

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), and 6058(a) of the Internal Revenue Code (the Code). ▶ Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2009 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information
For calendar plan year 2009 or fiscal plan year beginning 01/01/2009 and ending 12/31/2009	
A This return/report is for:	☐ a multiemployer plan; ☐ a multiple-employer plan; or ☒ a single-employer plan; ☐ a DFE (specify) ____
B This return/report is:	☐ the first return/report; ☒ the final return/report; ☐ an amended return/report; ☐ a short plan year return/report (less than 12 months).
C If the plan is a collectively-bargained plan, check here.	☐
D Check box if filing under:	☒ Form 5558; ☐ automatic extension; ☐ the DFVC program; ☐ special extension (enter description)

Part II	Basic Plan Information —enter all requested information
1a Name of plan KNBT BANCORP, INC. EMPLOYEE STOCK OWNERSHIP PLAN	1b Three-digit plan number (PN) ▶ 003
	1c Effective date of plan 01/01/2003
2a Plan sponsor's name and address (employer, if for a single-employer plan) (Address should include room or suite no.) NATIONAL PENN BANCSHARES, INC. 90 HIGHLAND AVENUE BETHLEHEM, PA 18017	2b Employer Identification Number (EIN) 38-3681905 2c Sponsor's telephone number 610-861-7806 2d Business code (see instructions) 522110

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	10/12/2010	DAVID LYTLE
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

3a Plan administrator's name and address (if same as plan sponsor, enter "Same") NATIONAL PENN BANCSHARES, INC. 90 HIGHLAND AVENUE BETHLEHEM, PA 18017	3b Administrator's EIN 38-3681905 3c Administrator's telephone number 610-861-7806
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4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
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5 Total number of participants at the beginning of the plan year	5	748
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6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).		
a Active participants.....	6a	0
b Retired or separated participants receiving benefits.....	6b	0
c Other retired or separated participants entitled to future benefits.....	6c	0
d Subtotal. Add lines 6a , 6b , and 6c	6d	0
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.....	6e	0
f Total. Add lines 6d and 6e	6f	0
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item).....	6g	0
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested.....	6h	0

7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7	
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8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristic Codes in the instructions:
 2P 3I

b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristic Codes in the instructions:

9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
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10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

a Pension Schedules

- (1) ☒ **R** (Retirement Plan Information)
 (2) ☐ **MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary
 (3) ☐ **SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary

b General Schedules

- (1) ☒ **H** (Financial Information)
 (2) ☐ **I** (Financial Information – Small Plan)
 (3) ☐ **A** (Insurance Information)
 (4) ☐ **C** (Service Provider Information)
 (5) ☐ **D** (DFE/Participating Plan Information)
 (6) ☐ **G** (Financial Transaction Schedules)

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	<small>OMB No. 1210-0110</small> 2009 This Form is Open to Public Inspection
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For calendar plan year 2009 or fiscal plan year beginning <u>01/01/2009</u> and ending <u>12/31/2009</u>		
A Name of plan <u>KNBT BANCORP, INC. EMPLOYEE STOCK OWNERSHIP PLAN</u>	B Three-digit plan number (PN) ►	<u>003</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>NATIONAL PENN BANCSHARES, INC.</u>	D Employer Identification Number (EIN) <u>38-3681905</u>	

Part I	Asset and Liability Statement
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1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash	1a		
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions	1b(1)		
(2) Participant contributions	1b(2)		
(3) Other.....	1b(3)		
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)	673497	0
(2) U.S. Government securities.....	1c(2)		
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)		
(B) All other.....	1c(3)(B)		
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)		
(B) Common	1c(4)(B)	14128982	0
(5) Partnership/joint venture interests	1c(5)		
(6) Real estate (other than employer real property)	1c(6)		
(7) Loans (other than to participants)	1c(7)		
(8) Participant loans	1c(8)		
(9) Value of interest in common/collective trusts.....	1c(9)		
(10) Value of interest in pooled separate accounts.....	1c(10)		
(11) Value of interest in master trust investment accounts	1c(11)		
(12) Value of interest in 103-12 investment entities	1c(12)		
(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)		
(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
(15) Other	1c(15)		

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	14802479	0

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j	13712924	0
k Total liabilities (add all amounts in lines 1g through 1j)	1k	13712924	0

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	1089555	0
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income**a Contributions:**

		(a) Amount	(b) Total
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)		
(B) Participants	2a(1)(B)		
(C) Others (including rollovers)	2a(1)(C)		
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		0

b Earnings on investments:**(1) Interest:**

(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	5912	
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)		
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		5912

(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)	55605	
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)		
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		55605

(3) Rents	2b(3)		
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(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)	1171212	
(B) Aggregate carrying amount (see instructions)	2b(4)(B)	2924229	
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		-1753017

		(a) Amount	(b) Total
2b (5) Unrealized appreciation (depreciation) of assets: (A) Real estate.....	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		
c Other income.....	2c		2022441
d Total income. Add all income amounts in column (b) and enter total.....	2d		330941

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	1420207	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		1420207
f Corrective distributions (see instructions)	2f		
g Certain deemed distributions of participant loans (see instructions).....	2g		
h Interest expense.....	2h		
i Administrative expenses: (1) Professional fees	2i(1)	289	
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		289
j Total expenses. Add all expense amounts in column (b) and enter total.....	2j		1420496

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		-1089555
l Transfers of assets:			
(1) To this plan.....	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unqualified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? ☐ Yes ☒ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: PALMER AND COMPANY

(2) EIN: 24-0681318

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

- 4** CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete 4j and 4l. MTIAs also do not complete 4l.

During the plan year:

	Yes	No	Amount
a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....		X	
b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.).....		X	
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.).....		X	
e Was this plan covered by a fidelity bond?.....	X		7500000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.).....		X	
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.).....	X		
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?.....	X		
l Has the plan failed to provide any benefit when due under the plan?		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.).....		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.			

- 5a** Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
If yes, enter the amount of any plan assets that reverted to the employer this year ☒ Yes ☐ No Amount: 0

- 5b** If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110
		2009
		This Form is Open to Public Inspection.

For calendar plan year 2009 or fiscal plan year beginning 01/01/2009 and ending 12/31/2009

A Name of plan <u>KNBT BANCORP, INC. EMPLOYEE STOCK OWNERSHIP PLAN</u>	B Three-digit plan number (PN) ▶ <u>003</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>NATIONAL PENN BANCSHARES, INC.</u>	D Employer Identification Number (EIN) <u>38-3681905</u>

Part I	Distributions
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All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): <u>20-0217843</u>	
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.	
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
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4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?.....	☐ Yes	☐ No	☐ N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____			
If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	☐ Yes	☐ No	☐ N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?.....	☐ Yes	☐ No	☐ N/A

Part III	Amendments
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9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box(es). If no, check the "No" box.....	☐ Increase	☐ Decrease	☐ Both	☐ No
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Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
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10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?.....	☒ Yes	☐ No
11 a Does the ESOP hold any preferred stock?	☐ Yes	☒ No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	☐ Yes	☒ No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	☐ Yes	☒ No

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Schedule R (Form 5500) 2009
v.092308.1

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

- 14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	14a	
b The plan year immediately preceding the current plan year	14b	
c The second preceding plan year	14c	

- 15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	15a	
b The corresponding number for the second preceding plan year	15b	

- 16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	16a	
b If item 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	

- 17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

- 18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

- 19** If the total number of participants is 1,000 or more, complete items (a) through (c)

a Enter the percentage of plan assets held as:
 Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

b Provide the average duration of the combined investment-grade and high-yield debt:
☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

c What duration measure was used to calculate item 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____

KEYSTONE NAZARETH BANK AND TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

PALMER AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
40 SOUTH FOURTH STREET
EASTON, PA 18042

KEYSTONE NAZARETH BANK AND TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Statement of Net Assets Available for Benefits	2
Statement of Changes in Net Assets Available for Benefits	3
Statement of Changes in Net Assets in Liquidation Available for Benefits	4
Notes to Financial Statements	5 - 8
Supplementary Information	9

PALMER AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

To the Administrative Committee of the
KNBT Bancorp., Inc.
Employees' Stock Ownership Plan

We have audited the statement of net assets in liquidation available for benefits of KNBT Bancorp., Inc. - Employees' Stock Ownership Plan as of December 31, 2009 and 2008, and the related statement of changes in net assets in liquidation available for benefits for the year ended December 31, 2009. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1 to the financial statements, the Board of Directors of KNBT Bancorp., Inc., the Plan's sponsor, voted to terminate the Plan as of February 1, 2008. In accordance with accounting principles generally accepted in the United States of America, the Plan has changed its basis of accounting used to determine the amounts at which assets and the accumulated benefit information are stated, from the ongoing plan basis to the liquidation basis for periods after February 1, 2008.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of KNBT - ESOP in liquidation as of December 31, 2009 and 2008, and the changes in its net assets in liquidation for the period from January 1, 2009 to December 31, 2009, in conformity with accounting principles generally accepted in the United States of America applied on the bases described in the preceding paragraph.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in Schedule G-Financial Schedule (IRS Form 5500), together referred to as "supplemental information", are presented for the purpose of additional analysis and are not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of Plan's management. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Easton, Pennsylvania
October 9, 2010

Palmer and Company

KEYSTONE NAZARETH BANK TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS, LIQUIDATION BASIS
DECEMBER 31, 2009 AND 2008

	2009		2008	
	<u>Allocated</u>	<u>Unallocated</u>	<u>Allocated</u>	<u>Unallocated</u>
				<u>Total</u>
ASSETS				
Investment in National Penn Bancshares, Inc.				
Common Stock, at Fair Value	\$ -	\$ -	\$ 2,924,229	\$ 11,204,753
Accrued Investment Income				
Cash and Cash Equivalents	-	-	187,767	485,730
TOTAL ASSETS	<u>-0-</u>	<u>-0-</u>	<u>3,111,996</u>	<u>11,690,483</u>
				<u>673,497</u>
				<u>14,802,479</u>
LIABILITIES				
Loan Payable	-	-	-	13,712,924
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,712,924</u>
NET ASSETS AVAILABLE (DEFICIT) FOR PLAN BENEFITS	<u>-0-</u>	<u>-0-</u>	<u>\$ 3,111,996</u>	<u>\$ (2,022,441)</u>
				<u>\$ 1,089,555</u>

See notes to financial statements.

KEYSTONE NAZARETH BANK TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS, LIQUIDATION BASIS
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2009

	<u>Allocated</u>	<u>Unallocated</u>	<u>Total</u>
ADDITIONS:			
Additions or Deductions to Net Assets Attributed to:			
Dividends	\$ 55,605	\$ -	\$ 55,605
Interest	5,912	-	5,912
(Loss) or Sale of Securities	(1,753,017)		(1,753,017)
Unrealized Holding Loss		(6,556,055)	(6,556,055)
Gain on Extinguishment of Debt	<u>-</u>	<u>9,064,226</u>	<u>9,064,226</u>
 TOTAL ADDITIONS OR (DEDUCTIONS)	 <u>(1,691,500)</u>	 <u>2,508,171</u>	 <u>816,671</u>
DEDUCTIONS:			
Deductions from Net Assets Attributed to:			
Benefits Paid to Participants	1,420,207	-	1,420,207
Administrative Expense	289	-	289
Return of Dividends	<u>-</u>	<u>485,730</u>	<u>485,730</u>
 TOTAL DEDUCTIONS FROM NET ASSETS	 <u>1,420,496</u>	 <u>485,730</u>	 <u>1,906,226</u>
 NET INCREASE (DECREASE)	 (3,111,996)	 2,022,441	 (1,089,555)
NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS			
 BALANCE AT DECEMBER 31, 2008	 <u>3,111,996</u>	 <u>(2,022,441)</u>	 <u>1,089,555</u>
 BALANCE AT DECEMBER 31, 2009	 <u>\$ -0-</u>	 <u>\$ -0-</u>	 <u>\$ -0-</u>

KEYSTONE NAZARETH BANK AND TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. Plan Description and Basis of Presentation

The Keystone Nazareth Bank and Trust Company established the Keystone Nazareth Bank and Trust Company - Employees' Ownership Plan effective as of November 1, 2003. The Plan operates, in relevant part, as a leveraged employee stock ownership plan (ESOP), and is designed to comply with Section 4975(e)(7) and the regulations there under of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is administered by the Sponsor or their appointee. National Penn Investors Trust is the Plan's Trustee.

The Plan purchased Company common shares using the proceeds of bank borrowings (Note 7) guaranteed by the Company. The borrowing is to be repaid over a period of 20 years by fully deductible Company contributions to the trust fund. As the Plan makes each payment of principal and interest, an appropriate percentage of stock will be allocated to eligible employees' accounts in accordance with applicable regulations under the Code. Shares vest fully upon allocation. See Note 7 as to satisfaction of debt.

The borrowing is collateralized by the unallocated shares of stock and is guaranteed by the Company. The lender has no rights against shares once they are allocated under the ESOP. Accordingly, the financial statements of the Plan as of December 31, 2009 and 2008 present separately the assets and liabilities and changes therein on a liquidation basis pertaining to:

- (a) The accounts of employees with vested rights in allocated stock (allocated) and;
- (b) Stock not yet allocated to employees (unallocated).

Employees will be eligible to participate in the Plan if they have completed one (1) year of Eligibility Service and attained the age of twenty-one (21).

The employee will have completed a Year of Service if, at the end of their first twelve consecutive months of employment with the Sponsor, they have been credited with at least 1,000 Hours of Service. If they have not been credited with at least 1,000 Hours of Service by the end of their first twelve consecutive months of employment, they will have completed a Year of Service at the end of any following Plan Year during which they were credited with at least 1,000 Hours of Service. The employee must be employed with the employer on the last day of the plan year.

KEYSTONE NAZARETH BANK AND TRUST COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. Plan Description and Basis of Presentation (Cont'd)

Vesting percentages are as follows:

<u>Years</u> <u>of Service</u>	<u>2009</u> <u>Vesting</u> <u>Percentage</u>
2	0
3	20
4	40
5	60
6	80
7 or more	100

Forfeiture balances are allocated to eligible participants in the plan.

No distributions from the Plan will be made until a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, his or her legal representatives), or otherwise terminates employment with the Company. Distributions are made in the form of Company common shares plus cash for any fractional share or in cash if the participant so elects by written request.

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. Trustee is permitted to vote any share for which instructions have not been given by a participant.

The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon such termination of the plan, all participants shall become immediately fully vested. The employer shall direct the Trustee either (1) to continue to manage and administer the assets of the Trust for the benefit of the participants or (2) to pay over to each participant, the value of his/her vested interest, and thereupon dissolve the Trust.

KEYSTONE NAZARETH BANK AND TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. Plan Description and Basis of Presentation (Cont'd)

National Penn Bancshares, Inc. acquired the controlling interest in KNBT Bancorp., Inc., the holding company of KNBT as of February 1, 2008. KNBT made application to terminate the ESOP effective February 1, 2008. Following a favorable approval from the Internal Revenue Service for the Plan to liquidate in September 2009, the loan balance totaling \$13,712,924 as of September 25, 2009 was extinguished by surrendering 772,209 shares of National Penn Bancshares Inc. stock with a market value of \$6.02 per share or a total of \$4,648,698.

A summary of the Plan is available to all participants outlining allocating and vesting provisions and the disposition of forfeitures.

2. Summary of Significant Accounting Principles

Basis of Accounting

The financial statements of the Plan are prepared using the liquidation method of accounting for years 2009 and 2008.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investment Valuation and Income Recognition

The common shares of the Company are valued at fair value on December 31, 2008 as determined by a year-end stock analysis report and various dates for year 2009..

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported at time of sale based on average cost method.

3. Operating Expenses

Administrative expenses relating to the Plan were paid by the Plan for 2009 and the Sponsor for 2008.

KEYSTONE NAZARETH BANK AND TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

4. Tax Status

The Plan received a favorable determination letter dated March 5, 2005 with the Internal Revenue Service.

5. Administration of Plan Assets

The Plan's assets, which consisted principally of National Penn Bancshares, Inc. Common shares, are held by the Trustee of the Plan. As a result of the termination all allocated shares were distributed to members and unallocated shares surrendered to National Penn Bancshares, Inc. in settlement of the loan.

Company contributions are held and managed by the Trustee, which invests cash received, interest, and dividends income and makes distributions to participants. The Trustee also administers the payment of interest and principal on the loan, which is reimbursed to the Trustee through contributions as determined by the Company.

Certain administrative functions are performed by officers or employees of the Company. No such officer or employee receives compensation from the plan.

6. Investments

The Plan's investments in Sponsor Company common shares at December 31, 2009 and 2008 are as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Allocated</u>	<u>Unallocated</u>	<u>Allocated</u>	<u>Unallocated</u>
National Penn Bancshares, Inc.				
Common Shares:				
Number Shares	0	0	201,532	772,209
Cost	0	0	3,331,311	12,756,356
Market	0	0	2,924,229	11,204,753

As of February 1, 2008, KNBT was acquired by National Penn Bancshares, Inc. by merger. Shares in the ESOP totaling 945,380 of KNBT were exchanged for 973,741 shares of National Penn Bancshares, Inc.

KEYSTONE NAZARETH BANK AND TRUST COMPANY
EMPLOYEES' STOCK OWNERSHIP PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

7. Loans Payable

In 2003, the Plan entered into a \$16,160,935 term loan agreement with KNBT Bancorp., Inc. The proceeds of the loan were used to purchase Company's common stock. Unallocated shares are collateral for the loan. The agreement provides for the loan to be repaid over twenty years. In September 2009, the lender satisfied the balance due on the loan by the surrender of the unallocated shares of stock due to termination of the Plan.

8. Employer Contributions

The Company is obligated to make contributions in cash to the Plan which, when aggregated with the Plan's dividends and interest earnings, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan. However, in 2009 and 2008 no contributions in cash were received.

SUPPLEMENTARY INFORMATION

Supplementary Information to Form 5500
December 31, 2009

1. Assets held for investment purposes:

Common Stock (Sponsor) Fair Value	\$ -
Other Assets	-
Total	<u>None</u>

2. Reportable transactions:

Party Involved:	National Penn Bancshares, Inc.	
Description of Asset:	Cash Management Account	Fidelity Prime Market Account
Purchases:	\$620,845	\$941,277
Sales:	\$2,759	\$941,277
Net Gain or Loss:	None	None

3. Plan Name: Keystone Nazareth Bank and Trust Employee Stock Ownership Plan
Employer I.D. #: 24-0217843 Plan Number: 003

<u>Identity</u>	<u>Description</u>	<u>Value</u>
National Penn Bancshares, Inc.	Common Stock	\$ -
	Other Assets	-
	Total Assets	None
Unallocated Assets	KNBT Bancorp., Inc. - Loan payable	-
	Grand Total	<u>None</u>

All assets were distributed and the trust terminated as of December 31, 2009.

Schedule H, line 4j - Schedule of Reportable Transactions

Plan Name: KNBT Bancorp, Inc. Employee Stock Ownership Plan

Employer I.D. #: 38-3681905

Plan Number: 003

(a) Identity of party involved	(b) Description of asset (including interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)
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Schedule of Reportable Transactions is contained in the attached audit report.

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), and 6058(a) of the Internal Revenue Code (the Code). Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2009 This Form is Open to Public Inspection
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Part I Annual Report Identification Information		
For calendar plan year 2009 or fiscal plan year beginning <u>01/01/2009</u> and ending <u>12/31/2009</u>		
A This return/report is for:	☐ a multiemployer plan; ☐ a multiple-employer plan; or ☒ a single-employer plan; ☐ a DFE (specify) _____	
B This return/report is:	☐ the first return/report; ☒ the final return/report; ☐ an amended return/report; ☐ a short plan year return/report (less than 12 months).	
C If the plan is a collectively-bargained plan, check here:	☐	
D Check box if filing under:	☒ Form 5558; ☐ automatic extension; ☐ the DFVC program; ☐ special extension (enter description) _____	

Part II Basic Plan Information—enter all requested information		
1a Name of plan <u>KNBT Bancorp, Inc. Employee Stock Ownership Plan</u>	1b Three-digit plan number (PN) ▶	<u>003</u>
	1c Effective date of plan	<u>01/01/2003</u>
2a Plan sponsor's name and address (employer, if for a single-employer plan) (Address should include room or suite no.) <u>National Penn Bancshares, Inc.</u> <u>90 Highland Avenue</u> <u>Bethlehem</u> <u>PA 18017</u>	2b Employer Identification Number (EIN)	<u>38-3681905</u>
	2c Sponsor's telephone number	<u>(610) 861-7806</u>
	2d Business code (see instructions)	<u>522110</u>

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

 Signature of plan administrator	<u>10-12-10</u> Date	<u>Paul Fistner</u> Enter name of individual signing as plan administrator
 Signature of employer/plan sponsor	<u>10-12-10</u> Date	<u>PAUL FISTNER</u> Enter name of individual signing as employer or plan sponsor
SIGN HERE Signature of DFE	Date	Enter name of individual signing as DFE

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Form 5500 (2009)
v.092307.1

3a Plan administrator's name and address (if same as plan sponsor, enter "Same") SAME		3b Administrator's EIN 3c Administrator's telephone number
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name		4b EIN 4c PN
5 Total number of participants at the beginning of the plan year	5	748
6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a, 6b, 6c, and 6d).		
a Active participants.....	6a	0
b Retired or separated participants receiving benefits.....	6b	0
c Other retired or separated participants entitled to future benefits.....	6c	0
d Subtotal. Add lines 6a, 6b, and 6c.....	6d	0
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.....	6e	0
f Total. Add lines 6d and 6e.....	6f	0
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item).....	6g	0
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested.....	6h	0
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7	
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristic Codes in the instructions: <div style="display: flex; justify-content: space-between; width: 100%;"> 2P 3I </div>		
b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristic Codes in the instructions:		

9a Plan funding arrangement (check all that apply)	9b Plan benefit arrangement (check all that apply)
(1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	(1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)	
a Pension Schedules	b General Schedules
(1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☐ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	(1) ☒ H (Financial Information) (2) ☐ I (Financial Information - Small Plan) (3) ☐ A (Insurance Information) (4) ☐ C (Service Provider Information) (5) ☐ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)