

all of the Bancorp's financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassification – Certain amounts appearing in the consolidated financial statements and notes thereto for the year ended December 31, 2009, may have been reclassified to conform to the December 31, 2010 presentation.

Adoption of New Accounting Pronouncements –

Update Number 2010-06 – Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements. The Fair Value Measurements and Disclosures Topic was amended to improve disclosure requirements for those entities required to make recurring and nonrecurring fair value measurements. The accounting standard update requires new disclosures for transfers in and out of Levels 1 and 2 and for separate presentation of purchases, sales, issuances and settlements for activity in Level 3. Further, this accounting standard update clarifies the existing required disclosures when determining the level of disaggregation when reporting classes of assets and liabilities and disclosure about valuation techniques and inputs to measure fair value for both recurring and nonrecurring measurements. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, and are included on note 16.

Update Number 2010-09 – Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. This accounting standard update modifies the requirement to disclose the date that subsequent events are considered through for SEC filers. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements.

Update Number 2010-20 – Receivables (Topic 310): Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update expands disclosures about credit quality of financing receivables and allowance for credit losses. The accounting standard update will require the Bancorp to expand disclosures about the credit quality of loans and the related reserves against them. The objective of this accounting standard update is to assist the users of the financial statements in evaluating the nature of the credit risk inherent in the Bancorp's loans receivable portfolio, how risk is analyzed to determine the allowance for loan losses, and reasons for changes in the allowance for loan losses. These disclosures are effective for fiscal years ending after December 15, 2010. The Bancorp adopted this update on December 31, 2010 and the required disclosures are included in Note 3. Adoption of this accounting standard update has not changed the methodology used to determine the allowance for loan losses.

NOTE 2 - Securities

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	<i>Cost Basis</i>	<i>(Dollars in thousands) Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Fair Value</i>
December 31, 2010				
U.S. government sponsored entities	\$ 4,172	\$ –	\$ (3)	\$ 4,169
CMO and residential mortgage-backed securities	94,930	2,372	(160)	97,142
Municipal securities	38,549	1,027	(211)	39,365
Collateralized debt obligations.....	5,215	–	(3,836)	1,379
Total securities available-for-sale	<u>\$ 142,866</u>	<u>\$ 3,399</u>	<u>\$ (4,210)</u>	<u>\$ 142,055</u>
December 31, 2009				
U.S. government sponsored entities	\$ 1,993	\$ 52	\$ –	\$ 2,045
CMO and residential mortgage-backed securities	61,095	2,302	(82)	63,315
Municipal securities	34,151	1,516	(94)	35,573
CMO government sponsored entities	22,534	168	(209)	22,493
Collateralized debt obligations.....	5,343	–	(3,993)	1,350
Total securities available-for-sale	<u>\$ 125,116</u>	<u>\$ 4,038</u>	<u>\$ (4,378)</u>	<u>\$ 124,776</u>

The carrying amount, gross unrecognized gains and losses, and fair value of securities held-to-maturity were as follows:

	<i>Cost Basis</i>	<i>(Dollars in thousands) Gross Unrecognized Gains</i>	<i>Gross Unrecognized Losses</i>	<i>Estimated Fair Value</i>
December 31, 2010				
Municipal securities	\$ 17,573	\$ 613	\$ –	\$ 18,186
Residential mortgage-backed securities.....	824	29	(1)	852
Total securities held-to-maturity.....	<u>\$ 18,397</u>	<u>\$ 642</u>	<u>\$ (1)</u>	<u>\$ 19,038</u>
December 31, 2009				
Municipal securities	\$ 18,539	\$ 724	\$ –	\$ 19,263
Residential mortgage-backed securities.....	1,018	28	(6)	1,040
Total securities held-to-maturity.....	<u>\$ 19,557</u>	<u>\$ 752</u>	<u>\$ (6)</u>	<u>\$ 20,303</u>