UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 06, 2009

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, 2008

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 1/31/09**
Common Stock, $5 par value	12,985,156

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 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. þ

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 (Do not check if a smaller reporting company)	Smaller reporting company o

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

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $247,427,506 as of January 31, 2009.

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 21, 2009.

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 those set forth below:

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

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 Bank is engaged in the general commercial banking business and provides a full range of banking services and trust services to its customers. Univest Capital, Inc., formerly Vanguard Leasing, Inc., a wholly owned subsidiary of the Bank, is located in Pennsylvania and provides lease financing. Delview, Inc., a wholly owned subsidiary of the Bank, is a passive investment holding company located in Delaware. Delview, Inc. provides various financial services including financial planning, investment management, insurance products and brokerage services to individuals and businesses through its subsidiaries Univest Investments, Inc. and Univest Insurance, Inc.

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 provided under Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. 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.

Employees

As of December 31, 2008, the Corporation and its subsidiaries employed five hundred and thirty-eight (538) persons.

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 implemented and completed an exhaustive process to achieve compliance with SOX 404 during 2004 and has continued to be in compliance during 2008. The Corporation must maintain effective internal controls which require an on-going commitment by

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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, 2008, the Bank owned $7.4 million in FHLB capital stock.

Statistical Disclosure

Univest Corporation of Pennsylvania and its subsidiaries Univest National Bank and Trust Co., Univest Insurance, Inc., Univest Capital, Inc. and Univest Investments, Inc., provide Financial Solutions For Work, For Home For Life to individuals, businesses and nonprofit organizations. Univest 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:

- Donald K. Martin & Company on December 13, 2004
- 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 the 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) 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 2008 to each shareholder who requests one in writing after March 31, 2009. 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.

Earnings Effect from 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 the Corporation operates, all of which are beyond the Corporation s control.

The Corporation s results of operations are affected by conditions in the capital markets and the economy generally. The capital and credit markets have been experiencing 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 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, in what is the most severe synchronized global downturn of recent times. 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.

In connection with the Emergency Economic Stabilization Act of 2009 and the Troubled Asset Recovery Program (TARP), the U.S. Department of the Treasury (UST) has initiated a capital purchase program. Through this program, qualifying financial institutions are eligible to participate in the sale of senior preferred stock to the UST in an amount not less than 1% of total risk-weighted assets and not more than 3% of total risk-weighted assets. The senior preferred stock will pay cumulative dividends at a rate of 5% per year for the first five years and 9% thereafter. The UST would also receive warrants to purchase a number of shares of common stock of the Corporation having an aggregate market value equal to 15% of the senior preferred stock on the date of the investment, subject to certain reductions.

In November 2008, the Corporation announced it would not participate in the U.S. Treasury Department s capital purchase program. The Corporation elected to take part in the FDIC transaction account guarantee program, which provides a full guarantee on all non-interest bearing transaction accounts held by any depositor through December 31, 2009. The Corporation elected to opt out of the debt guarantee program, which fully guarantees any senior unsecured debt issued between October 14, 2008 and June 30, 2009.

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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 our management believes it has 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.

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, including an impact on the value of 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 money penalties.

As of December 31, 2008, approximately 74.4% of our loan and lease portfolio consisted of commercial, industrial, construction, and commercial real estate loans and leases, which are generally perceived as having more risk of default than residential real estate and consumer loans. 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, as described below.

The Corporation s Allowance for Possible Loan and Lease Losses May be Insufficient

An allowance for possible loan and lease losses, a reserve established through a provision for possible loan and lease losses charged to expense, represents management s best estimate of probable losses within the existing portfolio of loans and leases. The level of the allowance reflects management s continuing evaluation of industry concentrations, specific credit risks, loan and lease loss experience, current loan and lease portfolio quality, unidentified losses inherent in the current loan and lease portfolio, and present economic, political and regulatory conditions. Although we evaluate every loan and lease we make against our underwriting criteria, we may experience losses due to factors beyond our control, which may result in our allowance for loan and lease losses being insufficient to absorb actual loan and lease losses.

The Corporation is Subject to Environmental Liability Risk Associated with Lending Activities

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; these reviews may not be sufficient to detect all potential environmental hazards. Possible remediation costs and liabilities could have a material adverse effect on the Corporation s financial condition.

The Corporation s Profitability is Affected by Economic Conditions in the Commonwealth of Pennsylvania

Unlike larger national or other regional banks that operate in large geographies, the Corporation provides banking and financial services to customers primarily in Bucks, Montgomery, Chester and Lehigh counties. However, we can be affected by a decline in general economic conditions, caused by inflation, recession, acts of terrorism, or other international or domestic occurrences that could impact local economic conditions, including changes in securities markets.

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 financial services competitors, including non-bank competitors. Our future growth and ability to develop and maintain long-term customer relationships is contingent upon our ability to continually develop high levels of customer satisfaction based on our strategic initiatives to provide top quality service in a highly ethical and safe and sound environment. Failure to successfully manage risks associated with the development and implementation of new lines of business or new products or services could have a material adverse effect on the Corporation s business operations and financial condition.

The Corporation is Subject to Extensive Government Regulation and Supervision

Univest and its subsidiaries are subject to extensive state and federal supervision and regulation which could result in violations or sanctions from regulatory agencies. While we have policies and procedures in place designed to prevent such violations, there can be no assurance such violations will not occur. Any substantial changes to applicable laws or regulations could also subject the Corporation to additional costs, limit the types of financial services and products we may offer, and inhibit our ability to compete effectively with other financial services providers.

The Corporation s Controls and Procedures May Fail or be Circumvented

Management diligently reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. This system is designed to provide reasonable, not absolute, assurances that the objectives comply with appropriate regulatory guidance. Any undetected circumvention of these controls could have a material adverse impact on the Corporation s financial condition and results of operations.

The Corporation Relies on Dividends from its Subsidiaries for Most of its Business

The Corporation is a financial holding company and its operations are conducted by its subsidiaries from which the Corporation receives dividends. The ability of its subsidiaries to pay dividends is subject to legal and regulatory limitations, profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance future dividend payments will be generated from the subsidiaries or that the Corporation will have adequate cash flow to pay dividends in the future.

Potential Acquisitions May Disrupt the Corporation s Business and Dilute Stockholder Value

The Corporation may use its common stock and cash or other liquid assets or incur debt to acquire other companies that are culturally similar or make investments in banks and other complementary businesses in the future. The Corporation regularly evaluates acquisition opportunities. Future acquisitions could be material to the Corporation; the degree of success achieved in such transactions could have a material effect on the value of the Corporation s common stock.

The Corporation May Not be Able to Attract and Retain Skilled People

Attracting and retaining key people is critical to the Corporation s success, and difficulty finding qualified people could have a significant impact on the Corporation s business due to the lack of required skill sets and years of industry experience. Management is cognizant of these risks and succession planning is built into the long-range strategic planning process. The Corporation does not currently have employment agreements or non-competition agreements with any of its executive officers.

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 which could have a material adverse effect on our financial condition.

The Corporation Continually Encounters Technological Change

The Corporation s 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 the Corporation s business operations and financial condition.

The Corporation is Subject to Claims and Litigation Pertaining to Fiduciary Responsibility

Any financial or reputation damage due to customer claims and other legal action, whether founded or unfounded, could have a material adverse effect on the Corporation s financial condition and results of operation if such claims are not resolved in a favorable manner.

The Long-term Economic Effects of 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. Management has established disaster recovery policies and procedures which are expected to mitigate events related to natural or man-made disasters; however, the impact of an overall economic decline could have a material adverse effect on the Corporation s financial condition.

The Corporation s Stock Price Can be Volatile

The Corporation s stock price can fluctuate in response to a variety of factors, including, but not limited to, general market fluctuations, industry factors, interest rate changes or credit loss trends, and general economic and political conditions, such as economic slowdowns or recessions. These factors could cause the Corporation s stock price to decrease regardless of operating results. The Corporation s common stock is listed for trading in the NASDAQ National Market under the symbol UVSP ; the trading volume has historically been less than that of larger financial service companies.

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 Federal Deposit Insurance Corporation or any other deposit insurance fund, and is subject to investment risk, including the loss of some or all of your investment. The Corporation s common stock is subject to the same market forces that affect the price of common stock in any company.

Anti-takeover Effect of the Corporation s Articles of Incorporation, Bylaws, and Shareholders Rights Plan

Certain provisions in the Corporation s Articles of Incorporation, the Bylaws, and the Stock Purchase Rights Plan, including federal banking laws and regulatory approval requirements, 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.

Future Changes in Laws and Regulations

The Corporation is subject to changes in federal and state tax laws, as well as changes in banking and credit regulations, accounting principles, and governmental economic and monetary policies. We cannot predict whether any of these changes or other supervisory actions may adversely and materially affect the Corporation s business and profitability.

Dependence on the Accuracy and Completeness of Information about Customers and Counterparties

The Corporation may rely on information furnished by or on behalf of customers and counterparties in determining whether to enter into credit-related or other transactions. Reliance on any inaccurate or misleading financial information could potentially have an adverse impact on the Corporation s business and financial condition.

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 the Corporation s financial condition and results of operation.

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 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 Insurance, Inc. occupies four locations which two are owned by the Bank; one in Lansdale, Montgomery County and one in West Chester, Chester County and two are leased; one in Conshohocken, Montgomery County and one in Upper Marlboro, Prince Georges County in Maryland. The Bank serves the area through its thirty-one traditional offices and two supermarket branches that offer traditional community banking and trust services. Fifteen banking offices are located in Montgomery County, of which eleven are owned, one is leased and three are buildings owned on leased land; eighteen banking offices are located in Bucks County, of which five are owned, twelve are leased and one is a building owned on leased land and one banking office in Lehigh County, which is leased.

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, offers merchants an express banking center located in the Montgomery Mall, and has six off-premise automated teller machines. The work site office and the express banking center are located in Montgomery County. Six off-premise automated teller machines are located in Montgomery County and one is located in Bucks 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 listed on NASDAQ: UVSP. The Corporation s shares were approved for NASDAQ listing and began trading on the NASDAQ National Market, effective August 15, 2003. At December 31, 2008, Univest had 3,813 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

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**

2007	**High**	**Low**
January March	$ 31.24	$ 22.32
April June	25.74	21.94
July September	25.95	18.00
October December	25.45	18.84

Cash Dividends Paid Per Share

2008	
January 2	**$ 0.200**
April 1	**0.200**
July 1	**0.200**
October 1	**0.200**
For the Year 2008	**$ 0.800**

2007

January 3	$ 0.200
April 1	0.200
July 1	0.200
October 3	0.200
For the Year 2007	$ 0.800

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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, 2008, 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, 2003, 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. The Corporation s total cumulative return was 73.55% over the five year period ending December 31, 2008 compared to 6.11% and 23.27% for the NASDAQ Bank Stocks and NASDAQ composite, respectively.

Comparison of Cumulative Total Return on
$100 Investment Made on December 31, 2003

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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, 2008:

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	391,115	$ 23.51	1,033,380
Equity compensation plans not approved by security holders			
Total	391,115	23.51	1,033,380

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2008:

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, 2008 Oct. 31, 2008	13,650	$ 28.30	13,650	643,782
Nov. 1, 2008 Nov. 30, 2008				643,782
Dec. 1, 2008 Dec. 31, 2008				643,782

Total	13,650	13,650

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.

Item 6. *Selected Financial Data*

	Years Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share date and ratios)				
Earnings					
Interest income	**$ 108,366**	$ 116,533	$ 105,166	$ 85,502	$ 74,789
Interest expense	**42,310**	54,127	43,651	26,264	18,948
Net interest income	**66,056**	62,406	61,515	59,238	55,841
Provision for loan and lease losses	**8,769**	2,166	2,215	2,109	1,622
Net interest income after provision for loan and lease losses	**57,287**	60,240	59,300	57,129	54,219
Noninterest income	**26,306**	26,879	25,417	22,444	22,603
Noninterest expense	**57,225**	52,211	49,958	45,796	44,920
Net income before income taxes	**26,368**	34,908	34,759	33,777	31,902
Applicable income taxes	**5,778**	9,351	9,382	8,910	8,311
Net income	**$ 20,590**	$ 25,557	$ 25,377	$ 24,867	$ 23,591
Financial Condition at Year End					
Cash, interest-earning deposits and federal funds sold	**$ 40,066**	$ 59,385	$ 70,355	$ 59,439	$ 37,745
Investment securities	**443,026**	423,448	382,400	343,259	343,502
Net loans and leases	**1,437,318**	1,342,356	1,340,398	1,236,289	1,161,081
Assets	**2,084,797**	1,972,505	1,929,501	1,769,309	1,666,957
Deposits	**1,527,328**	1,532,603	1,488,545	1,366,715	1,270,884
Long-term obligations	**120,006**	114,453	107,405	88,449	90,418
Shareholders equity	**203,207**	198,726	185,385	173,080	160,393
Per Common Share Data*					
Average shares outstanding	**12,873**	12,885	12,960	12,867	12,841
Earnings per share basic	**$ 1.60**	$ 1.98	$ 1.96	$ 1.93	$ 1.84
Earnings per share diluted	**1.60**	1.98	1.95	1.91	1.80
Dividends declared per share	**0.800**	0.800	0.780	0.717	0.667
Book value	**15.71**	15.49	14.25	13.37	12.47
Dividend payout ratio	**50.00%**	40.40%	40.00%	37.54%	37.06%
Profitability Ratios					
Return on average assets	**1.02%**	1.32%	1.38%	1.46%	1.44%
Return on average equity	**10.09**	13.44	14.04	14.87	15.46

Average equity to average assets	**10.08**	9.84	9.81	9.83	9.33

* Per share data has been restated to give effect to a three-for-two stock split in the form of a dividend declared on March 23, 2005 which was distributed on April 29, 2005.

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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 .)

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. As a result of the actions of the Board of Governors of the Federal Reserve System in lowering the federal funds target rate, the Bank Prime Loan Rate decreased seven times between December 31, 2007 and December 31, 2008 from 7.25% to 3.25%. 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,		
	2008	**2007**	**2006**
Net income	**$ 20,590**	$ 25,557	$ 25,377
Net income per share:			
Basic	**1.60**	1.98	1.96
Diluted	**1.60**	1.98	1.95

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 rate on interest-earning assets. The net interest margin on a tax-equivalent basis increased slightly to 3.75% from 3.72%.

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

Total noninterest income decreased by $573 thousand or 2.1% 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 is 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.

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2007 versus 2006

The 2007 results compared to 2006 include the following significant pretax components:

Net interest income grew due to volume and rate increases on average interest-earning assets. This growth was offset by volume and rate increases on average interest-bearing liabilities. The net interest margin on a tax-equivalent basis declined slightly to 3.72% from 3.86%.

Total noninterest income increased by $1.5 million or 5.8% due primarily to increased insurance commission and fee income and trust fee income.

Total noninterest expense increased $2.3 million or 4.5% primarily due to salaries and benefits expense offset by decreases in marketing and advertising expense.

Results of Operations 2008 Versus 2007

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, 2008 compared to 2007. 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 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.

	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	**240,883**	**12,353**	**5.13**	187,698	9,986	5.32
Federal Reserve Bank stock	**1,687**	**101**	**5.99**	1,687	101	5.99
Federal funds sold	**14,714**	**394**	**2.68**	9,303	454	4.88
Total interest-earning deposits, investments and federal funds sold	**452,420**	**23,786**	**5.26**	402,935	21,944	5.45
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	**1,854,391**	**111,869**	**6.03**	1,769,952	119,891	6.77
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	**117,530**			112,952		
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		**$ 69,559**			$ 65,764	
Net interest spread			**3.33**			3.14
Effect of net interest-free funding sources			**0.42**			0.58
Net interest margin			**3.75%**			3.72%
Ratio of average interest-earning assets to average interest-bearing	**118.23%**			118.76%		

liabilities

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

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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 2 Analysis of Changes in Net Interest Income for 2008 Versus 2007

	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	2,724	(357)	2,367
Federal Reserve Bank stock			
Federal funds sold	145	(205)	(60)
Interest on deposits, investments and federal funds sold	2,672	(830)	1,842
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	5,535	(13,557)	(8,022)
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	$ 5,223	$ (1,428)	$ 3,795

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 $3.8 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 3.72% for the twelve-month periods 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 3.33% for the twelve months ended December 31, 2008 compared to 3.14% for the same period in 2007. The effect of net interest free funding sources decreased to 0.42% for the twelve months ended December 31, 2008 compared to 0.58% 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 twelve months 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 twelve months ended December 31, 2008 compared to 2007 is due primarily to average rate decreases on commercial business loans and real estate commercial and construction loans. The rate decreases are attributable to the 304 basis point decline in average prime rate comparing the twelve months 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 twelve months 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 twelve months 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 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 average rate.

Interest on short-term borrowings includes interest paid on federal funds purchased, repurchase agreements 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 short-term borrowings decreased 37.1% during 2008 compared to 2007 primarily due to a decrease in 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. Subordinated notes and capital securities include the issuance of $15.0 million in Subordinated Capital Notes in 2003, and the issuance of $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities) in 2003. 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 as provided for under Statement of Financial Accounting Standard (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114). 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 a $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 twelve months ended December 31, 2008 compared to 2007 primarily due to $1.3 million in other-than-temporary impairments on equity securities which is 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**	2,538	(164)	(6.5)
Insurance commission and fee income	**5,723**	5,730	(7)	(0.1)
Bank owned life insurance income	**2,791**	1,503	1,288	85.7
Other service fee income	**3,331**	3,662	(331)	(9.0)
Net (loss) gain on sales of and impairments on securities	**(971)**	435	(1,406)	N/M
Net (loss) gain on dispositions of fixed assets	**(40)**	(112)	72	64.3
Other	**286**	380	(94)	(24.7)
Total noninterest income	**$ 26,306**	$ 26,879	$ (573)	(2.1)

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 twelve months ended December 31, 2008 to the same period in 2007.

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

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 twelve months 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.

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 twelve months ended December 31, 2008 over 2007 primarily due to a decrease in mortgage placement fee income.

Other non-interest income includes losses on investments in partnerships, gains on sales of mortgages, gains on sales of other real estate owned, reinsurance income and other miscellaneous income. Other non-interest income decreased for the twelve months ended 2008 compared to the same period in 2007 primarily due to a $70 thousand decrease in the gain on sale of leases.

Gains on Sales of Assets

During the twelve months 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 twelve-month period 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 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 twelve months 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 $7.1 million in loans and leases during the twelve months ended December 31, 2008 resulted in gains of $198 thousand compared to sales of $3.9 million for gains of $197 thousand for the twelve months 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.

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
Other	**14,836**	12,689	2,147	16.9
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. 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, Federal Deposit Insurance Corporation (FDIC) insurance premiums and telephone expenses also contributed to the increase in other expenses.

Provision For Income Taxes

The provision for income taxes was $5.8 million for the twelve months 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 twelve-month periods is 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.

Results of Operations 2007 Versus 2006

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 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 years ended December 31, 2007 compared to 2006. Table 4 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 Committees work to maintain an adequate and stable net interest margin for the Corporation.

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Table 3 Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential for 2007 versus 2006

	For the Year Ended December 31, 2007			2006		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	$ 1,892	$ 95	5.02%	$ 621	$ 27	4.35%
U.S. Government obligations	117,768	5,371	4.56	148,680	5,349	3.60
Obligations of states and political subdivisions	84,587	5,937	7.02	83,705	5,924	7.08
Other debt and equity securities	187,698	9,986	5.32	127,418	6,415	5.03
Federal Reserve Bank stock	1,687	101	5.99	1,687	101	5.99
Federal funds sold	9,303	454	4.88	5,481	281	5.13
Total interest-earning deposits, investments and federal funds sold	402,935	21,944	5.45	367,592	18,097	4.92
Commercial, financial and agricultural loans	394,667	31,155	7.89	392,917	29,267	7.45
Real estate-commercial and construction loans	445,954	34,883	7.82	420,836	31,833	7.56
Real estate-residential loans	307,042	16,665	5.43	303,041	16,464	5.43
Loans to individuals	81,157	5,675	6.99	105,772	7,086	6.70
Municipal loans and leases	90,421	5,341	5.91	90,079	5,348	5.94
Lease financings	47,776	4,228	8.85	5,066	572	11.29
Gross loans and leases	1,367,017	97,947	7.17	1,317,711	90,570	6.87
Total interest-earning assets	1,769,952	119,891	6.77	1,685,303	108,667	6.45
Cash and due from banks	39,782			41,409		
Reserve for loan and lease losses	(13,645)			(13,752)		
Premises and equipment, net	23,223			22,042		
Other assets	112,952			107,825		
Total assets	$ 1,932,264			$ 1,842,827		
Liabilities:						
Interest-bearing checking deposits	$ 137,699	463	0.34	$ 135,793	247	0.18
Money market savings	387,315	15,826	4.09	321,025	11,639	3.63

Regular savings	212,977	3,833	1.80	195,125	1,615	0.83
Time deposits	539,048	25,001	4.64	549,324	21,837	3.98
Total time and interest-bearing deposits	1,277,039	45,123	3.53	1,201,267	35,338	2.94
Securities sold under agreements to repurchase	86,641	1,994	2.30	96,624	2,116	2.19
Other short-term borrowings	14,432	777	5.38	22,766	1,202	5.28
Long-term debt	82,855	3,919	4.73	59,304	2,647	4.46
Subordinated notes and capital securities	29,431	2,314	7.86	30,935	2,348	7.59
Total borrowings	213,359	9,004	4.22	209,629	8,313	3.97
Total interest-bearing liabilities	1,490,398	54,127	3.63	1,410,896	43,651	3.09
Demand deposits, non-interest bearing	221,738			227,444		
Accrued expenses and other liabilities	29,913			23,724		
Total liabilities	1,742,049			1,662,064		
Shareholders Equity:						
Common stock	74,370			74,370		
Additional paid-in capital	22,517			22,173		
Retained earnings and other equity	93,328			84,220		
Total shareholders equity	190,215			180,763		
Total liabilities and shareholders equity	$ 1,932,264			$ 1,842,827		
Net interest income		$ 65,764			$ 65,016	
Net interest spread			3.14			3.36
Effect of net interest-free funding sources			0.58			0.50
Net interest margin			3.72%			3.86%
Ratio of average interest-earning assets to average interest-bearing liabilities	118.76%			119.45%		

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 $1.0 million for 2007 and $1.4 million for 2006.

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 2007 Versus 2006

The rate-volume variance analysis set forth in the table below compares changes in net interest on both a tax-equivalent and non-tax-equivalent basis, for the years ended December 31, 2007 compared to the same period in 2006, 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, 2007 Versus 2006		
	Volume Change	**Rate Change**	**Total**
Interest income:			
Interest-earning deposits with other banks	$ 64	$ 4	$ 68
U.S. Government obligations	(1,405)	1,427	22
Obligations of states and political subdivisions	63	(50)	13
Other debt and equity securities	3,201	370	3,571
Federal Reserve Bank stock			
Federal funds sold	187	(14)	173
Interest on deposits, investments and federal funds sold	2,110	1,737	3,847
Commercial, financial and agricultural loans and leases	159	1,729	1,888
Real estate-commercial and construction loans	1,956	1,094	3,050
Real estate-residential loans	201		201
Loans to individuals	(1,718)	307	(1,411)
Municipal loans	20	(27)	(7)
Lease financings	3,780	(124)	3,656
Interest and fees on loans and leases	4,398	2,979	7,377
Total interest income	6,508	4,716	11,224
Interest expense:			
Interest-bearing checking deposits	(1)	217	216
Money market savings	2,710	1,477	4,187
Regular savings	325	1,893	2,218
Time deposits	(462)	3,626	3,164
Interest on time and interest-bearing deposits	2,572	7,213	9,785
Securities sold under agreement to repurchase	(228)	106	(122)
Other short-term borrowings	(448)	23	(425)
Long-term debt	1,112	160	1,272
Subordinated notes and capital securities	(118)	84	(34)
Interest on borrowings	318	373	691

Total interest expense	2,890	7,586	10,476
Net interest income	$ 3,618	$ (2,870)	$ 748

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 $748 thousand in 2007 compared to 2006 primarily due to higher rates and volume in commercial and real estate-commercial loans, increased volume of lease financings and rate and volume increases on other securities partially offset by increased volume and rates on money market savings and regular savings deposits as well as increased rates on certificates of deposits. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets declined slightly to 3.72% for the year ended December 31, 2007 when compared to 3.86% for the year ended December 31, 2006. 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 3.14% at December 31, 2007 and 3.36% at December 31, 2006. The effect of net interest free funding sources increased to 0.58% for December 31, 2007 when compared to 0.50% as of December 31, 2006; 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 on other securities increased 55.7% for the year ended December 31, 2007 compared to 2006 due to volume growth of 47.3% and a positive 29 basis point rate change. This growth was attributable to rate and volume increases on mortgage-backed securities.

Interest on federal funds sold is income received from the daily investment of excess or unused funds. It can be volatile in both rate and volume. Interest on federal funds sold increased $173 thousand in 2007 compared to 2006 due to increased volume. This increase was offset slightly by a decrease in rates when comparing 2007 to 2006.

Tax-equivalent interest and fees on loans and leases grew 8.2% for the year ended December 31, 2007 compared to 2006 due to average volume and average rate increases. Commercial loan volume increased 0.4% and average rate increased 44 basis points. Average balance growth in real estate-commercial and construction loans was 6.0% along with a 26 basis point increase in the average rate. Also contributing to the increase in interest income on loans and leases was average growth of $42.7 million in lease financings. These increases were partially offset by a 23.3% average balance decrease in loans to individuals. The average tax-equivalent interest yield on the loan and lease portfolio grew from 6.87% in 2006 to 7.17% in 2007.

Interest Expense

The Corporation s average cost of deposits increased 59 basis points during 2007 compared to 2006. Average rates paid increased in each deposit category over the prior year due to aggressive pricing of deposits by competitors within the markets we operate. The average rate paid on money market savings increased 46 basis points and volume increased 20.6% when compared to 2006. Interest on regular savings increased 137.3%, due to a 97 basis point increase in average rate and 9.1% increase in average volume. Interest on time deposits increased 14.5%, due to a 66 basis point increase in average rate; this increase was offset slightly by a decline in average volume of 1.9%. Since August 2004, the Bank began purchasing Certificates with the Pennsylvania Local Government Investment Trust (PLGIT) to augment its 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. The average balance of PLGIT certificates decreased $35.8 million and the average rate increased 54 basis points comparing the year ended December 31, 2007 over the same period in 2006. The average balance of non-wholesale certificates of deposit increased $29.5 million and the average rate increased 76 basis points, due to promotions offered to grow deposits. Interest on demand deposits increased due to average rate increase of 16 basis points and average volume increase of $1.9 million.

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 16.5% during 2007 compared to 2006 primarily due to decreased volume 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 $23.6 million and a 27 basis point increase in the average rate paid. Subordinated notes and capital securities include the issuance of $15.0 million in Subordinated Capital Notes in 2003, and the issuance of $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities) in 2003. Interest expense on Subordinated Capital Notes and Trust Preferred Securities decreased 1.4% 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 as provided for under SFAS 114. Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2007 and 2006 was $2.2 million.

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 primarily represents changes in the net cash surrender values of bank-owned life insurance. Total noninterest income increased during 2007 compared to 2006 primarily due to increases in commission and fee income resulting from the acquisition of B. G. Balmer & Company, Inc. (Balmer), an insurance agency, during the third quarter of 2006, increased trust fee income, other service fee income and gains on the sales of securities.

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

	For the Years Ended December 31,			
	2007	**2006**	**$ Change**	**% Change**
Trust fee income	$ 5,921	$ 5,515	$ 406	7.4%
Service charges on deposit accounts	6,822	6,771	51	0.8
Investment advisory commission and fee income	2,538	2,284	254	11.1
Insurance commission and fee income	5,730	4,765	965	20.3
Bank owned life insurance income	1,503	1,475	28	1.9
Other service fee income	3,662	3,348	314	9.4
Net gain on sales of securities	435	50	385	N/M
Net (loss) gain on dispositions of fixed assets	(112)	653	(765)	N/M
Other	380	556	(176)	(31.7)
Total noninterest income	$ 26,879	$ 25,417	$ 1,462	5.8

Trust income continued to grow in 2007 from 2006 primarily due to an increase in the number and market value of assets managed. Service charges on deposit accounts increased slightly in 2007 compared to 2006 due to increased nonsufficient funds fees, cash management service fees and ATM fees. These increases were offset slightly by decreases in interest checking service charges and account analysis fees.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased in 2007 over 2006 due to market activity and volume. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc., continued to grow in 2007 from 2006. Insurance commissions grew approximately $965 thousand primarily due to the acquisition of Balmer. The acquisition of Balmer was completed in the third quarter of 2006 and continues the expansion of Univest Insurance, Inc. into the West Chester area of Pennsylvania.

Bank owned life insurance income is primarily the change in the net cash surrender values of bank owned life insurance policies. Increased income was recognized as a result of additional purchases in 2007. This increase was offset by reduced gains in net cash surrender values of the existing policies in 2007 when compared to 2006.

Other service fee income primarily consists of fees from credit card companies for a portion of merchant charges paid to the credit card companies for the Bank s customer debit card usage (Mastermoney fees), non-customer debit card fees, other merchant fees, mortgage servicing income, sales of loans and leases and mortgage placement income. Other service fee income grew in 2007 compared to 2006 primarily due to increased Mastermoney fees of $132 thousand and increased income of $82 thousand from other merchant fees.

Gains on Sales of Assets

During 2007, approximately $4.2 million in U.S. Government treasuries, $1.2 million in Municipals and $227 thousand in equity securities were sold for a net gain of $435 thousand. There were calls of $22.1 million of U.S. Government agency securities, $12.4 million in municipal securities and $5.4 million in equity securities. During 2006, approximately $1.4 million in U.S. Government treasuries and $225 thousand in equity securities were sold for a net gain of $50 thousand. In 2006, calls of FHLB equity securities totaled $10.8 million as the Bank was not required to hold these securities due to the level of FHLB borrowings; there were also calls of $7.1 million on municipal securities.

Net losses on the disposition of fixed assets was $112 thousand for the year ended December 31, 2007, compared to net gains of $653 thousand for the year ended December 31, 2006. 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. In addition, the consolidation and upgrade of the corporate phone system resulted in a loss on disposal of $36 thousand. During 2006, the Corporation sold a former banking office and relocated one supermarket branch.

Sales of $3.9 million in loans and leases during the year ended December 31, 2007 resulted in a gain of $197 thousand as compared to sales of $1.5 million during the year ended December 31, 2006 for a net gain of $39 thousand. Sales of $13.9 million of student loans resulted in a gain of $347 thousand for the year ended December 31, 2006. There were no sales of student loans in 2007. Gains on the sale of loans and leases are included in the other category in the noninterest income table.

In 2007, the Corporation recorded a net loss of $5 thousand on the sale of one other real estate owned property. During 2006, the Corporation sold two other real estate owned properties resulting in a gain of $139 thousand. Gains and losses on the sale of other real estate owned properties are included in the other category in the noninterest income table.

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.

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

	For the Years Ended December 31,			
	2007	2006	$ Change	% Change
Salaries and benefits	$ 30,811	$ 28,547	$ 2,264	7.9%
Net occupancy	4,753	4,362	391	9.0
Equipment	3,127	3,274	(147)	(4.5)
Marketing and advertising	831	1,685	(854)	(50.7)
Other	12,689	12,090	599	5.0
Total noninterest expense	$ 52,211	$ 49,958	$ 2,253	4.5

Salaries and benefits increased in 2007 in comparison to 2006 primarily due to normal salary and benefit expenses associated with the formation of Univest Capital, Inc., the Balmer acquisition, normal escalation of base salary and benefit costs and special effort awards.

Net occupancy expense increased for the year ended December 31, 2007 in comparison to 2006 due to increased rental expense associated with rental obligations for the West Chester insurance office, Doylestown corporate office and the Vernfield banking office as well as increased costs in general building maintenance and repair. These increases were offset by growth in rental income from the West Chester insurance office and the Kulpsville banking site. Equipment expense decreased primarily due to a reduction in depreciation expense associated with furniture and equipment.

Marketing and advertising expenses decreased primarily due to a reduction in radio advertising and sales promotions. These decreases were partially offset by increases in internet advertising. Other expenses increased for the year ending December 31, 2007 compared to 2006 primarily due to increased audit and exam fees, legal fees and pension administration costs. These increases were partially offset by a decrease in consultant fees.

Provision For Income Taxes

The provision for income taxes was $9.4 million for the years ended December 31, 2007 and December 31, 2006. The provision for income taxes for 2007 and 2006 are at effective rates of 26.8% and 26.9%, respectively. The effective tax rates reflect the benefits of tax credits generated from investments in low-income housing projects, tax-exempt interest income from investments in municipal securities and loans and non-taxable cash surrender value income on bank-owned life insurance. The decrease in the effective tax rate in 2007 compared to 2006 is primarily due to a reduction in disallowed travel and entertainment expense; this reduction was partially offset by a reduction in low-income housing tax credits.

Financial Condition

During 2008, total assets increased primarily due to growth in total loans and leases and investment securities. Total liabilities increased primarily due to increases in borrowings which is partially offset by a reduction in deposits. 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,			
	2008	**2007**	**$ Change**	**% Change**
Cash, interest-earning deposits and federal funds sold	**$ 40,066**	$ 59,385	$ (19,319)	(32.5)%
Investment securities	**443,026**	423,448	19,578	4.6
Total loans and leases	**1,450,436**	1,355,442	94,994	7.0
Reserve for loan and lease losses	**(13,118)**	(13,086)	(32)	(0.2)
Premises and equipment, net	**32,602**	27,977	4,625	16.5
Goodwill and other intangibles	**56,051**	47,081	8,970	19.1
Bank owned life insurance	**45,419**	46,689	(1,270)	(2.7)
Other assets	**30,315**	25,569	4,746	18.6
Total assets	**$ 2,084,797**	$ 1,972,505	$ 112,292	5.7

Acquisitions

On December 29, 2008 the Corporation through its insurance subsidiary, Univest Insurance, Inc., 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. Univest Insurance recorded $2.7 million in goodwill and $740 thousand in customer related intangibles based on the preliminary purchase price allocation of the Liberty Benefits, Inc. acquisition.

On December 31, 2008, Univest Investments, Inc. completed the acquisition of TC Group Securities Company, Inc. (TC Group), an investment counseling firm that exclusively serves Municipal Pension Plan clients and Allied Benefits Group, LLC (Allied), an independent actuarial, administrative, consulting and compliance company. Based on the preliminary purchase price allocation, Univest Investments recorded goodwill of $623 thousand and customer related intangibles of $1.2 million for TC Group and $154 thousand in goodwill and customer related intangibles of $1.8 million for Allied. These acquisitions will expand Univest Investments growing investment business into the Lehigh Valley.

On December 31, 2008, the Bank acquired TCG Investment Advisory, Inc, an investment advisory company. This acquisition expands the Bank s presence in the Lehigh Valley. Based on the preliminary purchase price allocation, the Bank recorded $2.2 million in goodwill and no customer related intangibles as a result of the TCG Investment Advisory, Inc. acquisition.

Cash, Interest-earning Deposits and Federal Funds Sold

Cash, interest-earning deposits and federal funds sold decreased as of December 31, 2008 as compared to December 31, 2007 primarily due to a $11.7 million decrease in federal funds sold. The excess cash in banks was used to fund asset growth.

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, mortgage-backed and municipal securities.

Total investments increased primarily due to security purchases of $417.4 million that were partially offset by security maturities of $212.7 million and sales and calls of $184.8 million.

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, 2008	2007	2006
U.S. Treasury, government corporations and agencies	**$ 104,706**	$ 117,054	$ 130,099
State and political subdivisions	**100,350**	86,754	83,142
Mortgage-backed securities	**211,466**	195,173	141,783
Other debt securities	**12,836**	12,792	16,511
Equity securities	**13,668**	11,675	10,865
Total investment securities	**$ 443,026**	$ 423,448	$ 382,400

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,					
	2008 Amount	2008 Yield	2007 Amount	2007 Yield	2006 Amount	2006 Yield
1 Year or less	$ 10,626	0.67%	$ 49,087	3.93%	$ 94,119	4.39%
1 Year-5 Years	113,380	4.43	85,652	4.98	108,743	4.64
5 Years-10 Years	37,889	4.80	33,285	4.90	31,754	5.03
After 10 Years	267,463	5.07	243,749	5.18	136,919	5.06
No stated maturity	13,668	3.03	11,675	4.59	10,865	5.42
Total	$ 443,026	4.71	$ 423,448	4.96	$ 382,400	4.78

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 their 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, 2008, the FHLB stock is recorded at cost.

Loans and Leases

Total gross loans and leases grew comparing December 31, 2008 to December 31, 2007 due to increases of $42.0 million in commercial leases, $42.8 million in commercial, financial and agricultural loans, $19.1 million in real estate-construction, $6.0 million in real estate-residential loans, which are loans secured by one to four-family properties and $5.3 million in real estate-commercial loans. These increases were offset by decreases of $18.3 million in loans to individuals.

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At December 31, 2008 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,				
	2008	2007	2006	2005	2004
Commercial, financial and agricultural	**$ 424,649**	$ 381,826	$ 442,182	$ 383,792	$ 367,902
Real estate commercial	**399,003**	393,686	352,596	349,384	337,080
Real estate construction	**153,506**	134,448	136,331	110,032	101,963
Real estate residential	**316,583**	310,571	305,306	303,994	300,397
Loans to individuals	**54,212**	72,476	89,217	102,095	66,169
Lease financings	**110,095**	68,100	30,186	415	783
Total gross loans and leases	**1,458,048**	1,361,107	1,355,818	1,249,712	1,174,294
Less: Unearned income	**(7,612)**	(5,665)	(2,137)	(60)	(114)
Total loans and leases	**$ 1,450,436**	$ 1,355,442	$ 1,353,681	$ 1,249,652	$ 1,174,180

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, 2008:

	Total	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years
Commercial, financial and agricultural	$ 424,649	$ 294,046	$ 110,722	$ 19,881
Real estate commercial	399,003	173,911	196,000	29,092
Real estate construction	153,506	100,730	43,950	8,826
Real estate residential	316,583	83,040	70,471	163,072
Loans to individuals	54,212	10,952	23,833	19,427
Leases financings	110,095	38,088	71,791	216
Total gross loans and leases	$ 1,458,048	$ 700,767	$ 516,767	$ 240,514
Loans and leases with fixed predetermined interest rates	743,148	132,613	411,751	198,784
Loans and leases with variable or floating interest rates	714,900	568,154	105,016	41,730

Total gross loans and leases	$ 1,458,048	$ 700,767	$ 516,767	$ 240,514

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.

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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 collectibility of interest for accrual purposes.

When a loan or lease, including a loan or lease impaired under SFAS 114, 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 collectibility 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 $5.4 million at December 31, 2008, $6.9 million at December 31, 2007 and $8.4 million at December 31, 2006, and consist mainly of commercial, financial and real estate-construction loans. For the years ended December 31, 2008, 2007 and 2006, nonaccrual loans and leases resulted in lost interest income of $685 thousand, $747 thousand and $541 thousand, respectively. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 0.45% as of December 31, 2008, 0.65% as of December 31, 2007, and 0.68% as of December 31, 2006.

At December 31, 2008, the recorded investment in loans and leases that are considered to be impaired under SFAS 114 was $5.4 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 $36 thousand. Nonaccruing loans decreased during 2008 primarily due to paydowns and charge-offs of $7.9 million. These decreases were offset by additional nonaccrual loans of $6.4 million. Specific reserves of $36 thousand have been established for these loans based on current facts and management s judgments about the ultimate outcome of these credits. 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. The Corporation acquired two other real estate owned properties during 2008. There were no other real estate owned properties as of December 31, 2007. At December 31, 2008, nonaccruing loans consisted of: $1.8 million in real estate-commercial loans, $520 thousand in commercial loans, $1.6 million in real estate-construction loans, $813 thousand in real estate residential loans and $298 thousand in lease financings. At December 31, 2007, the recorded investment in loans that are considered to be impaired under SFAS 114 was $6.9 million, all of which were on a nonaccrual basis. The related reserve for loan losses for those loans was $1.8 million. At December 31, 2007 nonaccruing loans consisted of $1.0 million in real estate-commercial loans, $2.9 million in commercial loans, $2.3 million in real estate-construction loans, $634 thousand in other loans and $61 thousand in lease financings.

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Table 9 Nonaccrual, Past Due and Restructured Loans and Leases

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,				
	2008	**2007**	**2006**	**2005**	**2004**
Nonaccruing loans and leases	**$ 5,029**	$ 6,878	$ 8,443	$ 3,263	$ 10,090
Accruing loans and leases 90 days or more past due:					
Real estate loans:					
Secured by 1-4 family dwellings	**$ 175**	$ 401	$ 227	$ 114	$ 543
Secured by commercial properties	**299**	243			
Commercial and industrial loans and leases	**315**	1,147	48	146	31
Loans to individuals	**356**	126	485	350	353
Total accruing loans and leases, 90 days or more past due	**$ 1,145**	$ 1,917	$ 760	$ 610	$ 927
Restructured loans and leases, not included above	**$ 380**	$	$	$	$
Other real estate owned	**$ 346**	$	$	$ 344	$ 607

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, loan volume, loan growth, and the composition of the portfolio.

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. Quarterly, 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 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 as provided under SFAS 114. Management also reviews the activity within the allowance 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 reserve 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, in management s opinion, 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 an 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 loss and lease 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.

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,		
	2008	**2007**	**2006**
Allocated	**$ 12,387**	$ 12,217	$ 12,405
Unallocated	**731**	869	878
Total	**$ 13,118**	$ 13,086	$ 13,283

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 and other real estate owned 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.

Allocated reserves in 2007 declined by $188 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 outstanding rose from $28.0 million as of December 31, 2006 to $62.4 million as of December 31, 2007 and the corresponding allocated reserves increased by $184 thousand accordingly. Indirect loans outstanding declined from $74.3 million to $54.6 million, contributing to a homogeneous loan pool allocation reduction of $407 thousand. Commercial loans (including commercial real estate loans) declined by $21.1 million, having a downward impact on commercial loan allocations from a volume perspective, but this impact was negated by a higher proportion of loans in criticized loan pools, resulting in a net increase of $35 thousand. Unallocated reserves declined by $9 thousand in 2007, a proportionately equivalent rate as the allocated reserve decline. There was an increase in reserves for impaired loans of $177 thousand. Although the balance of impaired loans declined to $6.9 million at December 31, 2007 from $8.4 million at December 31, 2006, the underlying value of the collateral and the borrowers individual abilities to pay-down the principal balance on these loans required more of a reserve requirement on the 2007 balance. Nonperforming loans as a percentage of loans and leases and other real estate owned remained fairly level at 0.65% and 0.68% as of December 31, 2007 and 2006, respectively; the allowance for loan and lease losses to total loans and leases remained fairly level at 0.97% and 0.98% at December 31, 2007 and 2006, respectively. 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, 2007 the specific allowance on impaired loans was $1.8 million, or 25.5% of the balance of impaired loans of $6.9 million. At December 31, 2006 the specific allowance on impaired loans was $1.6 million, or 18.7% of the impaired loan balance of $8.4 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,				
	2008	**2007**	**2006**	**2005**	**2004**
Average amount of loans and leases outstanding	**$ 1,401,971**	$ 1,367,017	$ 1,317,711	$ 1,198,881	$ 1,117,943
Loan and lease loss reserve at beginning of period	**$ 13,086**	$ 13,283	$ 13,363	$ 13,099	$ 12,788
Charge-offs:					
Commercial, financial and agricultural loans	**6,008**	902	1,860	1,329	894
Real estate loans	**1,373**	499		911	382
Loans to individuals	**1,422**	1,513	1,133	1,019	468
Lease financings	**502**	106			
Total charge-offs	**9,305**	3,020	2,993	3,259	1,744
Recoveries:					
Commercial, financial and agricultural loans	**97**	176	139	625	146
Real estate loans	**27**	95	168	368	86
Loans to individuals	**353**	386	391	421	201
Lease financings	**91**				
Total recoveries	**568**	657	698	1,414	433
Net charge-offs	**8,737**	2,363	2,295	1,845	1,311
Provisions to loan and lease loss reserve	**8,769**	2,166	2,215	2,109	1,622
Loan and lease loss reserve at end of period	**$ 13,118**	$ 13,086	$ 13,283	$ 13,363	$ 13,099
Ratio of net charge-offs to average loans and leases	**.62%**	.17%	.17%	.15%	.12%

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,									
	2008		2007		2006		2005		2004	
nmercial, ncial and cultural	**$ 6,432**	**29.3%**	$ 6,295	28.2%	$ 6,963	32.6%	$ 6,005	30.7%	$ 6,945	31.
estate loans	**4,800**	**59.9**	4,836	61.9	4,266	58.7	5,431	61.1	4,887	63.
ns to viduals	**581**	**3.7**	730	5.3	1,005	6.6	949	8.2	349	5.
e financings	**574**	**7.1**	356	4.6	171	2.1				
llocated	**731**	**N/A**	869	N/A	878	N/A	978	N/A	918	N/
l	**$ 13,118**	**100.0%**	$ 13,086	100.0%	$ 13,283	100.0%	$ 13,363	100.0%	$ 13,099	100.

The ratio of the reserve for loan and lease losses to total loans and leases was 0.90% at December 31, 2008 and 0.97% at December 31, 2007.

Goodwill and Other Intangible Assets

In accordance with the requirements of Financial Accounting Standards Statement No. 142, Goodwill and Other Intangible Assets , the Corporation has completed the annual impairment tests on goodwill and other intangible assets and no impairment was noted. During the year ended December 31, 2007, an impairment of $14 thousand was recorded related to customer based intangibles. 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 $642 thousand for the year ended December 31, 2008, $742 thousand for the year ended December 31, 2007 and $683 thousand for the year ended December 31, 2006. The Corporation also has goodwill of $50.2 million, which is deemed to be an indefinite intangible asset and will not be amortized.

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. During the year ended December 31, 2008, the Corporation has not purchased any additional BOLI. During the third quarter of 2007, the Corporation purchased an additional $8.5 million in separate account BOLI. The intent of the separate account BOLI is not to formally fund the Corporation s benefit expenses, but to create an independent source of funds to hedge against always increasing benefit expenses. The separate account BOLI will diversify the asset mix of the Corporation and create additional economic performance.

LIABILITIES

The following table presents liabilities as of the dates indicated:

	At December 31,			
	2008	2007	$ Change	% Change
Deposits	**$ 1,527,328**	$ 1,532,603	$ (5,275)	(0.3)%
Borrowings	**312,736**	208,729	104,007	49.8
Other liabilities	**41,526**	32,447	9,079	28.0
Total liabilities	**$ 1,881,590**	$ 1,773,779	$ 107,811	6.1

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Deposits

Total deposits decreased during 2008 primarily due to decreases in money market savings of $96.1 million. These decreases were partially offset by increases in regular savings of $73.7 million and time deposits of $20.2 million. Due to market conditions, there was a price advantage in overnight borrowings compared to money market and time deposit rates. As a result, the Corporation was willing to accept less deposit growth for the years ended December 31, 2008 compared to 2007.

Table 12 Deposits

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

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Noninterest-bearing demand deposits	**$ 223,353**	$ 221,738	$ 227,444
Interest-bearing checking deposits	**144,415**	137,699	135,793
Money market savings	**409,586**	387,315	321,025
Regular savings	**276,908**	212,977	195,125
Time deposits	**483,872**	539,048	549,324
Total average deposits	**$ 1,538,134**	$ 1,498,777	$ 1,428,711

The following table summarizes the maturities of time deposits with balances of $100 thousand or more at December 31, 2008:

	Due Three Months or Less	Due Three to Six Months	Due Six to Twelve Months	Due Over Twelve Months
Time deposits	$ 73,539	$ 12,610	$ 39,270	$ 15,698

Borrowings

Long-term debt increased $7.1 million during 2008 as compared to 2007 primarily due to $30.0 million of additional advances from the Federal Home Loan Bank primarily to fund the growth of Univest Capital. This increase is partially offset by a reclassification of long-term debt to short-term debt in the amount of $22.5 million due to the remaining term to maturity being one year or less. Short-term borrowings increased $98.5 million during 2008 primarily due to a $54.0 million increase in Federal funds purchased and $57.5 million increase in FHLB short-term borrowings, which includes the reclassification adjustment. In May 2004, the Corporation issued $15.0 million in Subordinated Capital Notes, payments of $1.5 million were made on these notes in 2008; the subordinated capital notes qualify for Tier 2 capital status. In August 2004, the Corporation issued $20.0 million of Trust Preferred Securities that qualify for Tier 1 capital status. The proceeds from these transactions were used to support the future growth of the Corporation and its banking subsidiary and for general corporate purposes.

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:

	2008	2007	2006
Balance at December 31	**$ 81,230**	$ 94,276	$ 99,761
Weighted average interest rate at year end	**0.49%**	1.80%	2.19%
Maximum amount outstanding at any month s end	**$ 92,962**	$ 94,276	$ 104,581
Average amount outstanding during the year	**$ 84,254**	$ 86,641	$ 96,624
Weighted average interest rate during the year	**1.12%**	2.30%	2.19%

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SHAREHOLDERS EQUITY

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

	At December 31, 2008	2007	$ Change	% Change
Common stock	**$ 74,370**	$ 74,370	$	0.0%
Additional paid-in capital	**22,459**	22,211	248	1.1
Retained earnings	**151,816**	143,066	8,750	6.1
Accumulated other comprehensive (loss) income	**(8,619)**	(1,768)	(6,851)	(387.5)
Treasury stock	**(36,819)**	(39,153)	2,334	6.0
Total shareholders equity	**$ 203,207**	$ 198,726	$ 4,481	2.3

Retained earnings were favorably impacted by net income of $20.6 million partially offset by cash dividends of $10.3 million declared during 2008 and the incremental effect of adopting Emerging Issues Task Force (EITF) No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements of $1.6 million. Treasury stock decreased primarily due to sales 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 $2.3 million and $1.9 million, net of taxes, is included in shareholders equity at December 31, 2008 and 2007, respectively. Accumulated other comprehensive income (loss) related to securities is the unrealized gain (loss), or difference between the book value and market 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 market values of non-mortgage-backed government agency debt securities and mortgage-backed government agency debt securities and other mortgage-backed securities.

Accumulated other comprehensive loss related to interest rate swaps, net of taxes, amounted to $149 thousand at December 31, 2008. There were no swaps outstanding at December 31, 2007. Accumulated other comprehensive income (loss) related to interest-rate swaps reflects the current market 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 $10.8 million and $3.7 million at December 31, 2008 and 2007, respectively. The change in the accumulated other comprehensive income loss related to pension and other post-retirement benefits represent the changes in the actuarial gains and losses and the prior service costs and credits that arise during the period.

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, 2008, the Corporation had a Tier 1 capital ratio of 10.65% and total risked-based capital ratio of 11.60%. The Corporation had a Tier 1 capital ratio of 11.35% and total risk-based capital ratio of 12.46% at December 31, 2007. The Corporation continues to be in the well-capitalized category under regulatory standards. Details on the capital ratios can be found in Note 18 Regulatory Matters of this Form 10-K along with a discussion on dividend and other restrictions.

In April 2003, the Corporation secured $15.0 million in subordinated capital notes of which $6.8 million remains outstanding at December 31, 2008, that qualify for Tier 2 capital status. In August 2003, the Corporation, through an unconsolidated affiliate, issued $20.0 million of trust preferred securities that qualify for Tier 1 capital status.

Critical Accounting Policies

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

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

Intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. These assets, both identifiable and unidentifiable, are subject to tests for impairment. 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 designates its investment securities as held-to-maturity, available-for-sale or trading in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). 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.

The Corporation accounts for mortgage servicing rights for mortgages it originated but subsequently sold in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FAS No. 125. As such, 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 a change 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.

The Corporation recognizes deferred tax assets and liabilities under the liability method of FAS 109. 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 Corporation follows SFAS 123R, Accounting for Stock-based Compensation, in recording stock based compensation expense of stock options. 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 options, 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.

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 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.

The Corporation had used an interest-rate swap agreement that converted a portion of its floating rate commercial loans to a fixed rate basis which matured in 2006. In this swap, the Corporation agreed to exchange, at specified intervals, the difference between the fixed and floating interest rates calculated on a agreed upon notional principal amount. 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. The impact of the interest-rate swap on interest income for the year ended December 31, 2006 was a negative $149 thousand. At December 31, 2006 and 2007, the Corporation had no swaps outstanding.

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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, credit card portfolio and indirect auto loan 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 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.

Since August 2004, the Bank began purchasing Certificates from 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.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $286.5 million. At December 31, 2008, outstanding borrowings under the FHLB credit facilities totaled $149.5 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 Corporation maintains federal fund lines with several correspondent banks totaling $77.0 million. At December 31, 2008, there was $54.0 million in outstanding borrowings under these lines. Future availability under these lines is subject to the policies of the granting banks and may be withdrawn.

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, 2008, 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, 2008, 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. Long-term debt 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, 2008. 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 15 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, 2008:

	Payments Due by Period				
	Total	**Due in One Year or Less**	**Due in One to Three Years**	**Due in Four to Five Years**	**Due in Over Five Years**
Long-term debt(a)	$ 121,799	$ 27,351	$ 89,255	$ 5,193	$
Subordinated capital notes(b)	7,225	1,692	3,236	2,297	
Trust preferred securities(c)	62,803	1,622	3,245	3,245	54,691
Securities sold under agreement to repurchase(d)	81,230	81,230			
Other short-term borrowings	89,005	89,005			
Time deposits(e)	536,970	457,197	71,532	5,828	2,413
Operating leases	10,196	1,846	3,237	2,363	2,750
Standby and commercial letters of credit	81,462	69,440	11,799	223	
Commitments to extend credit(f)	425,271	107,138	41,447	29,607	247,079
PLGIT deposits(g)	50,270	50,270			
Total contractual obligations	$ 1,466,231	$ 886,791	$ 223,751	$ 48,756	$ 306,933

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, 2008. The contractual amounts to be paid on variable rate obligations are effected 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, 2008. 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 contractual interest and letter of credit fees over the remaining term of obligations outstanding at December 31, 2008

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), Business Combinations (revised 2007) (FAS 141(R)). FAS 141(R) will significantly change how entities apply the acquisition method to business combinations. SFAS 141(R) applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses including combinations achieved without the transfer of consideration. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. SFAS 141 (R) requires acquisition related costs to be recognized separately from the acquisition and expensed as incurred. SFAS 141(R) requires the acquirer to recognize restructuring costs that do not meet the criteria in SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities as an expense as incurred. SFAS 141(R) requires an acquirer to recognize assets or liabilities arising from all other contingencies (contractual contingencies) as of the acquisition date, measured at their acquisition-date fair values only if it is more likely than not that they meet the definition of an asset or a liability on the acquisition date. Under SFAS 141(R), changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. Additionally, under SFAS 141(R), the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Corporation does not anticipate the adoption of SFAS 141(R) to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 enhances disclosures about fair value of derivative instruments and their gains or losses and the company s objectives and strategies for using derivative instruments and whether or not they are designated as hedging instruments. SFAS 161 is effective prospectively for interim periods and fiscal years beginning after November 15, 2008. The Corporation does not anticipate the adoption of SFAS 161 to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The provisions of SFAS 162 did not have a material impact on our financial condition and results of operations.

In June 2008, the FASB issued EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (EITF 03-6-1). EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two class method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data to conform to the provisions in EITF 03-6-1. The provisions of EITF 03-6-1 are effective for us retroactively in the first quarter ended March 31, 2009. We are in the process of evaluating the impact of EITF 03-6-1 on the calculation and presentation of earnings per share in our consolidated financial statements.

In September 2008, the FASB ratified FASB Staff Position (FSP) 133-1 and FASB Interpretation (FIN) 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The Corporation does not anticipate the adoption of FSP 133-1 and FIN 45-4 will have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended December 31, 2008.

In December 2008, the FASB issued FSP No. 132(R)-1 which amends SFAS No. 132(R) to require disclosure of additional information concerning assets held in a defined benefit pension or other postretirement benefit plan. In addition, a technical amendment has been made to SFAS No. 132(R) to restore the requirement, which was inadvertently removed, for non-public entities to disclose annual net periodic benefit cost. 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. Note, though, that the technical amendment to SFAS No. 132(R) (FASB Accounting Standards Codification No. 715) regarding disclosure by non-public entities of net periodic benefit cost is effective immediately.

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, 2008, 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 increased 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 5.0% 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 4.3% 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.

Table 15 Interest Sensitivity Analysis

Interest Sensitivity Analysis at December 31, 2008:

	Within Three Months	Three to Twelve Months	One to Five Years	Over Five Years	Non-Rate Sensitive	Total
Assets:						
Cash and due from banks	$	$	$	$	$ 34,800	$ 34,800
Interest-earning deposits with other banks	5,266					5,266
Investment securities	71,490	114,338	149,198	108,000		443,026
Loans and leases, net of reserve for loan and lease losses:	543,887	261,039	516,424	129,086	(13,118)	1,437,318
Other assets					164,387	164,387
Total assets	$ 620,643	$ 375,377	$ 665,622	$ 237,086	$ 186,069	$ 2,084,797
Liabilities and shareholders equity:						
Demand deposits noninterest-bearing	$	$	$	$	$ 221,863	$ 221,863
Demand deposits interest-bearing	343,767	22,863	121,353			487,983
Savings deposits	15,817	46,548	245,147			307,512
Time deposits	93,846	169,652	243,149	3,323		509,970
Borrowed funds	198,474	22,875	91,387			312,736
Other liabilities					41,526	41,526
Shareholders equity					203,207	203,207
Total liabilities and shareholders equity	$ 651,904	$ 261,938	$ 701,036	$ 3,323	$ 466,596	$ 2,084,797
Incremental gap	$ (31,261)	$ 113,439	$ (35,414)	$ 233,763	$ (280,527)	
Cumulative gap	$ (31,261)	$ 82,178	$ 46,764	$ 280,527		

Cumulative gap as a percentage of interest-earning assets	(1.65)%	4.33%	2.46%	14.77%

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:

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123R, Share Based Payment, effective January 1, 2006 and Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006.

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, 2008, 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 6, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

March 6, 2009
Philadelphia, PA

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

	At December 31, 2008	2007
	(In thousands, except share data)	
ASSETS		
Cash and due from banks	$ **34,800**	$ 47,135
Interest-earning deposits with other banks	**5,266**	502
Federal funds sold		11,748
Investment securities held-to-maturity (market value $1,432 and $1,933 at December 31, 2008 and 2007, respectively)	**1,368**	1,862
Investment securities available-for-sale	**441,658**	421,586
Loans and leases	**1,450,436**	1,355,442
Less: Reserve for loan and lease losses	**(13,118)**	(13,086)
Net loans and leases	**1,437,318**	1,342,356
Premises and equipment, net	**32,602**	27,977
Goodwill	**50,236**	44,438
Other intangibles, net of accumulated amortization of $6,497 and $5,855 at December 31, 2008 and 2007, respectively	**5,815**	2,643
Bank owned life insurance	**45,419**	46,689
Accrued interest and other assets	**30,315**	25,569
Total assets	$ **2,084,797**	$ 1,972,505
LIABILITIES		
Demand deposits, noninterest-bearing	$ **221,863**	$ 226,513
Demand deposits, interest-bearing	**487,983**	582,528
Savings deposits	**307,512**	233,766
Time deposits	**509,970**	489,796
Total deposits	**1,527,328**	1,532,603
Securities sold under agreements to repurchase	**81,230**	94,276
Other short-term debt	**111,500**	
Accrued expenses and other liabilities	**41,526**	32,447
Long-term debt	**92,637**	85,584
Subordinated notes	**6,750**	8,250
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities)	**20,619**	20,619
Total liabilities	**1,881,590**	1,773,779

SHAREHOLDERS EQUITY		
Common stock, $5 par value; 24,000,000 shares authorized at December 31, 2008 and 2007; 14,873,904 shares issued at December 31, 2008 and 2007; and 12,938,514 and 12,830,609 shares outstanding at December 31, 2008 and 2007, respectively	**74,370**	74,370
Additional paid-in capital	**22,459**	22,211
Retained earnings	**151,816**	143,066
Accumulated other comprehensive loss, net of tax benefit	**(8,619)**	(1,768)
Treasury stock, at cost; 1,935,390 shares and 2,043,295 shares at December 31, 2008 and 2007, respectively	**(36,819)**	(39,153)
Total shareholders equity	**203,207**	198,726
Total liabilities and shareholders equity	**$ 2,084,797**	$ 1,972,505

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, 2008	2007	2006
	(In thousands, except per share data)		
Interest income			
Interest and fees on loans and leases:			
Taxable	**$ 82,874**	$ 92,606	$ 85,222
Exempt from federal income taxes	**3,742**	4,061	3,917
Total interest and fees on loans and leases	**86,616**	96,667	89,139
Interest and dividends on investment securities:			
Taxable	**17,071**	15,458	11,865
Exempt from federal income taxes	**4,269**	3,859	3,854
Interest on time deposits with other banks	**16**	95	27
Interest on federal funds sold and term federal funds	**394**	454	281
Total interest income	**108,366**	116,533	105,166
Interest expense			
Interest on demand deposits	**9,324**	16,289	11,886
Interest on savings deposits	**4,348**	3,833	1,615
Interest on time deposits	**20,894**	25,001	21,837
Interest on short-term borrowings	**1,744**	2,771	3,318
Interest on long-term borrowings	**6,000**	6,233	4,995
Total interest expense	**42,310**	54,127	43,651
Net interest income	**66,056**	62,406	61,515
Provision for loan and lease losses	**8,769**	2,166	2,215
Net interest income after provision for loan and lease losses	**57,287**	60,240	59,300
Noninterest income			
Trust fee income	**6,004**	5,921	5,515
Service charges on deposit accounts	**6,808**	6,822	6,771
Investment advisory commission and fee income	**2,374**	2,538	2,284
Insurance commission and fee income	**5,723**	5,730	4,765
Bank owned life insurance income	**2,791**	1,503	1,475
Other service fee income	**3,331**	3,662	3,348
Net (loss) gains on sales of and impairments on securities	**(971)**	435	50
Net (loss) gains on dispositions of fixed assets	**(40)**	(112)	653
Other	**286**	380	556

Total noninterest income	**26,306**	26,879	25,417
Noninterest expense			
Salaries and benefits	**32,413**	30,811	28,547
Net occupancy	**5,230**	4,753	4,362
Equipment	**3,247**	3,127	3,274
Marketing and advertising	**1,499**	831	1,685
Other	**14,836**	12,689	12,090
Total noninterest expense	**57,225**	52,211	49,958
Income before income taxes	**26,368**	34,908	34,759
Applicable income taxes	**5,778**	9,351	9,382
Net income	**$ 20,590**	$ 25,557	$ 25,377
Net income per share:			
Basic	**$ 1.60**	$ 1.98	$ 1.96
Diluted	**$ 1.60**	$ 1.98	$ 1.95

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
			(In thousands, except per share data)				
Balance at December 31, 2005	12,947,001	$ (1,050)	$ 74,370	$ 22,051	$ 114,346	$ (36,637)	$ 173,080
Comprehensive Income:							
Net Income for 2006					25,377		25,377
Other comprehensive income, net of income tax of $471:							
Unrealized gain on investment securities available-for-sale		814					814
Unrealized losses on swaps		61					61
Total comprehensive income							26,252
Cash dividends declared ($0.780 per share)					(10,114)		(10,114)
Stock issued under dividend reinvestment and employee stock purchase plans	77,749					2,051	2,051
Exercise of stock options	146,384				(1,367)	3,845	2,478
Tax benefits on stock based compensation				408			408
Acquisition of treasury stock	(165,805)					(4,482)	(4,482)
Adjustment to initially adopt SFAS Statement 158, net of income taxes of $2,309		(4,288)					(4,288)
Balance at December 31, 2006	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
Acquisition 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**
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 swaps		**(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	**85,415**			**64**		**1,950**	**2,014**

purchase plans							
Exercise of stock options	**87,134**			**(88)**	**12**	**1,904**	**1,828**
Tax benefits on stock based compensation				**204**			**204**
Acquisition of treasury stock	**(69,235)**					**(1,614)**	**(1,614)**
Restricted stock awards granted	**4,591**			**(94)**		**94**	
Vesting of restricted stock awards				**162**			**162**
Adjustment to initially adopt EITF No. 06-04					**(1,550)**		**(1,550)**
Balance at December 31, 2008	**12,938,514**	**$ (8,619)**	**$ 74,370**	**$ 22,459**	**$ 151,816**	**$ (36,819)**	**$ 203,207**

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, 2008	2007	2006
Cash flows from operating activities:			
Net income	**$ 20,590**	$ 25,557	$ 25,377
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**8,769**	2,166	2,215
Depreciation of premises and equipment	**2,246**	1,987	2,187
Net accretion on investment securities	**(339)**	(270)	(298)
Amortization on intangibles	**642**	760	689
Premium accretion on deposits and FHLB borrowings	**(453)**	(605)	(708)
Bank owned life insurance income	**(2,791)**	(1,503)	(1,475)
Deferred tax (benefit) expense	**(124)**	421	538
Realized loss (gains) on sale of and impairment on investment securities	**971**	(435)	(50)
Realized losses (gains) on sales of fixed assets	**40**	112	(653)
Realized gains on sales of loans and leases	**(198)**	(197)	(386)
Realized gain on sale of real estate owned	**(9)**		
Net decrease (increase) in deferred loan and lease fees and amortization of premiums on loans and leases	**47**	(557)	(198)
(Increase) decrease in interest receivable and other assets	**(575)**	7,448	(2,596)
Decrease in accrued expenses and other liabilities	**(3,389)**	(1,727)	(5,691)
Net cash provided by operating activities	**25,427**	33,157	18,951
Cash flows from investing activities:			
Net cash paid due to acquisitions, net of cash acquired	**(9,720)**	(198)	(4,336)
Proceeds from maturing securities held-to-maturity	**44,971**	758	11,039
Proceeds from maturing securities available-for-sale	**167,768**	67,345	185,312
Proceeds from the calls of securities held-to-maturity	**28,800**		
Proceeds from sales and calls of securities available-for-sale	**156,233**	48,758	28,532
Purchases of investment securities held-to-maturity	**(73,275)**		
Purchases of investment securities available-for-sale	**(344,119)**	(154,014)	(262,424)
(Increase) decrease in interest-earning deposits	**(4,764)**	80	(19)
Net decrease (increase) in federal funds sold	**11,748**	11,069	(10,167)
Purchases of bank owned life insurance		(8,500)	
Proceeds from bank owned life insurance	**3,984**		
Proceeds from sales of loans and leases	**7,342**	4,092	15,753
Purchases of lease financings	**(49,671)**	(34,711)	(20,943)
Net (increase) decrease loans and leases	**(61,649)**	27,187	(100,565)
Capital expenditures	**(6,752)**	(8,198)	(1,719)
Net cash used in investing activities	**(129,104)**	(46,332)	(159,537)

Cash flows from financing activities:			
Net (decrease) increase in deposits	**(5,269)**	44,211	122,069
Net increase (decrease) in short-term borrowings	**75,954**	(23,385)	9,349
Issuance of long-term debt	**30,000**	10,000	30,000
Repayment of long-term debt		(1,000)	(9,075)
Repayment of subordinated debt	**(1,500)**	(1,500)	(1,500)
Purchases of treasury stock	**(1,614)**	(7,498)	(4,482)
Stock issued under dividend reinvestment and employee stock purchase plans	**2,014**	2,007	2,051
Proceeds from exercise of stock options, including tax benefits	**2,032**	863	2,886
Cash dividends paid	**(10,275)**	(10,344)	(9,982)
Net cash provided by financing activities	**91,342**	13,354	141,316
Net (decrease) increase in cash and due from banks	**(12,335)**	179	730
Cash and due from banks at beginning of year	**47,135**	46,956	46,226
Cash and due from banks at end of year	**$ 34,800**	$ 47,135	$ 46,956
Supplemental disclosures of cash flow information Cash paid during the year for:			
Interest	**$ 44,593**	$ 54,249	$ 40,426
Income taxes, net of refunds received	**8,180**	8,845	8,043
Assets acquired through acquisition	**159**		599
Goodwill and other intangibles due to acquisitions	**9,561**	198	4,895
Liabilities acquired through acquisitions			(1,158)

See accompanying notes to consolidated financial statements.

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., formerly Vanguard Leasing, 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 under Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. 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-three 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 website 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.

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 the assessment for impairment of certain investment securities, the allowance for loan losses, deferred tax assets and liabilities, impairment of goodwill and other intangible assets, stock compensation expense and other real estate owned.

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.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

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 market value. 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. The amortization of premiums and accretion of discounts are calculated using the effective yield method for mortgage-backed securities and the constant yield method for all other securities.

The Corporation reviews its debt and equity investment portfolios to determine if there are any instances where an investment may be considered other-than-temporarily impaired. The Corporation considers the following factors which, individually or in combination, indicate that a decline is other than temporary and that a write down of the carrying value is required: a) The length of time and extent to which the market value has been less than cost; b) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect future earnings potential; and c) The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. When the Corporation determines that a security s unrealized loss is other-than-temporary, an impairment loss is recognized in the period in which the decline in value is determined to be other-than-temporary.

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 collectibility 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. Thereafter, income is only recognized as payments are received for loans and leases on which there is no uncertainty as to the collectibility of principal. Loans and leases are considered past due based upon failure to comply with contractual terms.

When a loan or lease, including a loan or lease impaired under SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114), 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 collectibility 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 collectibility 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 collectibility of the total contractual principal and interest is no longer in doubt.

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

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.

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.

Derivative Financial Instruments

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), requires the Corporation to recognize 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

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

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, we use 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 in compliance with SFAS 133 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 market 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.

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.

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 market value of the property, less estimated costs to sell.

Stock Options

Effective January 1, 2006 the Corporation adopted the fair value method of accounting for stock-based compensation arrangements in accordance with SFAS No. 123(R), Share-Based Payment (SFAS 123R), using the modified prospective method of transition. Under the provisions of SFAS 123R, the estimated fair value of share based awards is recognized as compensation expense over the vesting period. 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 options, 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. Using the modified prospective method, compensation expense is recognized beginning with the effective date of adoption of SFAS 123R for all shares granted after the effective date of adoption and granted prior to the effective date of adoption and that remain unvested on the date of adoption. Prior to 2006, the Corporation had elected to follow the intrinsic value method The Corporation grants stock options to employees with an exercise price equal to the fair value of

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

the shares at the date of grant. The fair value of restricted stock is equivalent to the market 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) provided 1,968,750 shares of common stock. During 2008 and 2007, 69,235 and 68,256 shares, respectively, were issued under the Reinvestment Plan, with 1,115,470 shares available for future purchase as of December 31, 2008.

The 1996 Employee Stock Purchase Plan (the Purchase Plan) provided 984,375 shares of common stock available for issuance. 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. Under SFAS 123R compensation expense must be recognized if the discount is greater than 5% of the fair value. During 2008 and 2007, 11,494 and 10,479 shares, respectively, were issued under the Purchase Plan, with 858,215 shares available for future purchase as of December 31, 2008.

Income Taxes

Deferred income taxes are provided for temporary differences between amounts reported for financial statement and tax purposes in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). 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. Income tax expense is the tax payable for the period plus the change during the period in deferred income taxes. 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.

Effective January 1, 2007 the Corporation adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides guidance on financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. According to FIN 48, a tax position is recognized if it is more-likely-than-not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize and should be measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of December 31, 2008 the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. As of December 31, 2008, Tax Years 2005 through 2008 remain subject to Federal examination as well as examination by state taxing jurisdictions.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Intangible Assets

In accordance with SFAS No. 141, Accounting for Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), 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 in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). 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 are recognized as separate assets when mortgage loans are sold and the rights are retained. Capitalized servicing rights 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. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the unamortized capitalized amount.

Bank Owned Life Insurance

The Corporation carries bank owned life insurance (BOLI) at the net cash surrender value of the policy. Changes in the net cash surrender value of these policies are reflected in noninterest income. Proceeds from and purchases of bank owned life insurance are reflected on the statement of cash flows under investing activities.

On January 1, 2008, the Corporation adopted Emerging Issues Task Force (ETIF) No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). Under EITF 06-4, if an agreement is to provide an employee with a death benefit in a postretirement/ termination period, the employer should recognize a liability for the future death benefit in accordance with either SFAS No. 106 (SFAS 106), Employers Accounting for Postretirement Benefits Other than Pensions or Accounting Principles Board Opinion No. 12 Omnibus Opinion 1967 Classification and Disclosure of Allowances Disclosure of Depreciable Assets and Depreciation Deferred Compensation Contracts Capital Changes Convertible Debt and Debt Issued with Stock Warrants Amortization of Debt Discount and Expense or Premium (APB Opinion 12). EITF 06-4 requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Corporation chose option (a) as its method of adoption for EITF 06-4.

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Notes to Consolidated Financial Statements (Continued)

The following table shows the incremental effect of applying EITF 06-4 on individual line items in the Consolidated Balance Sheet at January 1, 2008:

	Before Application of EITF 06-4	Adjustments	After Application of EITF 06-4
Cash surrender value of insurance policies	$ 46,689	$ 123	$ 46,812
Total assets	1,972,505	123	1,972,628
Accrued split-dollar life insurance payable		1,673	1,673
Total liabilities	1,773,779	1,673	1,775,452
Retained earnings	143,066	(1,550)	141,516
Total shareholders equity	198,726	(1,550)	197,176
Total liabilities and shareholders equity	1,972,505	123	1,972,628

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. 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. During 2006, 2007 and 2008, the Corporation recognized the costs associated with providing these benefits during the active service periods of employees in accordance with SFAS 106. At December 31, 2006, the Corporation adopted SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS 158 requires an employer to recognize on their balance sheet the funded status of its defined pension plans and other post-retirement plans. 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). Employers must also recognize 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.

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

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method.

Recent Accounting Pronouncements

In December 2007, FASB issued SFAS No. 141(R), Business Combinations (revised 2007) (FAS 141(R)). FAS 141(R) will significantly change how entities apply the acquisition method to business combinations. SFAS 141(R) applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses including combinations achieved without the transfer of consideration. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. SFAS 141 (R) requires acquisition related costs to be recognized separately from the acquisition and expensed as incurred. SFAS 141(R) requires the acquirer to recognize restructuring costs that do not meet the criteria in SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities as an expense as incurred. SFAS 141(R) requires an acquirer to recognize assets or liabilities arising from all other contingencies (contractual contingencies) as of the acquisition date, measured at their acquisition-date fair values only if it is more likely than not that they meet the definition of an asset or a liability on the acquisition date. Under SFAS 141(R), changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. Additionally, under SFAS 141(R), the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Corporation does not anticipate the adoption of SFAS 141(R) to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 enhances disclosures about fair value of derivative instruments and their gains or losses and the company s objectives and strategies for using derivative instruments and whether or not they are designated as hedging instruments. SFAS 161 is effective prospectively for interim periods and fiscal years beginning after November 15, 2008. The Corporation does not anticipate the adoption of SFAS 161 to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The provisions of SFAS 162 did not have a material impact on our financial condition and results of operations.

In June 2008, the FASB issued EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (EITF 03-6-1). EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two class method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data to conform to the provisions in this EITF 03-6-1. The provisions of EITF 03-6-1 are effective for us retroactively in the first quarter ended March 31, 2009. We are in the process of evaluating the impact of EITF 03-6-1 on the calculation and presentation of earnings per share in our consolidated financial statements.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

In September 2008, the FASB ratified FASB Staff Position (FSP) 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The Corporation does not anticipate the adoption of FSP 133-1 and FIN 45-4 will have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended December 31, 2008.

In December 2008, the FASB issued FSP No. 132(R)-1 which amends SFAS No. 132(R) to require disclosure of additional information concerning assets held in a defined benefit pension or other postretirement benefit plan. In addition, a technical amendment has been made to SFAS No. 132(R) to restore the requirement, which was inadvertently removed, for non-public entities to disclose annual net periodic benefit cost. 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. Note, though, that the technical amendment to SFAS No. 132(R) (FASB Accounting Standards Codification No. 715) regarding disclosure by non-public entities of net periodic benefit cost is effective immediately.

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, 2008 and 2007 was $6.0 million and $6.5 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 $6.1 million and $556 thousand for the years ended December 31, 2008 and 2007, respectively.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Note 3. Investment Securities

The following table shows the amortized cost and the approximate market value of the held-to-maturity securities and available-for-sale securities at December 31, 2008 and 2007, by maturity within each type:

	December 31, 2008				December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Held-to-Maturity Securities								
Mortgage-backed securities:								
Within 1 year	**$ 5**	**$**	**$**	**$ 5**	$ 7	$	$	$ 7
1 to 5 years	**222**	**8**		**230**	379	6		385
5 to 10 years	**199**	**10**		**209**	102	3		105
Over 10 years	**927**	**46**		**973**	1,360	62		1,422
	1,353	**64**		**1,417**	1,848	71		1,919
Other:								
1 to 5 years	**15**			**15**	14			14
	15			**15**	14			14
Total	**$ 1,368**	**$ 64**	**$**	**$ 1,432**	$ 1,862	$ 71	$	$ 1,933
Securities Available-for-Sale								
U.S. Treasury, government corporations and agencies:								
Within 1 year	**$ 5,871**	**$**	**$ (9)**	**$ 5,862**	$ 45,474	$	$ (80)	$ 45,394
1 to 5 years	**97,994**	**884**	**(34)**	**98,844**	71,040	620		71,660