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

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2009

Commission File number 0-7617

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

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (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 $244,079,202 as of June 30, 2009 based on the June 30, 2009 closing price of the Registrant s Common Stock of $20.26 per share.

DOCUMENTS INCORPORATED BY REFERENCE

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

UNIVEST CORPORATION OF PENNSYLVANIA

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PART I

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

Operating, legal and regulatory risks

Economic, political and competitive forces impacting various lines of business

The risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful

Volatility in interest rates

Other risks and uncertainties, including those occurring in the U.S. and world financial systems

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

Item 1. *Business*

General

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

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

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

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

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

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

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

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

Employees

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

Competition

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

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

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

Supervision and Regulation

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

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

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

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX was enacted to address corporate and accounting fraud. SOX adopts new standards of corporate governance and imposes additional requirements on the board of directors and management of public companies. SOX law also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal controls over financial reporting, identify any material weaknesses in its internal controls over financial reporting and assert that such internal controls are effective. The Corporation has continued to be in compliance with SOX 404 during 2009. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation s Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

Credit and Monetary Policies

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

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

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

Statistical Disclosure

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

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

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

Liberty Benefits, Inc. on December 29, 2008

Trollinger Consulting Group

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

Allied Benefits Group, LLC on December 31, 2008

TCG Investment Advisory Inc. on December 31, 2008

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

Securities and Exchange Commission Reports

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

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

Item 1A. ***Risk Factors***

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

Risks Relating to Recent Economic Conditions and Governmental Response Efforts

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

The Corporation s operations and profitability are impacted by general business and economic conditions; these conditions include long-term and short-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control.

Our results of operations are affected by conditions in the capital markets and the economy generally. The capital and credit markets have experienced extreme volatility and disruption for more than twelve months. The volatility and disruption in these markets have produced downward pressure on stock prices of, and credit availability to, certain companies without regard to those companies underlying financial strength. This has resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. The U.S. and global economies are in steep decline. Monetary and fiscal policies are loosening around the world to varying degrees most aggressively in the United States but they are battling against an extreme credit crunch, and will take time to become effective. These factors, combined with declining business and consumer confidence, dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures, and rising unemployment have precipitated an economic slowdown and induced fears of a prolonged recession.

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

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

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

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

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

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

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

Recent government responses to the condition of the global financial markets and the banking industry has, among other things, increased our costs significantly and may further increase our costs for items such as federal deposit insurance and increased capital requirements. The FDIC insures deposits at FDIC-insured financial institutions, including our Bank up to applicable limits. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Pursuant to federal law enacted in 2009, the standard maximum deposit insurance amount has been increased to $250,000 per depositor through December 31, 2013, after which it would revert to a $100,000 per depositor level unless additional federal legislation is adopted to provide otherwise. Certain retirement accounts such as Individual Retirement Accounts are insured up to $250,000 per depositor per insured institution. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC would pay all deposits of a failed bank up to the insured amount from the Deposit Insurance Fund. In December 2008, the FDIC adopted a rule that would increase premiums paid by insured institutions and make other changes to the assessment system. Increases in deposit insurance premiums could adversely affect our net income. We may also become subject to additional federal legislation and regulation that could force us to change a number of our historical practices, limit the fees we may charge or restrict our ability to attract and maintain our executive officers.

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

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

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

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

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

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

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

Risks Related to Our Market and Business

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

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

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

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

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

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

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

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

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

We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity.

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

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management s attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly received.

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

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

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

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

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

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

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

The Corporation continually encounters technological change.

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

The Corporation is subject to claims and litigation.

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

External events could impact the Corporation.

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

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

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

Risks Related to the Banking Industry

The Corporation is subject to interest rate risk.

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

Net interest income may decline in a particular period if:

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

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

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

The Corporation is subject to lending risk.

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

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

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property s value at completion of construction equals or exceeds the cost of the property construction (including interest) and the availability of permanent take-out financing. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

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

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

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

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

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

The federal regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may from time to time require us to increase our allowance for loan and lease losses, thereby negatively affecting our financial condition and earnings at that time. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional problem loans and leases and other factors, both within and outside of our control.

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

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

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

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

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

The Corporation is subject to extensive government regulation and supervision.

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

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

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

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

Risks Related to Our Common Stock and Common Stock Offerings

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

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

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

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

The Corporation s stock price can be volatile.

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

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

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

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

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

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

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

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

Item 1B. *Unresolved Staff Comments*

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

Item 2. *Properties*

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

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

County. Univest Insurance, Inc. occupies three locations of which two are owned by the Bank, one in Lansdale, Montgomery County and one in West Chester, Chester County; and one is leased in Upper Marlboro, Prince Georges County in Maryland. Univest Capital, Inc. occupies one leased location in Bensalem, Bucks County. The Bank serves the area through its thirty traditional offices and two supermarket branches that offer traditional community banking and trust services. Fifteen banking offices are located in Montgomery County, of which ten are owned, two are leased and three are buildings owned on leased land; seventeen banking offices are located in Bucks County, of which five are owned, nine are leased and two are buildings owned on leased land. The Bank has two additional regional leased offices primarily used for loan productions one of which is located in Bucks County and one in Lehigh County.

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

Item 3. ***Legal Proceedings***

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

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

Not applicable.

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PART II

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

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

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

Range of Market Prices

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

Market Price

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

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

Cash Dividends Paid Per Share

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

2008

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

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Stock Performance Graph

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

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

Five Year Cumulative total return Summary

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

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Equity Compensation Plan Information

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

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

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

1. Transactions are reported as of settlement dates.

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

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment in the statement of operations and statement of financial condition for market value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management s intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that either statement of financial position or statement of operations adjustments may be required. Management evaluates debt securities, which comprise of U.S. Government, Government Sponsored Agencies, municipalities and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are highly rated as investment grade and Management believes that it will not incur any losses. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The credit portion of any loss on debt securities is recognized through earnings and the noncredit portion of any loss related to debt securities that the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell the securities prior to recovery is recognized in other comprehensive income, net of tax. The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that certain equity securities will not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment and the Corporation s positive intent and ability to hold these securities until recovery to the Corporation s cost basis occurs.

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

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

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

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

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

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

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

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

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

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

Results of Operations Overview

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

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

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

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

2009 versus 2008

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

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

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

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

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

2008 versus 2007

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

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

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

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

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

Acquisitions

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

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

Results of Operations 2009 Versus 2008

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. Table 1 presents a summary of the Corporation s average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the years ended December 31, 2009 compared to 2008. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Asset/Liability Management and Investment Committee works to maintain an adequate and stable net interest margin for the Corporation.

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

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

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

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

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

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

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

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