UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 05, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Commission File number 0-7617

Univest Corporation of Pennsylvania
(Exact name of registrant as specified in its charter)

Pennsylvania *(State or other jurisdiction of incorporation of organization)*	**23-1886144** *(IRS Employer Identification No.)*
14 North Main Street **Souderton, Pennsylvania** *(Address of principal executive offices)*	**18964** *(Zip Code)*

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

Securities registered pursuant to Section 12(g) of the Act:

Title of Class	Number of shares outstanding at 1/31/10
Common Stock, $5 par value	16,561,964

Securities registered pursuant to Section 12(b) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

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

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

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $244,079,202 as of June 30, 2009 based on the June 30, 2009 closing price of the Registrant s Common Stock of $20.26 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part I and Part III incorporate information by reference from the proxy statement for the annual meeting of shareholders on April 20, 2010.

UNIVEST CORPORATION OF PENNSYLVANIA

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PART I

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

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

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

Item 1. *Business*

General

Univest Corporation of Pennsylvania, (the Corporation), is a Pennsylvania corporation organized in 1973 and registered as a bank holding company pursuant to the Bank Holding Company Act of 1956. The Corporation elected to become a Financial Holding Company in 2000 as provided under Title I of the Gramm-Leach-Bliley Act. It owns all of the capital stock of Univest National Bank and Trust Company (the Bank), Univest Realty Corporation, Univest Delaware, Inc., and Univest Reinsurance Corporation. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation s and the Bank s legal headquarters are located at 14 North Main Street, Souderton, PA 18964.

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

Univest Realty Corporation was established to obtain, hold and operate properties for the holding company and its subsidiaries.

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

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

Univest Investments, Inc., Univest Insurance, Inc., Univest Capital, Inc. and Univest Reinsurance Corporation were formed to enhance the traditional banking and trust services provided by the Bank.

Univest Investments, Univest Insurance, Univest Capital and Univest Reinsurance do not currently meet the quantitative thresholds for separate disclosure as a business segment. Therefore, the Corporation currently has one reportable segment, Community Banking, and strategically is how the Corporation operates and has positioned itself in the marketplace. The Corporation s activities are interrelated, each activity is dependent, and performance is assessed based on how each of these activities supports the others. Accordingly, significant operating decisions are based upon analysis of the Corporation as one Community Banking operating segment.

As of December 31, 2009, the Corporation had total assets of $2.1 billion, total loans and leases of $1.4 billion, total deposits of $1.6 billion and total shareholders equity of $267.8 million.

Employees

As of December 31, 2009, the Corporation and its subsidiaries employed five hundred and thirty-six (536) persons. None of these employees are covered by a collective bargaining agreement and the Corporation believes it enjoys good relations with its personnel.

Competition

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

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

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

Supervision and Regulation

The Bank is subject to supervision and is regularly examined by the Office of the Comptroller of the Currency. Also, the Bank is subject to examination by the Federal Deposit Insurance Corporation.

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

The Corporation elected to become a Financial Holding Company in 2000 as provided under Title I of the Gramm-Leach-Bliley Act (the Act). The Act provides a regulatory framework for regulation through the financial holding company, which has the Board as its umbrella regulator. The Gramm-Leach-Bliley Act requires satisfactory or higher Community Reinvestment Act compliance for insured depository institutions and their financial holding companies in order for them to engage in new financial activities. The Act provides a federal right to privacy of non-public personal information of individual customers.

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX was enacted to address corporate and accounting fraud. SOX adopts new standards of corporate governance and imposes additional requirements on the board of directors and management of public companies. SOX law also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports

filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal controls over financial reporting, identify any material weaknesses in its internal controls over financial reporting and assert that such internal controls are effective. The Corporation has continued to be in compliance with SOX 404 during 2009. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation s Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

Credit and Monetary Policies

The Bank is affected by the fiscal and monetary policies of the federal government and its agencies, including the Federal Reserve Board of Governors. An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The Board uses its powers to regulate reserve requirements of member banks, the discount rate on member-bank borrowings, interest rates on time and savings deposits of member banks, and to conduct open-market operations in United States Government securities to exercise control over the supply of money and credit. The policies have a direct effect on the amount of bank loans and deposits and on the interest rates charged on loans and paid on deposits, with the result that the policies have a material effect on bank earnings. Future policies of the Board and other authorities cannot be predicted, nor can their effect on future bank earnings.

The Bank is a member of the Federal Home Loan Bank System (FHLBanks), which consists of 12 regional Federal Home Loan Banks, and is subject to supervision and regulation by the Federal Housing Finance Board. The FHLBanks provide a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank of Pittsburgh (FHLB), is required to acquire and hold shares of capital stock in the FHLB in an amount equal to: 1) not less than 4.5% and not more than 6.0% of its outstanding FHLB loans and 2) at least a certain percentage of its unused borrowing capacity, not to exceed 1.5%. In December 2008, the FHLB suspended its dividends and the repurchase of capital stock due to capital compliance requirements. At December 31, 2009, the Bank owned $7.4 million in FHLB capital stock.

The deposits of the Bank are insured under the Federal Deposit Insurance Corporation (FDIC) up to applicable limits. Under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default the other banks may be assessed for the FDIC s loss, subject to certain exceptions. Presently, the Bank has affiliates but none of them is a separate banking institution. The Bank has been required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. On September 28, 2009, the FDIC Board proposed an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund which was finalized in the Fourth Quarter of 2009. The prepaid amount was collected on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. This assessment was based on an estimated 5% annual growth rate in deposits during 2010, 2011 and 2012; and a 3 basis-point increase in the base assessment rate at September 30, 2009 to be applied in 2011 and 2012. The Bank paid $9.0 million to the FDIC on December 30, 2009 of which $8.4 million will remain in a prepaid asset account. The prepaid amount of $8.4 million has a zero percent risk-weighting for risk-based capital ratio calculations. The prepaid amount will be expensed over the 2010 through 2012 period as the actual FDIC assessments are determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.

Statistical Disclosure

Univest Corporation of Pennsylvania and its subsidiaries Univest National Bank and Trust Co., Univest Insurance, Inc., Univest Capital, Inc., Univest Investments, Inc. and TCG Investment Advisory, provide Financial Solutions to individuals, businesses, municipalities and nonprofit organizations. Univest

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Corporation prides itself on being a financial organization that continues to increase its scope of services while maintaining traditional beliefs and a determined commitment to the communities it serves. Over the past five years Univest Corporation and its subsidiaries have experienced steady and stable growth, both organically and through various acquisitions to be the best integrated financial solutions provider in the market. The acquisitions included:

B. G. Balmer and Co. on July 28, 2006

Liberty Benefits, Inc. on December 29, 2008

Trollinger Consulting Group

TC Group Securities Company, Inc. on December 31, 2008

Allied Benefits Group, LLC on December 31, 2008

TCG Investment Advisory Inc. on December 31, 2008

In addition to these acquisitions, in May 2006, the Bank entered into the small ticket commercial leasing business through its newly formed subsidiary Vanguard Leasing, Inc., which is incorporated under Pennsylvania law. In February 2008, Vanguard Leasing, Inc. changed its name to Univest Capital, Inc.

Securities and Exchange Commission Reports

The Corporation makes available free-of-charge its reports that are electronically filed with the Securities and Exchange Commission (SEC) including its Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports on its website as a hyperlink to EDGAR. These reports are available as soon as reasonably practicable after the material is electronically filed. The Corporation s website address is www.univest.net. The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2009 to each shareholder who requests one in writing after March 31, 2010. Requests should be directed to: Karen E. Tejkl, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 64197, Souderton, PA 18964.

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

Item 1A. *Risk Factors*

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

Risks Relating to Recent Economic Conditions and Governmental Response Efforts

The Corporation s earnings are impacted by general business and economic conditions.

The Corporation s operations and profitability are impacted by general business and economic conditions; these conditions include long-term and short-term interest rates, inflation, money supply, political issues, legislative and

regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control.

Our results of operations are affected by conditions in the capital markets and the economy generally. The capital and credit markets have experienced extreme volatility and disruption for more than twelve months. The volatility and disruption in these markets have produced downward pressure on stock prices of, and credit availability to, certain companies without regard to those companies underlying financial

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strength. This has resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. The U.S. and global economies are in steep decline. Monetary and fiscal policies are loosening around the world to varying degrees most aggressively in the United States but they are battling against an extreme credit crunch, and will take time to become effective. These factors, combined with declining business and consumer confidence, dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures, and rising unemployment have precipitated an economic slowdown and induced fears of a prolonged recession.

We cannot predict the effect of recent legislative and regulatory initiatives.

The U.S. federal, state and foreign governments have taken or are considering extraordinary actions in an attempt to deal with the worldwide financial crisis and the severe decline in the global economy. To the extent adopted, many of these actions have been in effect for only a limited time, and have produced limited or no relief to the capital, credit and real estate markets. There is no assurance that these actions or other actions under consideration will ultimately be successful.

In the United States, the federal government has adopted the Emergency Economic Stabilization Act of 2008 (enacted on October 3, 2008) (EESA) and the American Recovery and Reinvestment Act of 2009 (enacted on February 17, 2009) (ARRA). With authority granted under these laws, the Treasury has proposed a financial stability plan that is intended to:

- provide for the government to invest additional capital into banks and otherwise facilitate bank capital formation;
- increase the limits on federal deposit insurance; and
- provide for various forms of economic stimulus, including to assist homeowners restructure and lower mortgage payments on qualifying loans.

In many cases, full implementation of the laws will require the adoption of regulations and program parameters. Other laws, regulations, and programs at the federal, state and even local levels are under consideration that address the economic climate and/or the financial services industry. The full effect of these initiatives cannot be predicted. Compliance with such initiatives may increase our costs and limit our ability to pursue business opportunities. Although we did not participate in the U.S. Treasury s Capital Purchase Program, future participation in specific programs may subject us to additional restrictions. In addition, we are required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

There can be no assurance that these initiatives will improve economic conditions generally or the financial markets or financial services industry in particular. The failure of EESA, ARRA and the financial stability plan to stabilize the financial markets could materially adversely affect our ability to access the capital and credit markets, our business, financial condition, results of operations and the market price for our common stock.

Regulatory initiatives by the government could increase our costs of doing business and adversely affect our results of operations and financial condition.

Recent government responses to the condition of the global financial markets and the banking industry has, among other things, increased our costs significantly and may further increase our costs for items such as federal deposit insurance and increased capital requirements. The FDIC insures deposits at FDIC-insured financial institutions,

including our Bank up to applicable limits. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Pursuant to federal law enacted in 2009, the standard maximum deposit insurance amount has been increased to $250,000 per depositor through December 31, 2013, after which it would revert to a $100,000 per depositor level unless additional federal legislation is adopted to provide otherwise. Certain retirement accounts such as Individual Retirement Accounts are insured up to $250,000 per depositor per insured

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institution. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC would pay all deposits of a failed bank up to the insured amount from the Deposit Insurance Fund. In December 2008, the FDIC adopted a rule that would increase premiums paid by insured institutions and make other changes to the assessment system. Increases in deposit insurance premiums could adversely affect our net income. We may also become subject to additional federal legislation and regulation that could force us to change a number of our historical practices, limit the fees we may charge or restrict our ability to attract and maintain our executive officers.

We borrow from the Federal Home Loan Bank and the Federal Reserve, and there can be no assurance these programs will continue in their current manner.

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

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

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

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

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

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

Risks Related to Our Market and Business

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

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

The Corporation operates in a highly competitive industry and market area.

We face substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including commercial banks, community banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit-gathering services offered by us. Increased competition in our markets may result in reduced loans and deposits.

Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to offer competitive products and services, our business may be negatively affected.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

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

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

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

We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the

impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity.

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Our acquisition activities could involve a number of additional risks, including the risks of:

incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management s attention being diverted from the operation of our existing business;

using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;

the time and expense required to integrate the operations and personnel of the combined businesses;

creating an adverse short-term effect on our results of operations; and

losing key employees and customers as a result of an acquisition that is poorly received.

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

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

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

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

Our profitability depends in part on our success in attracting and retaining a stable base of low-cost deposits. As of December 31, 2009, 15.5% of our deposit base was comprised of noninterest bearing deposits, of which 12.4% consisted of business deposits, which are primarily operating accounts for businesses, and 3.1% consisted of consumer deposits. While we generally do not believe these core deposits are sensitive to interest rate fluctuations, the competition for these deposits in our markets is strong and customers are increasingly seeking investments that are safe, including the purchase of U.S. Treasury securities and other government-guaranteed obligations, as well as the establishment of accounts at the largest, most-well capitalized banks. If we were to lose a significant portion of our low-cost deposits, it would negatively impact our liquidity and profitability.

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

While the Corporation has policies and procedures designed to prevent or limit the effect of any failure, interruption, or breach in our security systems, there can be no assurance that any such failures will not occur and, if they do occur, that they will be adequately addressed. As a result, the occurrence of any such failures, interruptions, or breaches in security could expose the Corporation to reputation risk, civil litigation, regulatory scrutiny and possible financial liability that could have a material adverse effect on our financial condition.

The Corporation continually encounters technological change.

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

The Corporation is subject to claims and litigation.

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

External events could impact the Corporation.

Natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation s ability to conduct business. Our management has established disaster recovery policies and procedures that are expected to mitigate events related to natural or man-made disasters; however, the impact of an overall economic decline resulting from such a disaster could have a material adverse effect on the Corporation s financial condition.

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

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

Risks Related to the Banking Industry

The Corporation is subject to interest rate risk.

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

Net interest income may decline in a particular period if:

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

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

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable

rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

The Corporation is subject to lending risk.

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

As of December 31, 2009, approximately 78.0% of our loan and lease portfolio consisted of commercial, industrial, construction, and commercial real estate loans and leases; these are generally perceived as having more risk of default than residential real estate and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers ability to repay their loans depends on successful development of their properties, as well as the factors affecting residential real estate borrowers. An increase in non-performing loans and leases could result in a net loss of earnings from these loans and leases, an increase in the provision for possible loan and lease losses, and an increase in loan and lease charge-offs. The risk of loan and lease losses will increase if the economy worsens.

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) and the availability of permanent take-out financing. 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.

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

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

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

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

If the evaluation we perform in connection with establishing loan and lease loss reserves is wrong, our allowance for loan and lease losses may not be sufficient to cover our losses, which would have an adverse effect on our operating results. Due to the volatile economy, we cannot assure you that we will not experience an increase in delinquencies

and losses as these loans continue to mature.

The federal regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may from time to time require us to increase our allowance for loan and lease losses, thereby negatively affecting our financial condition and earnings at that time. Moreover, additions to the allowance may be

necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control.

The loan and lease provision for the year ended December 31, 2009 was $20.9 million as opposed to $8.8 million for the same period of 2008. The increase in the provision for loan and lease losses was due to the deterioration of underlying collateral and economic factors. This resulted in the migration of loans to a higher risk category and increased specific reserves on impaired loans to $1.4 million at December 31, 2009 from $36 thousand at December 31, 2008. Additionally, nonaccrual loans and leases and restructured loans increased to $37.1 million at December 31, 2009 from $5.4 million at December 31, 2008. There can be no assurance that conditions will improve in the near term or that we will maintain our current provisions for loan and lease losses.

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

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

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

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

The Corporation is subject to extensive government regulation and supervision.

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

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America and the General Assembly of the Commonwealth of Pennsylvania. We can provide no assurance regarding the manner in which any new laws and regulations will affect us.

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Consumers may decide not to use banks to complete their financial transactions.

The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams could have an adverse effect on our financial condition and results of operation.

Risks Related to Our Common Stock and Common Stock Offerings

An investment in the Corporation s common stock is not an insured deposit.

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

The Corporation has broad discretion in applying the net proceeds from offerings.

The Corporation intends to use the net proceeds from offerings for general corporate purposes, which may include the funding of additional contributions to the capital of the Bank. We will have significant flexibility in applying the net proceeds of offerings. Our failure to apply these funds effectively could adversely affect our business by reducing its return on equity and inhibiting our abilities to expand and/or raise additional capital in the future.

The Corporation s stock price can be volatile.

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

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

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

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

A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock,

significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

Anti-takeover provisions could negatively impact our shareholders.

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

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

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

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

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

Item 1B. *Unresolved Staff Comments*

Univest Corporation may receive written comments from the staff of the SEC regarding its periodic or current reports under the Exchange Act. There are no comments that remain unresolved that Univest Corporation received not less than 180 days before the end of its fiscal year to which this report relates.

Item 2. *Properties*

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

The Corporation owns its corporate headquarters building, which is shared with the Bank and Univest Investments, Inc., in Souderton, Montgomery County. Univest Investments, Inc. also occupies a location in Allentown, Lehigh

County. Univest Insurance, Inc. occupies three locations of which two are owned by the Bank, one in Lansdale, Montgomery County and one in West Chester, Chester County; and one is leased in Upper Marlboro, Prince Georges County in Maryland. Univest Capital, Inc. occupies one leased location

in Bensalem, Bucks County. The Bank serves the area through its thirty traditional offices and two supermarket branches that offer traditional community banking and trust services. Fifteen banking offices are located in Montgomery County, of which ten are owned, two are leased and three are buildings owned on leased land; seventeen banking offices are located in Bucks County, of which five are owned, nine are leased and two are buildings owned on leased land. The Bank has two additional regional leased offices primarily used for loan productions one of which is located in Bucks County and one in Lehigh County.

Additionally, the Bank provides banking and trust services for the residents and employees of twelve retirement home communities, offers a payroll check cashing service at one work site office and offers merchants an express banking center located in the Montgomery Mall. The work site office and the express banking center are located in Montgomery County. The Bank has seven off-premise automated teller machines located in Montgomery County. The Bank provides banking services nationwide through the internet via its website www.univestdirect.com.

Item 3. ***Legal Proceedings***

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

Not applicable.

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PART II

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

The Corporation s common stock is traded on the NASDAQ Global Select Market under the symbol UVSP. At December 31, 2009, Univest had 4,396 stockholders.

StockTrans, Inc. serves as the Corporation s transfer agent to assist shareholders in managing their stock. StockTrans, Inc. is located at 44 West Lancaster Avenue, Ardmore, PA. Shareholders can contact a representative by calling 610-649-7300.

Range of Market Prices

The following table shows the range of market values of the Corporation s stock. The prices shown on this page represent transactions between dealers and do not include retail markups, markdowns, or commissions.

Market Price

2009	**High**	**Low**
January March	**$ 33.50**	**$ 16.19**
April June	**21.99**	**17.50**
July September	**26.87**	**19.00**
October December	**21.85**	**15.14**

2008	**High**	**Low**
January March	$ 27.00	$ 19.09
April June	29.89	19.85
July September	38.99	19.70
October December	36.10	25.01

Cash Dividends Paid Per Share

2009	
January 2	**$ 0.20**
April 1	**0.20**
July 1	**0.20**
October 1	**0.20**
For the Year 2009	**$ 0.80**

2008

January 2	$ 0.20
April 1	0.20
July 1	0.20
October 1	0.20
For the Year 2008	$ 0.80

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Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation s common stock during the five years ended December 31, 2009, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100.00 was invested on December 31, 2004, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

Comparison of Cumulative Total Return on
$100 Investment Made on December 31, 2004

Five Year Cumulative total return Summary

	2004	2005	2006	2007	2008	2009
Univest Corporation	**100.00**	**117.90**	**151.86**	**109.16**	**170.34**	**97.15**
NASDAQ Stock Market (US)	**100.00**	**167.08**	**184.35**	**203.94**	**122.77**	**178.10**
NASDAQ Banks	**100.00**	**144.47**	**164.19**	**131.98**	**103.99**	**86.92**

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Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and shares under the equity compensation plan, Univest 2003 Long-term Incentive Plan , as of December 31, 2009:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)
Equity compensation plan approved by security holders	405,532	$ 23.37	967,639
Equity compensation plans not approved by security holders			
Total	405,532	$ 23.37	967,639

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2009:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Oct. 1, 2009 Oct. 31, 2009		$		643,782
Nov. 1, 2009 Nov. 30, 2009				643,782
Dec. 1, 2009 Dec. 31, 2009				643,782
Total				

1. Transactions are reported as of settlement dates.

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

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

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

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

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

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

	Years Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(Dollars in thousands, except per share data and ratios)				
Earnings					
Interest income	**$ 96,359**	$ 108,057	$ 116,144	$ 104,853	$ 85,290
Interest expense	**28,723**	42,310	54,127	43,651	26,264
Net interest income	**67,636**	65,747	62,017	61,202	59,026
Provision for loan and lease losses	**20,886**	8,769	2,166	2,215	2,109
Net interest income after provision for loan and lease losses	**46,750**	56,978	59,851	58,987	56,917
Noninterest income	**29,917**	26,615	27,268	25,730	22,656
Noninterest expense	**65,324**	57,225	52,211	49,958	45,796
Net income before income taxes	**11,343**	26,368	34,908	34,759	33,777
Applicable income taxes	**563**	5,778	9,351	9,382	8,910
Net income	**$ 10,780**	$ 20,590	$ 25,557	$ 25,377	$ 24,867
Financial Condition at Year End					
Cash, interest-earning deposits and federal funds sold	**$ 68,597**	$ 40,066	$ 59,385	$ 70,355	$ 59,439
Investment securities	**420,045**	432,266	415,465	374,814	336,612
Net loans and leases	**1,401,182**	1,436,774	1,342,356	1,340,398	1,236,289
Assets	**2,085,421**	2,084,797	1,972,505	1,929,501	1,769,309
Deposits	**1,564,257**	1,527,328	1,532,603	1,488,545	1,366,715
Long-term obligations	**30,684**	120,006	114,453	107,405	88,449
Shareholders equity	**267,807**	203,207	198,726	185,385	173,080
Per Common Share Data					
Average shares outstanding	**14,347**	12,873	12,885	12,960	12,867
Earnings per share basic	**$ 0.75**	$ 1.60	$ 1.98	$ 1.96	$ 1.93
Earnings per share diluted	**0.75**	1.60	1.98	1.95	1.91
Dividends declared per share	**0.80**	0.80	0.80	0.78	0.72
Book value	**16.27**	15.71	15.49	14.25	13.37
Dividend payout ratio	**109.33%**	50.03%	40.40%	40.00%	37.54%
Profitability Ratios					
Return on average assets	**0.52%**	1.02%	1.32%	1.38%	1.46%
Return on average equity	**4.68**	10.09	13.44	14.04	14.87

Average equity to average assets	**11.06**	10.08	9.84	9.81	9.83

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

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

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

Critical Accounting Policies

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

The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment in the statement of operations and statement of financial condition for market value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management s intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that either statement of financial position or statement of operations adjustments may be required. Management evaluates debt securities, which comprise of 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 highly 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 credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that certain equity securities will not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment and the Corporation s positive intent and ability to hold these securities until recovery to the Corporation s cost basis occurs.

Reserves for loan and lease losses are provided using techniques that specifically identify losses on impaired loans and leases, estimate losses on pools of homogeneous loans and leases, and estimate the

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amount of unallocated reserve necessary to account for losses that are present in the loan and lease portfolio but not yet currently identifiable. The adequacies of these reserves are sensitive to changes in current economic conditions that may affect the ability of borrowers to make contractual payments as well as the value of the collateral committed to secure such payments. Rapid or sustained downturns in the economy may require increases in reserves that may negatively impact the Corporation s results of operation and statements of financial condition in the periods requiring additional reserves.

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. Goodwill and other intangible assets are reviewed for potential impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation employs general industry practices in evaluating the fair value of its goodwill and other intangible assets. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units, which are generally the Bank, Univest Investments and Univest Insurance. After this allocation is completed, a two-step valuation process is applied, as required by ASC Topic 805. For the Bank, in Step 1, fair value is determined based on a market approach, which measures fair value based on trading multiples of independent publicly traded financial institutions of comparable sizes. If the fair value of the Bank exceeds its adjusted book value, no write-down of goodwill is necessary. If the fair value of any reporting unit is less than its adjusted book value, a Step 2 valuation procedure is required to assess the proper carrying value of the goodwill. The valuation procedures applied in a Step 2 valuation are similar to those that would be performed upon an acquisition, with the Step 1 fair value representing a hypothetical reporting unit purchase price. If the current market value does not exceed the net book value, impairment exists which requires an impairment charge to noninterest expense.

In its analysis of goodwill for Univest Insurance, Inc. and Univest Investments, Inc., the Corporation utilizes a net present value of cash flows of projected net income based on the compound annual growth rate of equity and a discount rate. The discount rate is calculated by utilizing the cost of equity and the cost of debt methods. The fair value that is calculated is compared to the net book value of each company. If the fair value exceeds the net book value, no impairment exists. If the fair value of any reporting unit is less than its adjusted book value, a Step 2 valuation procedure is required to assess the proper carrying value of the goodwill. The valuation procedures applied in a Step 2 valuation are similar to those that would be performed upon an acquisition, with the Step 1 fair value representing a hypothetical reporting unit purchase price. If the current market value does not exceed the net book value, impairment exists which requires an impairment charge to noninterest expense.

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

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

serviced.

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

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

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

Readers of the Corporation s financial statements should be aware that the estimates and assumptions used in the Corporation s current financial statements may need to be updated in future financial presentations for changes in circumstances, business or economic conditions in order to fairly represent the condition of the Corporation at that time.

Results of Operations Overview

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

The principal component of earnings for the Corporation is net interest income, which is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The net interest margin, which is the ratio of net interest income to average earning assets, is affected by several factors including market interest rates, economic conditions, loan and lease demand, and deposit activity. The Corporation maintains a relatively neutral interest rate risk profile and does not anticipate that the decrease in interest rates would be materially adverse to its net interest margin. The Corporation seeks to maintain a steady net interest margin and consistent growth of net interest income.

The Corporation s consolidated net income and earnings per share as of the dates indicated:

	For the Years Ended December 31,		
	2009	**2008**	**2007**
Net income	**$ 10,780**	$ 20,590	$ 25,557
Net income per share:			
Basic	**0.75**	1.60	1.98
Diluted	**0.75**	1.60	1.98

2009 versus 2008

The 2009 results compared to 2008 include the following significant pretax components:

Net interest income increased due to volume increases on average interest-earning assets and decreases in rates on interest-bearing liabilities. This growth was partially offset by volume increases on interest-bearing liabilities along with decreases in rate on interest-earning assets. The net interest margin on a tax-equivalent basis increased slightly to 3.79% from 3.75%.

The provision for loan and lease losses increased by $12.1 million primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors.

Total noninterest income increased by $3.3 million or 12.4% due primarily to increased mortgage-banking activities, and increased investment advisory commission and fee income and insurance commission and fee income resulting from the Trollinger and Liberty acquisitions. These increases were partially offset by decreases in bank owned life insurance income, trust fees and increases in other than temporary impairments on equity securities and other long-lived assets.

Total noninterest expense increased $8.1 million or 14.2% primarily due to increases in salaries and benefits expense resulting from growing the mortgage-banking business and the Trollinger and Liberty acquisitions, and higher deposit insurance premiums.

2008 versus 2007

The 2008 results compared to 2007 include the following significant pretax components:

Net interest income increased due to volume increases on average interest-earning assets. This growth was partially offset by volume increases on interest-bearing liabilities along with decreases in rates on interest-earning assets. The net interest margin on a tax-equivalent basis increased slightly to 3.75% from 3.71%.

The provision for loan and lease losses increased by $6.6 million due primarily to charge-offs of $9.3 million.

Total noninterest income decreased by $653 thousand or 2.4% due primarily to an impairment charge on equity investments of $1.3 million, decreases in investment advisory commission and fee income, and service charges on deposit accounts, which was partially offset by an increase in bank owned life insurance income of $1.3 million.

Total noninterest expense increased $5.0 million or 9.6% primarily due to increases in salaries and benefits expense and marketing and advertising expense.

Acquisitions

On December 29, 2008, the Corporation completed the acquisition of Liberty Benefits, Inc., a full service employee benefits brokerage and consulting firm specializing in providing comprehensive employee benefits packages to businesses both large and small. The Corporation recorded $2.8 million in goodwill and $740 thousand in customer related intangibles as a result of the Liberty Benefits, Inc. acquisition. On December 31, 2008, the Corporation completed the acquisition of the Trollinger Consulting

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

Results of Operations 2009 Versus 2008

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 years ended December 31, 2009 compared to 2008. 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 Asset/Liability Management and Investment Committee works to maintain an adequate and stable net interest margin for the Corporation.

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Table 1 Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential for 2009 versus 2008

	For the Year Ended December 31,					
	2009			2008		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 5,645**	**$ 16**	**0.28%**	$ 1,040	$ 16	1.54%
U.S. Government obligations	**110,781**	**3,608**	**3.26**	99,547	4,617	4.64
Obligations of states and political subdivisions	**104,481**	**6,890**	**6.59**	94,549	6,305	6.67
Other debt and equity securities	**218,660**	**10,406**	**4.76**	232,715	12,145	5.22
Federal funds sold	**58**			14,714	394	2.68
Total interest-earning deposits, investments and federal funds sold	**439,625**	**20,920**	**4.76**	442,565	23,477	5.30
Commercial, financial and agricultural loans	**410,729**	**18,838**	**4.59**	385,652	23,849	6.18
Real estate-commercial and construction loans	**521,029**	**30,549**	**5.86**	481,016	31,741	6.60
Real estate-residential loans	**291,229**	**13,520**	**4.64**	309,307	16,019	5.18
Loans to individuals	**49,930**	**3,440**	**6.89**	62,813	4,422	7.04
Municipal loans and leases	**90,065**	**5,444**	**6.04**	82,563	5,209	6.31
Lease financings	**90,192**	**7,655**	**8.49**	80,620	6,843	8.49
Gross loans and leases	**1,453,174**	**79,446**	**5.47**	1,401,971	88,083	6.28
Total interest-earning assets	**1,892,799**	**100,366**	**5.30**	1,844,536	111,560	6.05
Cash and due from banks	**33,514**			35,507		
Reserve for loan and lease losses	**(18,200)**			(13,843)		
Premises and equipment, net	**33,170**			31,475		
Other assets	**142,164**			127,385		
Total assets	**$ 2,083,447**			$ 2,025,060		
Liabilities:						
Interest-bearing checking deposits	**$ 162,615**	**257**	**0.16**	$ 144,415	463	0.32
Money market savings	**305,113**	**1,724**	**0.57**	409,586	8,861	2.16
Regular savings	**353,748**	**2,955**	**0.84**	276,908	4,348	1.57

Time deposits	**508,337**	**17,371**	**3.42**	483,872	20,894	4.32
Total time and interest-bearing deposits	**1,329,813**	**22,307**	**1.68**	1,314,781	34,566	2.63
Securities sold under agreements to repurchase	**91,390**	**544**	**0.60**	84,254	943	1.12
Other short-term borrowings	**92,209**	**2,937**	**3.19**	40,889	801	1.96
Long-term debt	**48,979**	**1,640**	**3.35**	100,527	4,266	4.24
Subordinated notes and capital securities	**26,427**	**1,295**	**4.90**	27,950	1,734	6.20
Total borrowings	**259,005**	**6,416**	**2.48**	253,620	7,744	3.05
Total interest-bearing liabilities	**1,588,818**	**28,723**	**1.81**	1,568,401	42,310	2.70
Demand deposits, non-interest bearing	**224,417**			223,353		
Accrued expenses and other liabilities	**39,817**			29,211		
Total liabilities	**1,853,052**			1,820,965		
Shareholders Equity:						
Common stock	**80,969**			74,370		
Additional paid-in capital	**37,844**			22,643		
Retained earnings and other equity	**111,582**			107,082		
Total shareholders equity	**230,395**			204,095		
Total liabilities and shareholders equity	**$ 2,083,447**			$ 2,025,060		
Net interest income		**$ 71,643**			$ 69,250	
Net interest spread			**3.49**			3.35
Effect of net interest-free funding sources			**0.30**			0.40
Net interest margin			**3.79%**			3.75%
Ratio of average interest-earning assets to average interest-bearing liabilities	**119.13%**			117.61%		

Notes: For rate calculation purposes, average loan and lease categories include unearned discount. Nonaccrual loans and leases have been included in the average loan and lease balances.

Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the years ended December 31, 2009 and 2008 have been calculated using the Corporation s federal applicable rate of 34.5% and 35.0%, respectively.
Certain amounts have been reclassified to conform to the current-year presentation.

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Table 2 Analysis of Changes in Net Interest Income for 2009 Versus 2008

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest for the years ended December 31, 2009 and December 31, 2008, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated to change in volume.

	The Years Ended December 31, 2009 Versus 2008		
	Volume Change	**Rate Change**	**Total**
Interest income:			
Interest-earning deposits with other banks	$ 13	$ (13)	$
U.S. Government obligations	365	(1,374)	(1,009)
Obligations of states and political subdivisions	661	(76)	585
Other debt and equity securities	(669)	(1,070)	(1,739)
Federal funds sold	(394)		(394)
Interest on deposits, investments and federal funds sold	(24)	(2,533)	(2,557)
Commercial, financial and agricultural loans and leases	1,121	(6,132)	(5,011)
Real estate-commercial and construction loans	2,368	(3,560)	(1,192)
Real estate-residential loans	(829)	(1,670)	(2,499)
Loans to individuals	(888)	(94)	(982)
Municipal loans and leases	458	(223)	235
Lease financings	812		812
Interest and fees on loans and leases	3,042	(11,679)	(8,637)
Total interest income	3,018	(14,212)	(11,194)
Interest expense:			
Interest-bearing checking deposits	25	(231)	(206)
Money market savings	(625)	(6,512)	(7,137)
Regular savings	628	(2,021)	(1,393)
Time deposits	832	(4,355)	(3,523)
Interest on time and interest-bearing deposits	860	(13,119)	(12,259)
Securities sold under agreement to repurchase	39	(438)	(399)
Other short-term borrowings	1,633	503	2,136
Long-term debt	(1,731)	(895)	(2,626)
Subordinated notes and capital securities	(76)	(363)	(439)
Interest on borrowings	(135)	(1,193)	(1,328)
Total interest expense	725	(14,312)	(13,587)

Net interest income	$ 2,293	$ 100	$ 2,393

Notes: For rate calculation purposes, average loan and lease categories include unearned discount. Nonaccrual loans and leases have been included in the average loan and lease balances.
Loans held for sale have been included in the average loan balances.
Tax-equivalent amounts for the years ended December 31, 2009 and 2008 have been calculated using the Corporation s federal applicable rate of 34.5% and 35.0%, respectively.
Certain amounts have been reclassified to conform to the current-year presentation.

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Net interest income on a tax-equivalent basis increased $2.4 million in 2009 compared to 2008 primarily due to increased volume in commercial real estate and construction loans, commercial business loans and lease financings, along with decreased rates on money market savings, time deposits and savings accounts. These increases were partially offset by decreased rates on commercial business loans and commercial real estate and commercial construction loans. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.79% and 3.75% for the years ended December 31, 2009 and 2008, respectively. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.49% for the year ended December 31, 2009 compared to 3.35% for the same period in 2008. The effect of net interest free funding sources decreased to 0.30% for the year ended December 31, 2009 compared to 0.40% for the same period in 2008; this represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

Interest Income

Interest income on U.S. Government obligations decreased during the year ended December 31, 2009 compared to 2008 due to a decline in average rates that was partially offset by an increase in average volume. Interest income on obligations of state and political subdivisions increased due to average volume increases that were partially offset by a decline in average rates. Interest income on other debt and equity securities decreased primarily due to average volume and rate decreases on mortgage-backed securities. Interest income decreased on federal funds sold primarily due to decreases in the average volume.

The decline in interest and fees on loans and leases during the year ended December 31, 2009 compared to 2008 was due primarily to average rate decreases on commercial business loans and real estate commercial and construction loans. The rate decreases were attributable to the declines in the average prime rate, and one-month and three-month U.S. London Interbank Borrowing Rate (LIBOR). The average interest yield on the commercial business loan portfolio decreased 159 basis points for the year ended December 31, 2009 compared to the same period in 2008; this was partially offset by a $25.1 million increase in volume resulting in a $5.0 million decrease in interest income. The average interest yield on the commercial and construction real estate loan portfolios decreased 74 basis points; this was partially offset by a $40.0 million increase in volume resulting in a $1.2 million decline in interest income. The average volume decline on real estate residential of $18.1 million and average interest yield declines of 54 basis points contributed to a $2.5 million decrease in interest income. The average volume decline on loans to individuals of $12.9 million, contributed to a $982 thousand decrease in interest income. These decreases were offset by an increase in average volume of $9.6 million on lease financings and $7.5 million on municipal loans and lease financings, which contributed to $812 thousand and $235 thousand, respectively, in increases in interest income.

Interest Expense

The Corporation s average cost of deposits decreased 95 basis points for the year ended December 31, 2009 compared to the same period in 2008. The average rate paid on money market savings decreased 159 basis points and the average volume decreased $104.5 million; contributing to a $7.1 million decrease in interest expense. The decrease in money market savings was primarily due to a $92.6 million short-term deposit received from one customer during the first six months of 2008, and migration to higher yielding savings accounts. Interest expense on regular savings decreased $1.4 million due to an average rate decrease of 73 basis-points; partially offset by an average volume increase of $76.8 million. Interest on time deposits decreased $3.5 million, due to a 90 basis-point decrease in average rate, partially offset by a $24.5 million average increase in volume.

Interest on other short-term borrowings includes interest paid on federal funds purchased and short-term Federal Home Loan Bank of Pittsburgh (FHLB) borrowings. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement

account (cash management accounts). Interest on other short-term borrowings increased $2.1 million primarily due to volume increases of $51.3 million.

Interest on long-term debt, which consists of long-term FHLB borrowings, decreased $2.6 million due to an average volume decrease of $51.5 million and an 89 basis-point decrease in the average rate paid. Subordinated notes and capital securities include the issuance of $15.0 million in Subordinated Capital Notes and $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities). Interest expense on Subordinated Capital Notes and Trust Preferred Securities decreased $439 thousand primarily due to pay-downs on the Subordinated Capital Notes.

Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rates or the fair value of the collateral for certain collateral dependent loans. Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2009 and 2008 was $20.9 million and $8.8 million, respectively. The increase in provision was primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains on sales of securities, and other miscellaneous types of income. It also includes various types of service fees, such as ATM fees, and life insurance income which represents changes in the net cash surrender values of bank-owned life insurance policies and any excess proceeds from death benefit claims. Total noninterest income increased during the year ended December 31, 2009 compared to 2008 primarily due to increased mortgage-banking activities, and increased investment advisory commission and fee income and insurance commission and fee income resulting from the Trollinger and Liberty acquisitions. These increases were partially offset by decreases in bank owned life insurance income, trust fees and increases in other than temporary impairments on securities and other long-lived assets.

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

	For the Years Ended December 31,			
	2009	**2008**	**$ Change**	**% Change**
Trust fee income	**$ 5,536**	$ 6,004	$ (468)	(7.8)%
Service charges on deposit accounts	**7,036**	6,808	228	3.3
Investment advisory commission and fee income	**3,427**	2,374	1,053	44.4
Insurance commission and fee income	**7,081**	5,723	1,358	23.7
Other service fee income	**3,410**	3,484	(74)	(2.1)
Bank owned life insurance income	**1,321**	2,791	(1,470)	(52.7)
Other-than-temporary impairment on equity securities	**(1,708)**	(1,251)	(457)	(36.5)
Other-than-temporary impairment on other long lived assets	**(500)**		(500)	N/M
Net gain on sales of securities	**1,150**	280	870	N/M
Net gain on sale of loans held for sale	**2,222**	82	2,140	N/M
Net (loss) gain on dispositions of fixed assets	**(144)**	(40)	(104)	N/M
Other	**1,086**	360	726	201.7
Total noninterest income	**$ 29,917**	$ 26,615	$ 3,302	(12.4)

Trust fee income decreased in 2009 over 2008 primarily due to a decrease in the market value of managed accounts. Service charges on deposit accounts increased primarily due to non-sufficient funds fees.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc. increased in 2009 over 2008 due to the acquisition of the Trollinger Consulting Group in December 2008 that resulted in increased fees and commissions received. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc. increased during the year ended December 31, 2009 over the same period in 2008 primarily due to the acquisitions of Liberty Benefits, Inc. and Trollinger Consulting Group in December 2008.

Other service fee income primarily consists of MasterMoney fees, non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Other service fee income decreased for the year ended December 31, 2009 over 2008 primarily due to income recognized in 2008 which resulted from a renegotiated contract with a service provider.

Bank owned life insurance income is the change in the cash surrender values of bank owned life insurance policies, which is affected by the market value of the underlying assets, and any excess proceeds from death benefit claims. The decrease recognized in the year ended December 31, 2009 over 2008 was primarily due to additional income resulting from death benefit claims of $1.9 million received in 2008 partially offset by positive changes in the cash surrender value of the underlying investments due to market conditions.

During the year ended December 31, 2009, approximately $50.8 million of securities were sold recognizing gains of $1.2 million. Additionally, the Corporation realized impairment charges of $1.7 million on its equity portfolio during the year ended December 31, 2009. The Corporation determined that there was an increased severity and duration of the decline in fair values during the year 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 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 until recovery to the Corporation s cost basis occurs. During the year ended December 31, 2008, approximately $58.9 million of securities were sold recognizing gains of $279 thousand. Additionally, the Corporation

realized an impairment charge of $1.3 million on its equity portfolio during the year ended December 31, 2008.

At December 31, 2009, the Corporation held certain equity investments for which it is restricted from trading and had been carried at cost. During 2009, the Corporation recorded an other-than-temporary impairment on these long-lived assets of $500 thousand. The Corporation determined that it was probable that these long-lived assets 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 company.

Sales of $142.5 million in loans held for sale, primarily due to increased mortgage activity, during the year ended December 31, 2009 resulted in gains of $2.2 million compared to sales of $4.4 million for gains of $82 thousand for the year ended December 31, 2008.

Net losses on the disposition of fixed assets were $144 thousand and $40 thousand for the years ended December 31, 2009 and 2008, respectively. Net losses in 2009 were primarily the result of relocating a banking office within one of our supermarket locations to a traditional office and the demolition of the Corporation s former operations center. The consolidation and upgrade of the corporate phone system in 2008 resulted in a loss on disposal of $36 thousand.

Other non-interest income includes fair value adjustments on derivatives, losses on investments in partnerships, gains on sales of other real estate owned, gains on sales of portfolio loans and leases, reinsurance income and other miscellaneous income. Other non-interest income increased for the year ended 2009 compared to the same period in 2008 primarily due to net positive fair value adjustments on derivative loan commitments and interest rate swaps totaling $797 thousand.

Noninterest Expense

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

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

	For the Years Ended December 31,			
	2009	**2008**	**$ Change**	**% Change**
Salaries and benefits	**$ 37,422**	$ 32,413	$ 5,009	15.5%
Net occupancy	**5,274**	5,230	44	0.8
Equipment	**3,438**	3,247	191	5.9
Marketing and advertising	**1,840**	1,499	341	22.7
Deposit insurance premiums	**3,185**	767	2,418	N/M
Other	**14,165**	14,069	96	0.7
Total noninterest expense	**$ 65,324**	$ 57,225	$ 8,099	14.2

Salaries and benefits increased due to salary and benefit expenses associated with the acquisitions of Liberty Benefits, Inc. and the Trollinger Consulting Group in December 2008, additional personnel to grow the mortgage banking business, normal base pay increases and pension plan expense of $1.2 million.

Net occupancy costs and equipment expense increased due to expansion of the Corporation s mortgage banking business, the acquisition of Liberty and Trollinger, and new equipment purchases and upgrades.

Marketing and advertising expenses increased primarily due to increased brand advertising.

Deposit insurance premiums increased due to a special assessment of five basis points on each FDIC-insured depository institution s assets, minus its Tier 1 capital, as of June 30, 2009, which equated to

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$947 thousand, credits that were utilized by the Corporation in 2008 and a 7 basis point increase in rates, causing an aggregate variance of $2.4 million.

Other expenses increased primarily due to increases in the amortization of customer-related intangibles which increased by $759 thousand due to the acquisitions stated above, partially offset by expenses associated with a claim under a rent-a-captive arrangement of $349 thousand and fee expense of $257 thousand associated with student loans, both recognized in the 2008 period and which are not recurring in nature.

Tax Provision

The provision for income taxes was $563 thousand for the year ended December 31, 2009 compared to $5.8 million in 2008, at effective rates of 5.0% and 21.9%, respectively. The effective tax rates reflect the benefits of tax credits generated from investments in low-income housing projects and tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The decrease in the effective tax rate between the years of 2009 and 2008 was primarily due to a larger percentage of tax-exempt income to pre-tax income.

Results of Operations 2008 Versus 2007

Net Interest Income

Table 3 presents a summary of the Corporation s average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the year ended December 31, 2008 compared to 2007. Table 4 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components.

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Table 3 Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential for 2008 versus 2007

	For the Year Ended December 31,					
	2008			2007		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 1,040**	**$ 16**	**1.54%**	$ 1,892	$ 95	5.02%
U.S. Government obligations	**99,547**	**4,617**	**4.64**	117,768	5,371	4.56
Obligations of states and political subdivisions	**94,549**	**6,305**	**6.67**	84,587	5,937	7.02
Other debt and equity securities	**232,715**	**12,145**	**5.22**	181,175	9,698	5.35
Federal funds sold	**14,714**	**394**	**2.68**	9,303	454	4.88
Total interest-earning deposits, investments and federal funds sold	**442,565**	**23,477**	**5.30**	394,725	21,555	5.07
Commercial, financial and agricultural loans	**385,652**	**23,849**	**6.18**	394,667	31,155	7.89
Real estate-commercial and construction loans	**481,016**	**31,741**	**6.60**	445,954	34,883	7.82
Real estate-residential loans	**309,307**	**16,019**	**5.18**	307,042	16,665	5.43
Loans to individuals	**62,813**	**4,422**	**7.04**	81,157	5,675	6.99
Municipal loans and leases	**82,563**	**5,209**	**6.31**	90,421	5,341	5.91
Lease financings	**80,620**	**6,843**	**8.49**	47,776	4,228	8.85
Gross loans and leases	**1,401,971**	**88,083**	**6.28**	1,367,017	97,947	7.17
Total interest-earning assets	**1,844,536**	**111,560**	**6.05**	1,761,742	119,502	6.78
Cash and due from banks	**35,507**			39,782		
Reserve for loan and lease losses	**(13,843)**			(13,645)		
Premises and equipment, net	**31,475**			23,223		
Other assets	**127,385**			121,162		
Total assets	**$ 2,025,060**			$ 1,932,264		
Liabilities:						
Interest-bearing checking deposits	**$ 144,415**	**463**	**0.32**	$ 137,699	463	0.34
Money market savings	**409,586**	**8,861**	**2.16**	387,315	15,826	4.09
Regular savings	**276,908**	**4,348**	**1.57**	212,977	3,833	1.80

Time deposits	**483,872**	**20,894**	**4.32**	539,048	25,001	4.64
Total time and interest-bearing deposits	**1,314,781**	**34,566**	**2.63**	1,277,039	45,123	3.53
Securities sold under agreements to repurchase	**84,254**	**943**	**1.12**	86,641	1,994	2.30
Other short-term borrowings	**40,889**	**801**	**1.96**	14,432	777	5.38
Long-term debt	**100,527**	**4,266**	**4.24**	82,855	3,919	4.73
Subordinated notes and capital securities	**27,950**	**1,734**	**6.20**	29,431	2,314	7.86
Total borrowings	**253,620**	**7,744**	**3.05**	213,359	9,004	4.22
Total interest-bearing liabilities	**1,568,401**	**42,310**	**2.70**	1,490,398	54,127	3.63
Demand deposits, non-interest bearing	**223,353**			221,738		
Accrued expenses and other liabilities	**29,211**			29,913		
Total liabilities	**1,820,965**			1,742,049		
Shareholders Equity:						
Common stock	**74,370**			74,370		
Additional paid-in capital	**22,643**			22,517		
Retained earnings and other equity	**107,082**			93,328		
Total shareholders equity	**204,095**			190,215		
Total liabilities and shareholders equity	**$ 2,025,060**			$ 1,932,264		
Net interest income		**$ 69,250**			$ 65,375	
Net interest spread			**3.35**			3.15
Effect of net interest-free funding sources			**0.40**			0.56
Net interest margin			**3.75%**			3.71%
Ratio of average interest-earning assets to average interest-bearing liabilities	**117.61%**			118.21%		

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.

Certain amounts have been reclassified to conform to the current-year presentation.
Included in interest income are loan and lease fees of $728 thousand for 2008 and $1.0 million for 2007.
Tax-equivalent amounts for both periods have been calculated using the Corporation s federal applicable rate of 35%.

Table 4 Analysis of Changes in Net Interest Income for 2008 Versus 2007

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest for the years ended December 31, 2008 and December 31, 2007, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated to change in volume.

	The Years Ended December 31, 2008 Versus 2007		
	Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	$ (13)	$ (66)	$ (79)
U.S. Government obligations	(848)	94	(754)
Obligations of states and political subdivisions	664	(296)	368
Other debt and equity securities	2,683	(236)	2,447
Federal funds sold	145	(205)	(60)
Interest on deposits, investments and federal funds sold	2,631	(709)	1,922
Commercial, financial and agricultural loans and leases	(557)	(6,749)	(7,306)
Real estate-commercial and construction loans	2,299	(5,441)	(3,142)
Real estate-residential loans	122	(768)	(646)
Loans to individuals	(1,294)	41	(1,253)
Municipal loans	(494)	362	(132)
Lease financings	2,787	(172)	2,615
Interest and fees on loans and leases	2,863	(12,727)	(9,864)
Total interest income	5,494	(13,436)	(7,942)
Interest expense:			
Interest-bearing checking deposits	28	(28)	
Money market savings	510	(7,475)	(6,965)
Regular savings	1,005	(490)	515
Time deposits	(2,382)	(1,725)	(4,107)
Interest on time and interest-bearing deposits	(839)	(9,718)	(10,557)
Securities sold under agreement to repurchase	(29)	(1,022)	(1,051)
Other short-term borrowings	518	(494)	24
Long-term debt	753	(406)	347
Subordinated notes and capital securities	(91)	(489)	(580)
Interest on borrowings	1,151	(2,411)	(1,260)
Total interest expense	312	(12,129)	(11,817)

Net interest income	$ 5,182	$ (1,307)	$ 3,875

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.
Certain amounts have been reclassified to conform to the current-year presentation.
Tax-equivalent amounts for both periods have been calculated using the Corporation s federal applicable rate of 35%.

Net interest income on a tax-equivalent basis increased $3.9 million in 2008 compared to 2007 primarily due to increased volume on other debt and equity securities, commercial real estate and

construction loans, lease financings along with decreased rates on money market savings and time deposits. These increases were partially offset by decreased rates on commercial business loans and commercial real estate and commercial construction loans. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.75% and 3.71% for the years ended December 31, 2008 and 2007. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.35% for the year ended December 31, 2008 compared to 3.15% for the same period in 2007. The effect of net interest free funding sources decreased to 0.40% for the year ended December 31, 2008 compared to 0.56% for the same period in 2007; this represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

Interest Income

Interest income on U.S. Government obligations decreased during the year ended December 31, 2008 compared to 2007 due to a decline in average volume that was partially offset by an increase in average rates. Interest income on obligations of state and political subdivisions increased due to average volume increases that were partially offset by a decline in average rates. Interest income on other debt and equity securities increased primarily due to average volume increases on mortgage-backed securities. Interest income decreased on federal funds sold primarily due to decreases in the average rate.

The decline in interest and fees on loans and leases during the year ended December 31, 2008 compared to 2007 was due primarily to average rate decreases on commercial business loans and real estate commercial and construction loans. The rate decreases were attributable to the 304 basis point decline in average prime rate comparing the year ended December 31, 2008 to the same period in 2007. The average interest yield on the commercial loan portfolio decreased 171 basis points for the year ended December 31, 2008 compared to the same period in 2007; which, along with an average volume decline of $9.0 million, contributed to a $7.3 million decrease in interest income. The average interest yield on the commercial and construction real estate loan portfolios decreased 122 basis points; this was partially offset by a $35.1 million increase in volume resulting in a $3.1 million decline in interest income. The average volume decline on loans to individuals of $18.3 million, contributed to a $1.3 million decrease in interest income. These decreases were offset by an increase in average volume on lease financings of $32.8 million; which contributed to a $2.6 million increase in interest income.

Interest Expense

The Corporation s average cost of deposits decreased 90 basis points for the year ended December 31, 2008 compared to the same period in 2007. The average rate paid on money market savings decreased 193 basis points while the average volume increased $22.3 million; the net effect contributed to a $7.0 million decrease in interest expense. The increase in money market savings was primarily due to a $92.6 million short-term deposit received from one customer during the first six months of 2008. Interest expense on regular savings increased $515 thousand due to an average volume increase of $63.9 million that was partially offset by a 23 basis-point decrease in the average rate. Interest on time deposits decreased $4.1 million, due to a $55.2 million average decrease in volume and a 32 basis-point decrease in the average rate.

Interest on short-term borrowings includes interest paid on federal funds purchased, repurchase agreements 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 (cash management accounts). Interest on short-term borrowings decreased 37.1% during 2008 compared to 2007 primarily due to a decrease in the average rate associated with cash management accounts and short-term FHLB borrowings.

Interest on long-term debt, which consists of long-term FHLB borrowings, increased due to average volume growth of $17.7 million partially offset by a 49 basis point decrease in the average rate paid.

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Subordinated notes and capital securities include $15.0 million in Subordinated Capital Notes and $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities). Interest expense on Subordinated Capital Notes and Trust Preferred Securities decreased 25% primarily due to pay-downs on the Subordinated Capital Notes.

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, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rates or the fair value of the collateral for certain collateral dependent loans Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2008 and 2007 was $8.8 million and $2.2 million, respectively. The increase in provision was primarily due to $9.3 million in loans and leases charged-off during 2008.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains on sales of securities, and other miscellaneous types of income. It also includes various types of service fees, such as ATM fees, and life insurance income which represents changes in the net cash surrender values of bank-owned life insurance policies and any excess proceeds from death benefit claims. Total noninterest income decreased during the year ended December 31, 2008 compared to 2007 primarily due to $1.3 million in other-than-temporary impairments on equity securities which was offset by death benefit claims on bank-owned life insurance policies resulting in additional income of $1.9 million partially offset by negative changes in cash surrender value of $602 thousand.

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

	For the Years Ended December 31,			
	2008	**2007**	**$ Change**	**% Change**
Trust fee income	**$ 6,004**	$ 5,921	$ 83	1.4%
Service charges on deposit accounts	**6,808**	6,822	(14)	(0.2)
Investment advisory commission and fee income	**2,374**	2,680	(306)	(11.4)
Insurance commission and fee income	**5,723**	5,730	(7)	(0.1)
Other service fee income	**3,484**	3,662	(178)	(4.9)
Bank owned life insurance income	**2,791**	1,503	1,288	85.7
Other-than-temporary impairment on equity securities	**(1,251)**		(1,251)	N/M
Net gain on sales of securities	**280**	435	(155)	(35.6)
Net gain on sale of loans held for sale	**82**	64	18	28.1
Net loss on dispositions of fixed assets	**(40)**	(112)	72	64.3
Other	**360**	563	(203)	(36.1)
Total noninterest income	**$ 26,615**	$ 27,268	$ (653)	(2.4)

Trust fee income increased in 2008 over 2007 primarily due to an increase in the number of managed accounts. Service charges on deposit accounts remained relatively constant when comparing the year ended December 31, 2008 to the same period in 2007.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., decreased in 2008 over 2007 due to market fluctuations that resulted in decreased fees and commissions received, which more than offset the addition of new accounts during the year. Insurance

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commissions and fee income, the primary source of income for Univest Insurance, Inc., decreased slightly in the year ended December 31, 2008 over 2007 due to the current market conditions as policies have been renewing at lower premium levels.

Other service fee income primarily consists of MasterMoney fees, non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Other service fee income decreased for the year ended 2008 over 2007 primarily due to a decrease in mortgage placement fee income.

Bank owned life insurance income is the change in the cash surrender values of bank owned life insurance policies, which is affected by the market value of the underlying assets, and any excess proceeds from death benefit claims. The increase recognized in the year ended December 31, 2008 over 2007 was primarily due to additional income resulting from death benefit claims of $1.9 million partially offset by negative changes in the cash surrender value of $602 thousand due to decreases in the value of the underlying investments due to market conditions.

During the year ended December 31, 2008, approximately $58.9 million of securities were sold recognizing gains of $279 thousand. Additionally, the Corporation realized impairment charges of $1.3 million on its equity portfolio during the year ended December 31, 2008. 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 Management s opinion that it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities. Additionally, the Corporation has the positive intent and ability to hold those securities until such recovery occurs. During the year ended December 31, 2007, the Corporation sold $5.6 million in securities that resulted in $435 thousand in net gains and the Corporation also received $251 thousand from the sales of shares created through conversion of one of its vendor relationships from a membership association to a private share corporation.

Sales of $4.4 million in loans and leases and mortgage loans held for sale during the year ended December 31, 2008 resulted in gains of $82 thousand compared to sales of $12.9 million for gains of $64 thousand for the year ended December 31, 2007.

Net losses on the disposition of fixed assets were $40 thousand and $112 thousand for the years ended December 31, 2008 and 2007, respectively. Net losses in 2007 were primarily the result of relocating a banking office within one of its supermarket locations to a traditional office, recognizing a loss of $64 thousand. The consolidation and upgrade of the corporate phone system in 2008 resulted in a loss on disposal of $36 thousand.

Other non-interest income includes losses on investments in partnerships, gains on sales of portfolio loans and leases, gains on sales of other real estate owned, reinsurance income and other miscellaneous income. Other non-interest income decreased for the year ended 2008 compared to the same period in 2007 primarily due to an $86 thousand increase in losses on investments in partnerships and an $80 thousand decline in FHLB dividends.

Noninterest Expense

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

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

	For the Years Ended December 31,			
	2008	**2007**	**$ Change**	**% Change**
Salaries and benefits	**$ 32,413**	$ 30,811	$ 1,602	5.2%
Net occupancy	**5,230**	4,753	477	10.0
Equipment	**3,247**	3,127	120	3.8
Marketing and advertising	**1,499**	831	668	80.4
Deposit insurance premiums	**767**	178	589	N/M
Other	**14,069**	12,511	1,558	12.5
Total noninterest expense	**$ 57,225**	$ 52,211	$ 5,014	9.6

Salaries and benefits increased due to normal annual increases, stock-based compensation expense and employee insurance benefits. Net occupancy costs increased due to increases in rental expense on leased properties which was partially offset by a slight increase in rental income on leased office space.

Equipment expense increased slightly due to increases in computer software licenses and maintenance. This increase was partially offset by a reduction of furniture and equipment rental costs as well as maintenance and repairs on equipment. Marketing and advertising expenses increased primarily due to the Corporation s UnivestOne campaign which was launched in the second quarter of 2008 to increase awareness of its on-line banking website and increased brand advertising during the fourth quarter to address concerns of our communities explaining the difference between Wall Street and Main Street banks. FDIC deposit insurance premiums increased as the utilization of credits ran off during 2008. Other expenses increased primarily due to expense associated with a claim under a rent-a-captive arrangement of $349 thousand and fee expense of $257 thousand associated with student loans; both charges are not recurring in nature. Increases in consultant fees and telephone expenses also contributed to the increase in other expenses.

Tax Provision

The provision for income taxes was $5.8 million for the year ended December 31, 2008 compared to $9.4 million in 2007, at effective rates of 21.9% and 26.8%, respectively. The effective tax rates reflect the benefits of tax credits generated from investments in low-income housing projects and tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The decrease in the effective tax rate between the years of 2008 and 2007 was primarily due to a larger percentage of tax-exempt income to pre-tax income. Tax-exempt income increased primarily due to death benefit claims on bank-owned life insurance.

Financial Condition

During 2009, total assets increased primarily due to growth in cash and other short-term interest-earning deposits resulting from proceeds from the Corporation s stock issuance during 2009. As a result of the stock issuance, common stock increased by $17.0 million and additional paid-in capital increased by $38.7 million at December 31, 2009. Detailed explanations of these fluctuations are discussed below.

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ASSETS

The following table presents assets as of the dates indicated:

	At December 31,			
	2009	**2008**	**$ Change**	**% Change**
Cash, interest-earning deposits and federal funds sold	**$ 68,597**	$ 40,066	$ 28,531	71.2%
Investment securities	**420,045**	432,266	(12,221)	(2.8)
Loans held for sale	**1,693**	544	1,149	N/M
Total loans and leases	**1,425,980**	1,449,892	(23,912)	(1.6)
Reserve for loan and lease losses	**(24,798)**	(13,118)	(11,680)	(89.0)
Premises and equipment, net	**34,201**	32,602	1,599	4.9
Goodwill and other intangibles, net	**55,970**	56,051	(81)	(0.1)
Bank owned life insurance	**46,740**	45,419	1,321	2.9
Accrued interest and other assets	**56,993**	41,075	15,918	38.8
Total assets	**$ 2,085,421**	$ 2,084,797	$ 624	

Cash, Interest-earning Deposits and Federal Funds Sold

Cash, interest-earning deposits and federal funds sold increased as of December 31, 2009 as compared to December 31, 2008 primarily due to a $42.8 million increase in interest-bearing deposits with other banks. The excess cash provided by growth in deposits was invested at the Federal Reserve Bank for future short-term needs at higher yielding rates than other available short-term investments.

Investment Securities

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

Table 5 Investment Securities

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

	At December 31,		
	2009	**2008**	**2007**
U.S. treasury	**$**	$ 5,862	$ 4,935
U.S. government corporations and agencies	**119,992**	98,844	112,119

State and political subdivisions	**107,566**	100,350	86,754
Residential mortgage-backed securities	**101,376**	131,261	130,790
Commercial mortgage obligations	**79,454**	80,205	64,383
Asset-backed securities	**573**	1,211	1,995
Other securities	**9,160**	11,625	10,797
Equity securities	**1,924**	2,908	3,692
Total investment securities	**$ 420,045**	$ 432,266	$ 415,465

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Table 6 Investment Securities (Yields)

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

	At December 31,					
	2009 Amount	**2009 Yield**	**2008 Amount**	**2008 Yield**	**2007 Amount**	**2007 Yield**
1 Year or less	**$ 14,495**	**1.91%**	$ 10,626	0.67%	$ 49,087	3.93%
After 1 Year-5 Years	**125,349**	**3.01**	113,380	4.43	85,652	4.98
After 5 Years-10 Years	**54,795**	**4.48**	37,888	4.80	33,284	4.90
After 10 Years	**223,482**	**4.48**	267,464	5.07	243,750	5.18
No stated maturity	**1,924**	**2.42**	2,908	4.76	3,692	4.17
Total	**$ 420,045**	**3.94**	$ 432,266	4.77	$ 415,465	4.96

Loans and Leases

Total gross loans and leases declined comparing December 31, 2009 to December 31, 2008 primarily due to decreases of $61.6 million in real estate-construction and $49.4 million in real estate-residential loans. These decreases were partially offset by increases of $88.7 million real estate-commercial loans and $22.8 million in commercial, financial and agricultural loans. Loans to individuals decreased by $7.5 million and lease financings, net of unearned income, decreased $17.0 million.

At December 31, 2009 there were no concentrations of loans or leases exceeding 10% of total loans and leases other than as disclosed in Table 7.

Table 7 Loan and Lease Portfolio

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

	At December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Commercial, financial and agricultural	**$ 447,495**	$ 424,649	$ 381,826	$ 442,182	$ 383,792
Real estate commercial	**487,688**	399,003	393,686	352,596	349,384
Real estate construction	**91,891**	153,506	134,448	136,331	110,032
Real estate residential	**266,622**	316,039	310,571	305,306	303,994
Loans to individuals	**46,761**	54,212	72,476	89,217	102,095

Lease financings	**95,678**	110,095	68,100	30,186	415
Total gross loans and leases	**1,436,135**	1,457,504	1,361,107	1,355,818	1,249,712
Less: Unearned income	**(10,155)**	(7,612)	(5,665)	(2,137)	(60)
Total loans and leases	**$ 1,425,980**	$ 1,449,892	$ 1,355,442	$ 1,353,681	$ 1,249,652

Table 8 Loan and Lease Maturities and Sensitivity to Changes in Interest Rates

The following table presents the maturity and interest rate sensitivity of the loan and lease portfolio at December 31, 2009:

	Total	Due in One Year or Less	Due after One Year to Five Years	Due after Five Years
Commercial, financial and agricultural	$ 447,495	$ 327,123	$ 105,265	$ 15,107
Real estate commercial	487,688	209,329	238,754	39,605
Real estate construction	91,891	84,432	6,237	1,222
Real estate residential	266,622	96,889	50,452	119,281
Loans to individuals	46,761	13,650	12,541	20,570
Leases financings	85,523	38,938	46,535	50
Total gross loans and leases	$ 1,425,980	$ 770,361	$ 459,784	$ 195,835
Loans and leases with fixed predetermined interest rates	$ 683,909	$ 158,342	$ 356,386	$ 169,181
Loans and leases with variable or floating interest rates	742,071	612,019	103,398	26,654
Total gross loans and leases	$ 1,425,980	$ 770,361	$ 459,784	$ 195,835

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

Asset Quality

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

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

principal.

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

Total cash basis, restructured and nonaccrual loans and leases totaled $37.1 million at December 31, 2009, $5.4 million at December 31, 2008 and $6.9 million at December 31, 2007; the balance at December 31, 2009 primarily consisted of real estate-construction and real estate commercial loans. For the years ended December 31, 2009, 2008, and 2007, nonaccrual loans and leases resulted in lost interest income of $969 thousand, $685 thousand, and $747 thousand, respectively. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 2.89% as of December 31, 2009, 0.48% as of December 31, 2008, and 0.65% as of December 31, 2007. The ratio of

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nonperforming assets to total assets was 1.98% at December 31, 2009, 0.33% at December 31, 2008 and 0.45% at December 31, 2007.

At December 31, 2009, the recorded investment in loans and leases that are considered to be impaired was $37.1 million, all of which were on a nonaccrual basis or trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.4 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. Nonaccruing loans increased during 2009 primarily due to two credits which went on non-accrual during the third quarter of 2009. One credit is a Shared National Credit to a continuing care retirement community in which Univest participates. The parent company of the community has come under financial difficulty and as a result the parent company and all communities declared bankruptcy. The credit has $7.3 million outstanding at December 31, 2009 and is listed within the real estate construction loan category. There is a specific allowance on this credit of $665 thousand to cover deficiencies in the underlying real estate value under current market conditions. The second credit is for four separate facilities to a local commercial real estate developer/home builder which aggregated $16.6 million at December 31, 2009; of which $11.8 million is listed within the real estate commercial loan category and $4.9 million is listed within the real estate construction loan category. There is no specific allowance on this credit as the value of the underlying collateral is more than sufficient to cover the outstanding balance. Univest will continue to closely monitor these credits and may have to provide additional reserves in future quarters related to these credits.

The Corporation sold the two other real estate owned properties acquired during 2008. During 2009, the Corporation acquired five other real estate owned properties.

Table 9 Nonaccrual, Past Due and Restructured Loans and Leases, and Other Real Estate Owned

The following table details the aggregate principal balance of loans and leases classified as nonaccrual, past due and restructured as of the dates indicated:

	At December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Nonaccruing loans and leases:					
Commercial, financial and agricultural	**$ 3,275**	$ 520	$ 3,473	$ 4,480	$ 1,216
Real estate commercial	**14,005**	1,758	1,036	1,794	2,047
Real estate construction	**14,872**	1,640	2,308	2,169	
Real estate residential	**572**	813			
Leases financings	**774**	298	61		
Total nonaccruing loans and leases	**33,498**	5,029	6,878	8,443	3,263
Restructured loans and leases, not included above	**3,611**	380			
Total impaired loans and leases	**$ 37,109**	$ 5,409	$ 6,878	$ 8,443	$ 3,263
Accruing loans and leases 90 days or more past due:					
Real estate residential	**$ 273**	$ 175	$ 401	$ 227	$ 114
Real estate commercial		299	243		
Commercial and industrial loans	**134**	315	1,147	48	146
Loans to individuals	**319**	356	126	485	350

Total accruing loans and leases, 90 days or more past due	**$**	**726**	$	1,145	$	1,917	$	760	$	610
Other real estate owned	**$**	**3,428**	$	346	$		$		$	344
Total non-performing assets	**$**	**41,263**	$	6,900	$	8,795	$	9,203	$	4,217

Reserve for Loan and Lease Losses

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

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Nonaccrual loans and leases, and those which have been 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. 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.

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

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

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

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

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

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Table 10 Allocated, Other Loan and Lease Loss Reserves

The reserve for loan and lease losses is made up of the allocated reserve and the unallocated portion. The following table summarizes the two categories as of the dates indicated:

	At December 31,		
	2009	**2008**	**2007**
Allocated	**$ 23,744**	$ 12,387	$ 12,217
Unallocated	**1,054**	731	869
Total	**$ 24,798**	$ 13,118	$ 13,086

Allocated reserves in 2009 increased by $11.4 million due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors. Unallocated reserves increased by $323 thousand in 2009 primarily due to current economic volatility. As a result, the allowance for loan and lease losses as a percentage of total loans and leases increased to 1.74% at December 31, 2009 from 0.90% at December 31, 2008 and from 0.97% at December 31, 2007. The allowance for loan and lease losses to nonperforming loans and leases equaled 65.54% at December 31, 2009, 200.15% at December 31, 2008, and 190.7% at December 31, 2007. At December 31, 2009, the specific allowance on impaired loans was $1.4 million, or 3.8% of the impaired loan balance of $37.1 million. At December 31, 2008 the specific allowance on impaired loans was $36 thousand, or 0.64% of the balance of impaired loans of $5.4 million. Although the coverage ratio of the specific allowance on the impaired loans and leases increased, the ratio of the allowance to nonperforming loans and leases decreased. The increase in the allocated allowance for loan and lease losses was impacted more by the migration of loans to higher-risk ratings than the increase in non-performing loans and leases. Management closely monitors the credit worthiness and the value of underlying collateral as a commercial credit becomes past-due. These factors along with historical and economic trends, and management s assumptions, are taken into consideration in providing the allowance for loan and lease losses. When the loan becomes impaired and is placed on non-accrual, a specific allowance is created for the impaired loan.

Allocated reserves in 2008 increased by $170 thousand as higher allocations to account for growth in the lease financings portfolio were more than offset by lower reserves against declining indirect and commercial loan portfolios. Lease financings, net of unearned discounts, rose to $102.5 million at December 31, 2008 from $62.4 million when compared to the same period in 2007. Homogeneous retail loans, including residential real estate and consumer loans outstanding, declined by $18.4 million, contributing to a homogeneous loan pool allocation reduction of $271 thousand. Commercial loans (including commercial real estate loans) increased by $75.0 million, which resulted in an increase of $218 thousand in the allocated reserve. Unallocated reserves declined by $138 thousand in 2008 as well as a decrease in reserves for impaired loans of $1.7 million at December 31, 2008. Nonperforming loans as a percentage of loans and leases decreased to 0.45% at December 31, 2008 from 0.65% as of December 31, 2007; the allowance for loan and lease losses to total loans and leases decreased to 0.90% at December 31, 2008 compared to 0.97% at December 31, 2007 primarily due to the decline in nonaccrual loans and the related reserve. Management closely monitors the credit worthiness and the value of underlying collateral as a commercial credit becomes past-due. These factors along with historical and economic trends, and management s assumptions, are taken into consideration in providing the allowance for loan and lease losses. When the loan becomes impaired and is placed on non-accrual, a specific allowance is created for the impaired loan. At December 31, 2008 the specific allowance on impaired loans was $36 thousand, or 0.64% of the balance of impaired loans of $5.4 million. At December 31, 2007 the specific allowance on impaired loans was $1.8 million, or 25.5% of the impaired loan

balance of $6.9 million.

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Table 11 Summary of Loan and Lease Loss Experience

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

	For the Years Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Average amount of loans and leases outstanding	**$ 1,453,174**	$ 1,401,971	$ 1,367,017	$ 1,317,711	$ 1,198,881
Loan and lease loss reserve at beginning of period	**$ 13,118**	$ 13,086	$ 13,283	$ 13,363	$ 13,099
Charge-offs:					
Commercial, financial and agricultural loans	**3,857**	6,008	902	1,860	1,329
Real estate loans	**2,088**	1,373	499		911
Loans to individuals	**1,808**	1,422	1,513	1,133	1,019
Lease financings	**2,695**	502	106		
Total charge-offs	**10,448**	9,305	3,020	2,993	3,259
Recoveries:					
Commercial, financial and agricultural loans	**275**	97	176	139	625
Real estate loans	**33**	27	95	168	368
Loans to individuals	**491**	353	386	391	421
Lease financings	**443**	91			
Total recoveries	**1,242**	568	657	698	1,414
Net charge-offs	**9,206**	8,737	2,363	2,295	1,845
Provisions to loan and lease loss reserve	**20,886**	8,769	2,166	2,215	2,109
Loan and lease loss reserve at end of period	**$ 24,798**	$ 13,118	$ 13,086	$ 13,283	$ 13,363
Ratio of net charge-offs to average loans and leases	**.63%**	.62%	.17%	.17%	.15%

The increase in charge-offs during 2009 compared to 2008 was primarily due to the increase in lease financings charge-offs due to the deterioration in the economy impacting small businesses, the primary customer base of the leasing portfolio. These increases were offset by a reduction of charge-off activity for commercial, financial and agricultural loans. The increase in charge-offs during 2008 compared to 2007 was primarily due to the increase of activity for commercial, financial and agricultural loans, real estate loans, and lease financings charge-offs due to the deterioration in the economy. These increases were offset by a reduction of charge-off activity for loans to individuals. Loans and leases that are charged-off are considered to be permanently impaired.

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

	At December 31,									
	2009		2008		2007		2006		2005	
nmercial, ncial and cultural	**$ 12,148**	**31.4%**	$ 6,432	29.3%	$ 6,295	28.2%	$ 6,963	32.6%	$ 6,005	30.
estate loans	**9,534**	**59.3**	4,800	59.9	4,836	61.9	4,266	58.7	5,431	61.
ns to viduals	**887**	**3.3**	581	3.7	730	5.3	1,005	6.6	949	8.
e financings	**1,175**	**6.0**	574	7.1	356	4.6	171	2.1		
llocated	**1,054**	**N/A**	731	N/A	869	N/A	878	N/A	978	N/
l	**$ 24,798**	**100.0%**	$ 13,118	100.0%	$ 13,086	100.0%	$ 13,283	100.0%	$ 13,363	100.

The ratio of the reserve for loan and lease losses to total loans and leases was 1.74% at December 31, 2009 and 0.90% at December 31, 2008.

Goodwill and Other Intangible Assets

The Corporation has completed the 2009 and 2008 annual impairment tests on goodwill and other intangible assets and no impairment was noted. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

The Corporation has intangible assets due to bank and branch acquisitions, core deposit intangibles, covenants not to compete (in favor of the Corporation), customer related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life. The amortization for these intangible assets was $1.5 million for the year ended December 31, 2009; $642 thousand for the year ended December 31, 2008 and $742 thousand for the year ended December 31, 2007. The Corporation also has goodwill of $50.4 million, which is deemed to be an indefinite intangible asset and will not be amortized.

Accrued Interest and Other Assets

On September 28, 2009, the FDIC Board proposed an institutional prepaid FDIC assessment to recapitalize the Deposit Insurance Fund which was finalized in the Fourth Quarter of 2009. The amount was paid on December 30, 2009 for the Fourth Quarter 2009, and for all of 2010, 2011 and 2012. This assessment was based on an estimated 5% annual growth rate in deposits during 2010, 2011 and 2012; and a 3 basis-point increase in the base assessment rate at September 30, 2009 to be applied in 2011 and 2012. The Bank paid $9.0 million to the FDIC on December 30, 2009 of which $8.4 million will remain in a prepaid asset account. The prepaid amount of $8.4 million has a zero percent risk-weighting for risk-based capital ratio calculations. The prepaid amount will be expensed over the 2010 though 2012 period as the actual FDIC assessment are determined for each interim quarterly period. Any excess prepaid amounts may be utilized up to December 30, 2014 at which time any excess will be returned to the Bank.

On December 23, 2008, the FHLB announced that it would be suspending the payment of dividends and the repurchase of excess capital stock in-order to rebuild its capital levels. This is due to the other-than-temporary

impairment write down required on its private-label mortgage portfolio which could reduce their capital below required levels. Additionally, the FHLB might require its members to increase its capital stock requirement. Based on current information from the FHLB, Management believes that if there is any impairment in the stock, it is temporary. Therefore, as of December 31, 2009, the FHLB stock is recorded at cost.

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LIABILITIES

The following table presents liabilities as of the dates indicated:

	At December 31,			
	2009	2008	$ Change	% Change
Deposits	**$ 1,564,257**	$ 1,527,328	$ 36,929	2.4%
Short-term borrowings	**183,379**	192,730	(9,351)	(4.9)
Long-term borrowings	**30,684**	120,002	(89,322)	(74.4)
Other liabilities	**39,294**	41,526	(2,232)	(5.4)
Total liabilities	**$ 1,817,614**	$ 1,881,590	$ (63,976)	(3.4)

Deposits

Total deposits increased during 2009 primarily due to increases in savings deposits of $92.9 million. These increases were partially offset by decreases in time deposits of $59.4 million. Due to market and economic conditions, customers took advantage of shorter-term interest-earning deposits. Additionally, as a result of the increase in savings deposits, the Corporation was able to reduce its reliance on wholesale deposits by $83.9 million to $7.0 million which are included in time deposits.

Table 12 Deposits

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

	For the Years Ended December 31,		
	2009	2008	2007
Noninterest-bearing demand deposits	**$ 224,417**	$ 223,353	$ 221,738
Interest-bearing checking deposits	**162,615**	144,415	137,699
Money market savings	**305,113**	409,586	387,315
Regular savings	**353,748**	276,908	212,977
Time deposits	**508,337**	483,872	539,048
Total average deposits	**$ 1,554,230**	$ 1,538,134	$ 1,498,777

The following table summarizes the maturities of time deposits with balances of $100 thousand or more at December 31, 2009:

	Due Three Months or Less	Due Over Three Months to Six Months	Due Over Six Months to Twelve Months	Due Over Twelve Months

Time deposits	$ 44,355	$ 19,762	$ 38,483	$ 26,130

Borrowings

Long-term borrowings decreased $89.3 million during 2009 as compared to 2008 primarily due to an $87.0 million reclass of long-term advances from the Federal Home Loan Bank to short-term borrowings as the remaining maturity of these borrowing became one year or less. Short-term borrowings decreased during 2008 primarily due to paydowns more than offsetting the $87.0 million reclass from long-term FHLB advances.

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Table 13 Short Term Borrowings

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

	2009	2008	2007
Balance at December 31	**$ 95,624**	$ 81,230	$ 94,276
Weighted average interest rate at year end	**0.50%**	0.49%	1.80%
Maximum amount outstanding at any month s end	**$ 133,140**	$ 92,962	$ 94,276
Average amount outstanding during the year	**$ 91,390**	$ 84,254	$ 86,641
Weighted average interest rate during the year	**0.60%**	1.12%	2.30%

SHAREHOLDERS EQUITY

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

	At December 31,			
	2009	2008	$ Change	% Change
Common stock	**$ 91,332**	$ 74,370	$ 16,962	22.8%
Additional paid-in capital	**60,126**	22,459	37,667	N/M
Retained earnings	**150,507**	151,816	(1,309)	(0.9)
Accumulated other comprehensive loss	**(524)**	(8,619)	8,095	93.9
Treasury stock	**(33,634)**	(36,819)	3,185	8.7
Total shareholders equity	**$ 267,807**	$ 203,207	$ 64,600	31.8

Total shareholders equity increased since December 31, 2008 primarily due to an additional $55.6 million in capital as a result of the issuance of common stock during the third quarter 2009.

On August 12, 2009, the Corporation completed its public offering of 3,392,500 shares of common stock at a price of $17.50 per share, including 442,500 shares of common stock purchased by the underwriters pursuant to their over-allotment option, which was exercised in full. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately $55.6 million. The Corporation intends to use the net proceeds from the offering for general corporate purposes, including supporting the capital needs of the Bank, the financing of its operations, the repayment of short-term indebtedness and potential acquisitions.

Treasury stock decreased primarily due to shares issued for the employee stock purchase plan, employee options and restricted stock awards. There is a buyback program in place that allows the Corporation to purchase an additional 643,782 shares of its outstanding common stock in the open market or in negotiated transactions.

Accumulated other comprehensive income related to securities of $5.4 million and $2.3 million, net of taxes, is included in shareholders equity at December 31, 2009 and 2008, respectively. Accumulated other comprehensive income (loss) related to securities is the unrealized gain (loss), or difference between the book value and fair value, on

the available-for-sale investment portfolio, net of taxes. The period-to-period recovery in accumulated other comprehensive income (loss) was a result of increases in the fair values of mortgage-backed government agency debt securities and other mortgage-backed securities.

Accumulated other comprehensive income related to an interest rate swap, net of taxes, amounted to $1.1 million and a loss of $149 thousand at December 31, 2009 and 2008, respectively. Accumulated other comprehensive income (loss) related to an interest-rate swap reflects the current fair value of the swap used for cash flow hedging purposes, net of taxes.

Accumulated other comprehensive loss related to pension and other post-retirement benefits amounted to $7.0 million and $10.8 million at December 31, 2009 and 2008, respectively. The change in the accumulated other comprehensive income loss related to pension and other post-retirement

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benefits represent the changes in the actuarial gains and losses and the prior service costs and credits that arise during the period.

Capital Adequacy

Capital guidelines which banking regulators have adopted assign minimum capital requirements for categories of assets depending on their assigned risks. The components of risk-based capital for the Corporation are Tier 1 and Tier 2. Minimum required total risk-based capital is 8.00%. At December 31, 2009, the Corporation had a Tier 1 capital ratio of 14.41% and total risked-based capital ratio of 15.76%. At December 31, 2008, the Corporation had a Tier 1 capital ratio of 10.65% and total risked-based capital ratio of 11.60% The Corporation continues to be in the well-capitalized category under regulatory standards. Details on the capital ratios can be found in Note 20 Regulatory Matters of this Form 10-K along with a discussion on dividend and other restrictions.

The increase in the Corporation s risk-based capital ratios is attributable to the net proceeds from its public offering, after deducting underwriting discounts and commissions and offering expenses, of $55.6 million.

Asset/Liability Management

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

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

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 pays a fixed rate of 6.49% and receives a floating rate which is based on the one month U.S. London Interbank Borrowing Rate (LIBOR) with a 357 basis point spread and a termination date of April 1, 2019. During the fourth quarter of 2009, a portion of the hedged loan was participated which caused the swap to become ineffective. At December 31, 2009, the interest rate swap had a positive fair value of $1.2 million, of which $276 thousand was ineffective, and is classified on the balance sheet as other assets. The underlying real estate-commercial loan had a negative fair value adjustment of $431 thousand which is classified on the balance sheet as a component of loans and leases. The Corporation recorded the change in fair value of the interest rate swap and underlying commercial loan as a component of noninterest income on the income statement.

On December 23, 2008, the Corporation entered into a $20.0 million notional value interest rate swap, which has been classified as a cash flow hedge on $20.0 million of trust preferred securities. Under the terms of the swap agreement, the Corporation will pay a fixed rate of 2.65% and receive a floating rate which is based on the three-month U.S. London Interbank Borrowing Rate (LIBOR) with a termination date of January 7, 2019. Interest-rate swaps in which the Corporation pays a floating rate and receives a fixed rate are used to reduce the impact of changes in interest rates on the Corporation s net income.

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Credit Risk

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

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

The Corporation focuses on both assessing the borrower s capacity and willingness to repay and on obtaining sufficient collateral. Commercial and industrial loans are generally secured by the borrower s assets and by personal guarantees. Commercial real estate loans are originated primarily within the Eastern Pennsylvania market area at conservative loan-to-value ratios and 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.

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

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

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

Liquidity

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

Sources of Funds

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

The Corporation supplements its core funding with money market funds it holds for the benefit of various trust accounts. These funds are fully collateralized by the Bank s investment portfolio and are at current money market mutual fund rates. This funding source is subject to changes in the asset allocations of the trust accounts.

The Bank may purchase Certificates from the Pennsylvania Local Government Investment Trust (PLGIT) to augment its short-term fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the FHLB; therefore, Univest National Bank is not required to provide collateral on these deposits. At December 31, 2008, the Bank had $50.0 million in PLGIT deposits. At December 31, 2009 the Bank had no PLGIT deposits.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $374.1 million. At December 31, 2009, total outstanding short-term and long-term borrowings with the FHLB totaled $92.0 million. The maximum borrowing capacity changes as a function of qualifying collateral assets and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Bank maintains federal fund credit lines with several correspondent banks totaling $82.0 million and $77.0 million at December 31, 2009 and 2008, respectively. Outstanding borrowings under these lines totaled $54.0 million at December 31, 2008; there were no outstanding balances at December 31, 2009. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At December 31, 2009, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements including various financial obligations, including contractual obligations and commitments that require cash payments. The following contractual obligations and commitments table presents, as of December 31, 2009, significant fixed and determinable contractual obligations to third parties. The most significant obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Short-term borrowings constitute the next largest payment obligation. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its branch network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market.

The table also shows the amounts and expected maturities of significant commitments as of December 31, 2009. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods.

Contractual Obligations and Commitments

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to manage the Corporation s exposure to fluctuation in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters of credit and forward contracts. These financial instruments involve, to

varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of these financial instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Corporation does not require and is not required to pledge collateral or other security to support financial instruments with credit risk. These commitments expire over time as detailed in Table 14. For further information regarding the Corporation s commitments, refer to Footnote 16 of the Consolidated Financial Statements, herein.

Table 14 Contractual Obligations

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows, including interest payable, as of December 31, 2009:

		Payments Due by Period			
	Total	Due in One Year or Less	Due after One Year to Three Years	Due after Four Years to Five Years	Due in Over Five Years
Long-term debt(a)	$ 5,568	$ 188	$ 375	$ 5,005	$
Subordinated capital notes(b)	5,016	1,571	3,068	377	
Trust preferred securities(c)	37,807	688	1,375	1,375	34,369
Securities sold under agreement to repurchase(d)	95,624	95,624			
Other short-term borrowings	88,906	88,906			
Time deposits(e)	471,944	377,211	60,137	12,756	21,840
Operating leases	8,742	1,781	2,927	1,870	2,164
Standby and commercial letters of credit	61,313	48,061	13,115	137	
Commitments to extend credit(f)	445,731	150,446	19,840	16,069	259,376
Derivative loan commitments(g)	156	156			
Total contractual obligations	$ 1,220,807	$ 764,632	$ 100,837	$ 37,589	$ 317,749

Notes:

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

(b) Includes interest on both fixed and variable rate obligations. The interest expense associated with the variable rate obligations is based upon interest rates in effect at December 31, 2009. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

(c) Includes interest on variable rate obligations. The interest expense is based upon interest rates in effect at December 31, 2009. The contractual amounts to be paid on variable rate obligations are affected by changes in

the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid. The trust preferred securities mature in 2033 and interest is calculated to this maturity date. The first non-penalized call date was in 2008. The Corporation may choose to call these securities as a result of interest rate fluctuations and capital needs without penalty for the remainder of the term.

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

(e) Includes interest on both fixed and variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. The contractual amounts to be paid on variable rate obligations

are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

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

(g) Includes the fair value of these contractual arrangements at December 31, 2009.

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

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

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

At December 31, 2009, the simulation, based upon forward-looking assumptions, projects that the Corporation s greatest interest margin exposure to interest-rate risk would occur if interest rates decreased from present levels. Given the assumptions, a 200 basis point parallel shift in the yield curve applied on a ramp-up basis would cause the Corporation s net interest margin, over a 1-year horizon, to be approximately 1.49% more than it would be if market rates would remain unchanged. A 100 basis point (a 200 basis point ramp down would not be relevant in the current market conditions) parallel shift in the yield curve applied on a ramp-down basis would cause the Corporation s net interest margin, over a 1-year horizon, to be approximately 2.06% less than it would be if market rates would remain unchanged. Policy limits have been established which allow a tolerance for no more than approximately a 5.0% negative impact to the interest margin resulting from a 200 basis point parallel yield curve shift over a forward looking 12-month period. See Management s Discussion and Analysis of Financial Condition and Results of Operations Net Interest Income and Asset/Liability Management, Liquidity and Table 15.

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Table 15 Interest Sensitivity Analysis

Interest Sensitivity Analysis at December 31, 2009:

	Within Three Months	After Three Months to Twelve Months	After One Year to Five Years	Over Five Years	Non-Rate Sensitive	Total
Assets:						
Cash and due from banks	$	$	$	$	$ 20,535	$ 20,535
Interest-earning deposits with other banks	48,062					48,062
Investment securities	71,674	85,002	138,941	124,427		420,045
Loans held for sale	1,693					1,693
Loans and leases, net of reserve for loan and lease losses:	608,138	246,892	476,064	94,887	(24,798)	1,401,182
Other assets					193,904	193,904
Total assets	$ 729,567	$ 331,894	$ 615,005	$ 219,314	$ 189,641	$ 2,085,421
Liabilities and shareholders equity:						
Demand deposits noninterest-bearing	$	$	$	$	$ 242,691	$ 242,691
Demand deposits interest-bearing	299,569	27,288	143,715			470,572
Savings deposits	21,733	60,434	318,285			400,452
Time deposits	124,530	176,137	129,437	20,438		450,542
Borrowed funds	147,493	60,130	6,250	190		214,063
Other liabilities					39,294	39,294
Shareholders equity					267,807	267,807
Total liabilities and shareholders equity	$ 593,325	$ 323,989	$ 597,687	$ 20,628	$ 549,792	$ 2,085,421
Incremental gap	$ 136,242	$ 7,906	$ 17,318	$ 198,686	$ (360,151)	
Cumulative gap	$ 136,242	$ 144,148	$ 161,465	$ 360,151		
Cumulative gap as a percentage of interest-earning assets	7.19%	7.60%	8.52%	19.00%		

Recent Accounting Pronouncements

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

Item 8. *Financial Statements and Supplementary Data*

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

	Page
Report of Independent Registered Public Accounting Firm	55
Consolidated Balance Sheets	56
Consolidated Statements of Income	57
Consolidated Statements of Changes in Shareholders Equity	58
Consolidated Statements of Cash Flows	59
Notes to Consolidated Financial Statements	60

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Univest Corporation of Pennsylvania:

We have audited the accompanying consolidated balance sheets of Univest Corporation of Pennsylvania and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 5, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

March 5, 2010
Philadelphia, PA

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

	At December 31, 2009	2008
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and due from banks	**$ 20,535**	$ 34,800
Interest-earning deposits with other banks	**48,062**	5,266
Investment securities held-to-maturity (fair value $108 and $1,432 at December 31, 2009 and 2008, respectively)	**103**	1,368
Investment securities available-for-sale	**419,942**	430,898
Loans held for sale	**1,693**	544
Loans and leases	**1,425,980**	1,449,892
Less: Reserve for loan and lease losses	**(24,798)**	(13,118)
Net loans and leases	**1,401,182**	1,436,774
Premises and equipment, net	**34,201**	32,602
Goodwill	**50,393**	50,236
Other intangibles, net of accumulated amortization of $8,015 and $6,497 at December 31, 2009 and 2008, respectively	**5,577**	5,815
Bank owned life insurance	**46,740**	45,419
Accrued interest and other assets	**56,993**	41,075
Total assets	**$ 2,085,421**	$ 2,084,797
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 242,691**	$ 221,863
Demand deposits, interest-bearing	**470,572**	487,983
Savings deposits	**400,452**	307,512
Time deposits	**450,542**	509,970
Total deposits	**1,564,257**	1,527,328
Securities sold under agreements to repurchase	**95,624**	81,230
Other short-term borrowings	**87,755**	111,500
Accrued expenses and other liabilities	**39,294**	41,526
Long-term debt	**5,190**	92,637
Subordinated notes	**4,875**	6,750
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities)	**20,619**	20,619
Total liabilities	**1,817,614**	1,881,590

SHAREHOLDERS EQUITY		
Common stock, $5 par value; 48,000,000 shares authorized at December 31, 2009 and 2008; 18,266,404 and 14,873,904 shares issued at December 31, 2009 and 2008, respectively; and 16,465,083 and 12,938,514 shares outstanding at December 31, 2009 and 2008, respectively	**91,332**	74,370
Additional paid-in capital	**60,126**	22,459
Retained earnings	**150,507**	151,816
Accumulated other comprehensive loss, net of tax benefit	**(524)**	(8,619)
Treasury stock, at cost; 1,801,321 shares and 1,935,390 shares at December 31, 2009 and 2008, respectively	**(33,634)**	(36,819)
Total shareholders equity	**267,807**	203,207
Total liabilities and shareholders equity	**$ 2,085,421**	$ 2,084,797

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2009	**2008**	**2007**
	(Dollars in thousands, except per share data)		
Interest income			
Interest and fees on loans and leases:			
Taxable	**$ 74,002**	$ 82,874	$ 92,606
Exempt from federal income taxes	**3,815**	3,742	4,061
Total interest and fees on loans and leases	**77,817**	86,616	96,667
Interest and dividends on investment securities:			
Taxable	**14,014**	16,762	15,069
Exempt from federal income taxes	**4,512**	4,269	3,859
Interest on federal funds sold and term federal funds		394	454
Other interest income	**16**	16	95
Total interest income	**96,359**	108,057	116,144
Interest expense			
Interest on demand deposits	**1,981**	9,324	16,289
Interest on savings deposits	**2,955**	4,348	3,833
Interest on time deposits	**17,371**	20,894	25,001
Interest on short-term borrowings	**3,481**	1,744	2,771
Interest on long-term borrowings	**2,935**	6,000	6,233
Total interest expense	**28,723**	42,310	54,127
Net interest income	**67,636**	65,747	62,017
Provision for loan and lease losses	**20,886**	8,769	2,166
Net interest income after provision for loan and lease losses	**46,750**	56,978	59,851
Noninterest income			
Trust fee income	**5,536**	6,004	5,921
Service charges on deposit accounts	**7,036**	6,808	6,822
Investment advisory commission and fee income	**3,427**	2,374	2,680
Insurance commission and fee income	**7,081**	5,723	5,730
Other service fee income	**3,410**	3,484	3,662
Bank owned life insurance income	**1,321**	2,791	1,503
Other-than-temporary impairment on equity securities	**(1,708)**	(1,251)	
Other-than-temporary impairment on other long lived assets	**(500)**		
Net gain on sales of securities	**1,150**	280	435

Net gain on sales of loans held for sale	**2,222**	82	64
Net loss on dispositions of fixed assets	**(144)**	(40)	(112)
Other	**1,086**	360	563
Total noninterest income	**29,917**	26,615	27,268
Noninterest expense			
Salaries and benefits	**37,422**	32,413	30,811
Net occupancy	**5,274**	5,230	4,753
Equipment	**3,438**	3,247	3,127
Marketing and advertising	**1,840**	1,499	831
Deposit insurance premiums	**3,185**	767	178
Other	**14,165**	14,069	12,511
Total noninterest expense	**65,324**	57,225	52,211
Income before income taxes	**11,343**	26,368	34,908
Applicable income taxes	**563**	5,778	9,351
Net income	**$ 10,780**	$ 20,590	$ 25,557
Net income per share:			
Basic	**$ 0.75**	$ 1.60	$ 1.98
Diluted	**$ 0.75**	$ 1.60	$ 1.98
Dividends declared	**$ 0.80**	$ 0.80	$ 0.80

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
	(Dollars in thousands, except per share data)						
Balance at January 1, 2007	13,005,329	$ (4,463)	$ 74,370	$ 22,459	$ 128,242	$ (35,223)	$ 185,385
Comprehensive Income:							
Net Income for 2007					25,557		25,557
Other comprehensive income, net of income tax of $1,451:							
Unrealized gain on investment securities available-for-sale		2,073					2,073
Unrecognized pension costs		622					622
Total comprehensive income							28,252
Cash dividends declared ($0.800 per share)					(10,304)		(10,304)
Stock issued under dividend reinvestment and employee stock purchase plans	78,882				29	1,978	2,007
Exercise of stock options	55,446				(459)	1,201	742
Tax benefits on stock based compensation				121			121
Purchases of treasury stock	(328,048)					(7,498)	(7,498)
Restricted stock awards granted	19,000			(390)	1	389	
Vesting of restricted stock awards				21			21
Balance at December 31, 2007	12,830,609	(1,768)	74,370	22,211	143,066	(39,153)	198,726
Cumulative effect of adoption of a new accounting principle on January 1, 2008					(1,550)		(1,550)

Comprehensive Income:							
Net Income for 2008					20,590		20,590
Other comprehensive loss, net of income tax benefit of $3,689:							
Unrealized gain on investment securities available-for-sale		382					382
Unrealized loss on swap		(149)					(149)
Unrecognized pension costs		(7,084)					(7,084)
Total comprehensive income							13,739
Cash dividends declared ($0.800 per share)					(10,302)		(10,302)
Stock issued under dividend reinvestment and employee stock purchase plans	85,415			64		1,950	2,014
Exercise of stock options,	87,134			(88)	12	1,904	1,828
Tax benefits on stock based compensation				204			204
Purchases of treasury stock	(69,235)					(1,614)	(1,614)
Restricted stock awards granted	4,591			(94)		94	
Vesting of restricted stock awards				162			162
Balance at December 31, 2008	**12,938,514**	**(8,619)**	**74,370**	**22,459**	**151,816**	**(36,819)**	**203,207**
Comprehensive Income:							
Net Income for 2009					**10,780**		**10,780**
Other comprehensive income, net of income tax of $4,359:							
Unrealized gain on investment securities available-for-sale		**3,092**					**3,092**
Unrealized gain on swap		**1,299**					**1,299**
Unrecognized pension costs		**3,704**					**3,704**
Total comprehensive income							**18,875**
Cash dividends declared ($0.800 per share)					**(11,786)**		**(11,786)**
	95,973			**27**	**(344)**	**2,375**	**2,058**

Stock issued under dividend reinvestment and employee stock purchase plans							
Issuance of common stock	**3,392,500**		**16,962**	**38,635**			**55,597**
Exercise of stock options	**2,547**			**(10)**	**43**	**60**	**93**
Purchases of treasury stock	**(11,642)**					**(370)**	**(370)**
Restricted stock awards granted	**47,191**			**(1,118)**	**(2)**	**1,120**	
Vesting of restricted stock awards				**133**			**133**
Balance at December 31, 2009	**16,465,083**	**$ (524)**	**$ 91,332**	**$ 60,126**	**$ 150,507**	**$ (33,634)**	**$ 267,807**

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2009	**2008**	**2007**
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	**$ 10,780**	$ 20,590	$ 25,557
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**20,886**	8,769	2,166
Depreciation of premises and equipment	**2,357**	2,246	1,987
Other-than-temporary impairment on equity securities	**1,708**	1,251	
Other-than-temporary impairment on other long-lived assets	**500**		
Net gain on sales of investment securities	**(1,150)**	(280)	(435)
Realized losses on dispositions of fixed assets	**144**	40	112
Net gain on sales of loans and leases held for investment		(116)	(133)
Net gain loss on sale of loans held for sale	**(2,222)**	(82)	(64)
Originations of loans held for sale	**(143,615)**	(4,976)	(11,664)
Proceeds from the sale of loans held for sale	**144,688**	4,514	12,946
Bank owned life insurance income	**(1,321)**	(2,791)	(1,503)
Net amortization (accretion) on investment securities	**97**	(339)	(270)
Amortization, fair market value adjustments and capitalization of other intangibles	**238**	642	760
Premium accretion on deposits and FHLB borrowings	**(447)**	(453)	(605)
Deferred tax (benefit) expense	**(4,480)**	(124)	421
Realized loss (gain) on sale of real estate owned	**207**	(9)	
Net decrease (increase) in deferred loan and lease fees and amortization of premiums on loans and leases	**11**	47	(557)
(Increase) decrease in interest receivable and other assets	**(11,218)**	(3,352)	5,802
Increase (decrease) in accrued expenses and other liabilities	**2,893**	(3,389)	(1,727)
Net cash provided by operating activities	**20,056**	22,188	32,793
Cash flows from investing activities:			
Net cash paid due to acquisitions, net of cash acquired	**(157)**	(9,720)	(198)
Net capital expenditures	**(3,289)**	(6,752)	(8,198)
Proceeds from maturities of securities held-to-maturity	**336**	44,971	758
Proceeds from maturities of securities available-for-sale	**58,424**	167,768	67,345
Proceeds from calls of securities held-to-maturity	**930**	28,800	
Proceeds from sales and calls of securities available-for-sale	**198,835**	152,186	43,316
Purchases of investment securities held-to-maturity		(73,275)	
Purchases of investment securities available-for-sale	**(242,202)**	(337,295)	(148,175)
Purchases of lease financings	**(4,178)**	(49,671)	(34,711)
Net decrease (increase) loans and leases	**15,584**	(56,524)	27,187
Proceeds from sales of loans and leases		2,679	4,059

(Increase) decrease in interest-earning deposits	**(42,796)**	(4,764)	80
Net decrease in federal funds sold		11,748	11,069
Purchases of bank owned life insurance			(8,500)
Proceeds from bank owned life insurance		3,984	
Net cash used in investing activities	**(18,513)**	(125,865)	(45,968)
Cash flows from financing activities:			
Net increase (decrease) in deposits	**36,929**	(5,269)	44,211
Net (decrease) increase in short-term borrowings	**(97,162)**	75,954	(23,385)
Issuance of long-term debt		30,000	10,000
Repayment of long-term debt			(1,000)
Repayment of subordinated debt	**(1,875)**	(1,500)	(1,500)
Issuance of common stock	**55,597**		
Purchases of treasury stock	**(370)**	(1,614)	(7,498)
Stock issued under dividend reinvestment and employee stock purchase plans	**2,058**	2,014	2,007
Proceeds from exercise of stock options, including tax benefits	**93**	2,032	863
Cash dividends paid	**(11,078)**	(10,275)	(10,344)
Net cash (used in) provided by financing activities	**(15,808)**	91,342	13,354
Net (decrease) increase in cash and due from banks	**(14,265)**	(12,335)	179
Cash and due from banks at beginning of year	**34,800**	47,135	46,956
Cash and due from banks at end of year	**$ 20,535**	$ 34,800	$ 47,135
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ 30,440**	$ 44,593	$ 54,249
Income taxes, net of refunds received	**5,080**	8,180	8,845
Assets acquired through acquisition		159	
Goodwill and other intangibles due to acquisitions	**157**	9,561	198

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements

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

Note 1. Summary of Significant Accounting Policies

Organization

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank, Univest Realty Corporation, Univest Delaware, Inc. and Univest Reinsurance Company. All significant intercompany balances and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of the 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, the allowance for loan losses, impairment of goodwill and other intangible assets, deferred tax assets and liabilities, stock-based compensation expense, and mortgage servicing rights.

Subsequent Events

The Corporation has evaluated subsequent events for recognition and/or disclosure through March 5, 2010, the date these consolidated financial statements were issued.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Interest-earning Deposits with Other Banks

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

Investment Securities

Securities are classified as investment securities held-to-maturity and carried at amortized cost if management has the positive intent and ability to hold the securities to maturity. Securities purchased with the intention of recognizing short-term profits are placed in the trading account and are carried at fair value. The Corporation did not have any trading account securities as of December, 31, 2009 or 2008. Securities not classified as held-to-maturity or trading are designated securities available-for-sale and carried at fair value with unrealized gains and losses reflected in accumulated other comprehensive income, net of estimated income taxes. Realized gains and losses on the sale of investment securities are recognized using the specific identification method and are included in the consolidated statements of income. The amortization of premiums and accretion of discounts are included in interest income and calculated using the effective yield method for mortgage-backed securities and the constant yield method for all other securities.

Management evaluates debt securities, which comprise of U.S. Government, Government Sponsored Agencies, municipalities 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 highly 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 credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation has not recognized any other-than-temporary impairment charges on debt securities during 2007 through 2009.

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

Loans and Leases

Loans and leases are stated at the principal amount less net deferred fees and unearned discount. Interest income on commercial, consumer, and mortgage loans is recorded on the outstanding balance method, using actual interest rates applied to daily principal balances. Loan commitments are made to accommodate the financial needs of the

customers. These commitments represent off-balance sheet items that are unfunded. Accrual of interest income on loans and leases ceases when collectability of interest and/or principal is questionable. If it is determined that the collection of interest previously accrued is uncertain, such accrual is reversed and charged to current earnings. Loans and leases are considered past due based upon failure to comply with contractual terms.

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

When a loan or lease, including an impaired loan or lease, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease 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 in the current year is reversed. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. Loans and leases are usually restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Loan and Lease Fees

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

Reserve for Loan and Lease Losses

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

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

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

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

classification.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

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

Premises and Equipment

Land is stated at cost, and bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method and charged to operating expenses over the estimated useful lives of the assets. The estimated useful life for new buildings constructed on land owned is forty years, and for new buildings constructed on leased land, is the lesser of forty years or the lease term including anticipated renewable terms. The useful life of purchased existing buildings is the estimated remaining useful life at the time of the purchase. Land improvements are considered to have estimated useful lives of fifteen years or the lease term including anticipated renewable terms. Furniture, fixtures and equipment have estimated useful lives ranging from three to ten years.

Business Combinations and Intangible Assets

The Corporation accounts for its acquisitions using the purchase accounting method. Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. Typically, this allocation results in the purchase price exceeding the fair value of net assets acquired, which is recorded as goodwill. Core deposit intangibles are a measure of the value of checking, money market and savings deposits acquired in business combinations accounted for under the purchase method. Core deposit intangibles and other identified intangibles with finite useful lives are amortized using the sum of the year s digits over their estimated useful lives of up to fifteen years. The Corporation completes annual impairment tests for goodwill and other intangible assets. Identifiable intangible assets are evaluated for impairment if events and circumstances indicate a possible impairment. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. Customer related intangibles are being amortized over their estimated useful lives of five to twelve years. Core deposit intangibles are being amortized over their average estimated useful lives of eight years. The covenants not to compete are being amortized over their three- to five-year contractual lives.

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

Bank Owned Life Insurance

The Corporation carries bank owned life insurance (BOLI) at the net cash surrender value of the policy. Changes in the net cash surrender value of these policies are reflected in noninterest income.

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Notes to Consolidated Financial Statements (Continued)

Proceeds from and purchases of bank owned life insurance are reflected on the statement of cash flows under investing activities.

On January 1, 2008, the Corporation recognized a cumulative-effect adjustment to retained earnings totaling $1.6 million related to accounting for certain endorsement split-dollar life insurance arrangements in connection with the adoption of new authoritative accounting guidance. The new accounting guidance requires the Corporation to recognize a liability for the future death benefit for agreements that provide an employee with a death benefit in a postretirement/termination period.

Other Real Estate Owned

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

Derivative Financial Instruments

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

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

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale or purchase of mortgage-backed securities to or from third-party investors to hedge the effect of changes in interest rates on the

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Notes to Consolidated Financial Statements (Continued)

value of the interest rate locks. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the end of the period. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within gains on sales of mortgage loans on the consolidated statements of operations.

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

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

Low Income Housing Investments

Low income housing (LIH) investments are amortized under the effective interest method over the life of the Federal income tax credits generated as of such investments, generally ten years. As of December 31, 2009 and 2008, the Corporation s LIH investments, included in other assets on the consolidated balance sheets, totaled $1 thousand and $54 thousand, respectively. The net income tax benefit associated with these investments was $76 thousand for each year of 2009, 2008 and 2007, respectively. None of the Corporation s LIH investments met consolidation criteria as of December 31, 2009 or 2008.

Income Taxes

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

Retirement Plan, Supplemental Plans and Other Postretirement Benefit Plans

Substantially all employees are covered by a noncontributory retirement plan. The plan provides benefits based on a formula of each participant s final average pay. On June 24, 2009, the Compensation Committee of the Board of Directors of the Corporation resolved that effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, would be frozen and the current plan would be amended and converted to a cash balance plan under which employees would continue to

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

receive future benefits in accordance with the provisions of the cash balance plan. Additionally, participation in the plan was frozen to new entrants effective December 7, 2009. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. The Corporation provides certain postretirement healthcare and life insurance benefits for retired employees. The Corporation s measurement date for plan assets and obligation is fiscal year-end. The Corporation recognizes on its balance sheet the funded status of its defined pension plans and changes in the funded status of the plan in the year in which the changes occur. An under-funded position would create a liability and an over-funded position would create an asset, with a correlating deferred tax asset or liability. The net impact would be an adjustment to equity as accumulated other comprehensive income (loss). The Corporation also recognizes as a component of other comprehensive income (loss), net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

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

Stock Based Compensation

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

Dividend Reinvestment and Employee Stock Purchase Plans

The Univest Dividend Reinvestment Plan (the Reinvestment Plan) allows for the issuance of 1,968,750 shares of common stock. During 2009 and 2008, 75,936 and 69,235 shares, respectively, were issued under the Reinvestment Plan, with 1,039,534 shares available for future purchase as of December 31, 2009.

The 1996 Employee Stock Purchase Plan (the Purchase Plan) allows for the issuance of 984,375 shares of common stock. Employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% nor more than 10% of such employee s total compensation. These contributions are then used to purchase stock during an offering period determined by the Corporation s Administrative Committee. The purchase price of the stock is based solely on the market price of the shares at the date of purchase. Compensation expense is recognized if the discount is greater than 5% of the fair value. During 2009 and 2008, 14,412 and 11,494 shares, respectively, were issued under the Purchase Plan, with 843,803 shares available for future purchase as of December 31, 2009.

Marketing and Advertising Costs

The Corporation s accounting policy is to expense marketing and advertising costs in the period in which they are incurred.

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Notes to Consolidated Financial Statements (Continued)

Statement of Cash Flows

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

Trust Assets

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

Earnings Per Share

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

Variable Interest Entities

Variable interest entities (VIE s) are entities in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk for the entity to finance activities without additional financial support from other parties. A company must consolidate a VIE if the company has a variable interest that will absorb a majority of the VIE s losses, if they occur, and/or receive a majority of the VIE s residual returns, if they occur.

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

Recent Accounting Pronouncements

In January 2010, the FASB issued an Accounting Standard Codification Update for improving disclosures about fair value measurements. This update requires companies to disclose, and provide the reasons for, all transfers of assets and liabilities between the Level 1 and 2 fair value categories. It also clarifies that companies should provide fair value measurement disclosures for classes of assets and liabilities which are subsets of line items within the balance sheet, if necessary. In addition, the update clarifies that companies provide disclosures about the fair value techniques and inputs for assets and liabilities classified within Level 2 or 3 categories. The disclosure requirements prescribed by this update are effective for fiscal years beginning after December 31, 2009, and for interim periods within those fiscal years, or March 31, 2010 for the Corporation. This update also requires companies to reconcile changes in Level 3 assets and liabilities by separately providing information about Level 3 purchases, sales, issuances and

settlements on a gross basis. This provision of this update is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, or March 31, 2011 for the Corporation. The adoption of this update is not expected to materially impact the Corporation s fair value measurement disclosures.

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Notes to Consolidated Financial Statements (Continued)

In September 2009, the FASB issued an Accounting Standard Codification Update for fair value measurements and disclosures related to investments in certain entities that calculate net asset value per share or its equivalent. The update permits, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of this update as of the reporting entity s measurement date. The update also requires disclosures by major category of investment about the attributes of investments within the scope of the update. The update is effective for interim and annual periods ending after December 15, 2009. The adoption of this update did not have a material impact on the Corporation s consolidated financial statements as of December 31, 2009.

In June 2009, the FASB issued the Accounting Standards Codification (the ASC or the Codification) establishing the Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change current GAAP, but was intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of the Codification, all existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered nonauthoritative, other than guidance issued by the SEC. The Codification was effective for interim or annual reporting periods ending after September 15, 2009. The adoption of the Codification did not have a material impact on the Corporation s financial statements as of December 31, 2009, although references to specific authoritative literature in financial statements were eliminated and discussions of accounting concepts were enhanced.

In June 2009, the FASB issued standards for accounting for transfers of financial assets and amendments to guidance relating to consolidation of variable interest entities. The standards change off-balance-sheet accounting of financial instruments including the way entities account for securitizations and special-purpose entities. The standards relating to accounting for transfers of financial assets require more information about sales of securitized financial assets and similar transactions, particularly if the seller retains some risk to the assets. They eliminate the concept of a qualifying special purpose entity, change the requirement for derecognizing financial assets, and require sellers of the assets to make additional disclosures about them. The guidance relating to consolidation of variable interest entities alters how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. A company has to determine whether it should provide consolidated reporting of any entity based upon the entity s purpose and design and the parent company s ability to direct the entity s actions. The standards are effective at the start of the first fiscal year beginning after November 15, 2009 and are not anticipated to have a material impact on the Corporation s financial statements.

In May 2009, the FASB issued general standards of accounting and disclosure for subsequent events. Subsequent events are events or transactions that occur after the balance sheet date but before the release of financial statements. The subsequent events standards were effective for reporting periods ending after June 15, 2009. The application of these standards did not have a material impact on the Corporation s consolidated financial statements as of December 31, 2009.

In April 2009, the FASB issued standards for recognition and presentation of other-than-temporary impairments. The standards (i) change existing guidance for determining whether an impairment is other- than-temporary for debt securities and (ii) replace the existing requirement that the entity s management assert it has both the intent and ability

to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

not have to sell the security before recovery of its cost basis. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. These standards were effective for interim and annual periods ending after June 15, 2009. The application of the provisions of these standards did not have a material impact on the Corporation s consolidated financial statements as of December 31, 2009.

In April 2009, the FASB issued standards for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The standards were effective prospectively for interim periods and annual years ending after June 15, 2009. The application of the provisions of these standards did not have a material impact on the Corporation s consolidated financial statements as of December 31, 2009.

In April 2009, the FASB issued standards for accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. The standards provide guidance in respect of initial recognition and measurement, subsequent measurement, and disclosures concerning assets and liabilities arising from pre-acquisition contingencies in a business combination. The standards were effective for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The application of the provisions of these standards did not have a material impact on the Corporation s consolidated financial statements as of December 31, 2009.

In December 2008, the FASB issued standards to require disclosure of additional information concerning assets held in a defined benefit pension or other postretirement benefit plan. Under these standards, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The additional disclosure requirements are effective for fiscal years ending after December 15, 2009, with earlier application permitted. Upon initial application, comparative information is not required for earlier periods presented. The additional required disclosures under these standards are included in Note 10, Retirement Plan and Supplemental Retirement Plans.

Note 2. Restrictions on Cash and Due from Bank Accounts

The Bank maintains reserve balances under Federal Reserve Bank requirements. The reserve requirement at December 31, 2009 and 2008 was $4.4 million and $6.0 million, respectively, and was satisfied by vault cash held at the Bank s branches. No additional reserves were required to be maintained at the Federal Reserve Bank of Philadelphia in excess of the required $25 thousand clearing balance requirement. The average balances at the Federal Reserve Bank of Philadelphia were $26.5 million and $6.1 million for the years ended December 31, 2009 and 2008, respectively.

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Notes to Consolidated Financial Statements (Continued)

Note 3. 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 December 31, 2009 and 2008, by maturity within each type:

	December 31, 2009				December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Held-to-Maturity Securities								
Residential mortgage-backed securities:								
Within 1 year	**$**	**$**	**$**	**$**	$ 5	$	$	$ 5
After 1 year to 5 years	**87**	**5**		**92**	222	8		230
After 5 years to 10 years					199	10		209
Over 10 years					927	46		973
	87	**5**		**92**	1,353	64		1,417
Other securities:								
After 1 year to 5 years	**16**			**16**	15			15
	16			**16**	15			15
Total	**$ 103**	**$ 5**	**$**	**$ 108**	$ 1,368	$ 64	$	$ 1,432
Securities Available-for-Sale								
U.S. Treasury:								
Within 1 year	**$**	**$**	**$**		$ 5,871	$	$ (9)	$ 5,862
					5,871		(9)	5,862
U.S. government corporations and agencies:								
Within 1 year	**$ 7,000**	**$**	**$**	**$ 7,000**	$	$	$	$
After 1 year to 5 years	**112,937**	**293**	**(238)**	**112,992**	97,994	884	(34)	98,844
	119,937	**293**	**(238)**	**119,992**	97,994	884	(34)	98,844
State and political subdivisions:								

After 1 year to 5 years	**8,287**	**262**	**(2)**	**8,547**	3,048	109	(5)	3,152
After 5 years to 10 years	**28,894**	**636**	**(23)**	**29,507**	28,176	939	(37)	29,078
Over 10 years	**68,560**	**1,200**	**(248)**	**69,512**	68,572	478	(930)	68,120
	105,741	**2,098**	**(273)**	**107,566**	99,796	1,526	(972)	100,350
Residential mortgage-backed securities:								
Within 1 year	**1,461**	**18**		**1,479**	175	1		176
After 1 year to 5 years	**6**							