 2,453
Total non-performing assets	**$ 50,393**	$ 48,916	$ 39,303

* Includes non-accrual troubled debt restructured loans and leases of $3.5 million, $1.2 million and $1.5 million at March 31, 2011, December, 31, 2010 and March 31, 2010, respectively.

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 probable losses in the loan and lease portfolio. Management s methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

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

Wholesale leasing portfolios are purchased by the Bank s subsidiary, Univest Capital, Inc. Credit losses on these purchased portfolios are largely the responsibility of the seller up to pre-set dollar amounts initially equal to 10 to 20 percent of the portfolio purchase amount. The dollar amount of recourse for purchased portfolios is inclusive of cash holdbacks and purchase discounts. Purchased wholesale leasing portfolios outstanding equaled $7.3 million at March 31, 2011 and $9.4 million at December 31, 2010.

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

The reserve for loan and lease losses cons