UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 03, 2009

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**United States**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**
**Form 10-Q**

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2009.**

**or**

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________.**

**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
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 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 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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). o Yes o No

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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). o Yes þ No

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

| Common Stock, $5 par value | 13,023,704 |
|---|---|
| (Title of Class) | (Number of shares outstanding at 6/30/09) |

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**UNIVEST CORPORATION OF PENNSYLVANIA**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | (UNAUDITED) June 30, 2009 | (SEE NOTE) December 31, 2008 |
|---|---|---|
| | ($ in thousands, except per share data) | |
| **ASSETS** | | |
| Cash and due from banks | **$ 30,466** | $ 34,800 |
| Interest-earning deposits with other banks | **1,946** | 5,266 |
| Investment securities held-to-maturity (fair value $1,280 and $1,432 at June 30, 2009 and December 31, 2008, respectively) | **1,192** | 1,368 |
| Investment securities available-for-sale | **424,582** | 430,898 |
| Loans held for sale | **1,119** | 544 |
| Loans and leases | **1,464,886** | 1,449,892 |
| Less: Reserve for loan and lease losses | **(18,824)** | (13,118) |
| Net loans and leases | **1,446,062** | 1,436,774 |
| Premises and equipment, net | **33,240** | 32,602 |
| Goodwill | **50,401** | 50,236 |
| Other intangibles, net of accumulated amortization of $7,222 and $6,497 at June 30, 2009 and December 31, 2008, respectively | **5,782** | 5,815 |
| Bank owned life insurance | **45,984** | 45,419 |
| Accrued interest and other assets | **46,047** | 41,075 |
| Total assets | **$ 2,086,821** | $ 2,084,797 |
| **LIABILITIES** | | |
| Demand deposits, noninterest-bearing | **$ 222,877** | $ 221,863 |
| Demand deposits, interest-bearing | **475,070** | 487,983 |
| Savings deposits | **358,755** | 307,512 |
| Time deposits | **508,374** | 509,970 |
| Total deposits | **1,565,076** | 1,527,328 |
| Securities sold under agreements to repurchase | **86,242** | 81,230 |
| Other short-term debt | **97,400** | 111,500 |
| Accrued expenses and other liabilities | **47,930** | 41,526 |
| Long-term debt | **55,196** | 92,637 |
| Subordinated notes | **6,000** | 6,750 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest ( Trust Preferred Securities ) | **20,619** | 20,619 |
| Total liabilities | **1,878,463** | 1,881,590 |

| | | |
|---|---|---|
| **SHAREHOLDERS EQUITY** | | |
| Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2009 and December 31, 2008; 14,873,904 shares issued at June 30, 2009 and December 31, 2008; 13,023,704 and 12,938,514 shares outstanding at June 30, 2009 and December 31, 2008, respectively | **74,370** | 74,370 |
| Additional paid-in capital | **21,382** | 22,459 |
| Retained earnings | **152,950** | 151,816 |
| Accumulated other comprehensive loss, net of tax benefit | **(5,556)** | (8,619) |
| Treasury stock, at cost; 1,850,200 shares and 1,935,390 shares at June 30, 2009 and December 31, 2008, respectively | **(34,788)** | (36,819) |
| Total shareholders equity | **208,358** | 203,207 |
| Total liabilities and shareholders equity | **$ 2,086,821** | $ 2,084,797 |

Note: The condensed consolidated balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited

condensed
consolidated
financial
statements.

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**UNIVEST CORPORATION OF PENNSYLVANIA**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | ($ in thousands except per share data) | | | |
| **Interest income** | | | | |
| Interest and fees on loans and leases: | | | | |
| Taxable | **$ 19,001** | $ 20,418 | **$ 37,549** | $ 41,784 |
| Exempt from federal income taxes | **960** | 920 | **1,882** | 1,853 |
| Total interest and fees on loans and leases | **19,961** | 21,338 | **39,431** | 43,637 |
| Interest and dividends on investment securities: | | | | |
| Taxable | **3,422** | 4,265 | **7,238** | 8,653 |
| Exempt from federal income taxes | **1,144** | 1,208 | **2,257** | 2,266 |
| Interest on federal funds sold and term federal funds | **2** | 124 | **5** | 386 |
| Total interest income | **24,529** | 26,935 | **48,931** | 54,942 |
| **Interest expense** | | | | |
| Interest on deposits | **5,706** | 8,513 | **12,118** | 18,820 |
| Interest on short-term borrowings | **824** | 455 | **1,303** | 811 |
| Interest on long-term borrowings | **826** | 1,402 | **1,992** | 2,901 |
| Total interest expense | **7,356** | 10,370 | **15,413** | 22,532 |
| Net interest income | **17,173** | 16,565 | **33,518** | 32,410 |
| Provision for loan and lease losses | **5,353** | 2,297 | **7,509** | 3,296 |
| Net interest income after provision for loan and lease losses | **11,820** | 14,268 | **26,009** | 29,114 |
| **Noninterest income** | | | | |
| Trust fee income | **1,325** | 1,628 | **2,750** | 3,255 |
| Service charges on deposit accounts | **1,692** | 1,708 | **3,305** | 3,366 |
| Investment advisory commission and fee income | **917** | 642 | **1,824** | 1,257 |
| Insurance commission and fee income | **1,813** | 1,271 | **3,799** | 3,329 |
| Bank owned life insurance income | **408** | 1,734 | **565** | 2,525 |
| Other service fee income | **920** | 1,091 | **1,724** | 1,849 |
| Other-than-temporary impairment on securities | **(223)** | (235) | **(1,400)** | (235) |
| Net (loss) gain on sales of securities | **(22)** | 22 | **15** | 78 |
| Gain on sale of loans held for sale | **669** | 16 | **930** | 35 |
| Net loss on dispositions of fixed assets | **(17)** | (4) | **(147)** | (5) |
| Other | **344** | 106 | **635** | 268 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total noninterest income | | **7,826** | | 7,979 | | **14,000** | | 15,722 |
| **Noninterest expense** | | | | | | | | |
| Salaries and benefits | | **9,417** | | 8,019 | | **18,849** | | 16,187 |
| Net occupancy | | **1,275** | | 1,286 | | **2,667** | | 2,577 |
| Equipment | | **850** | | 799 | | **1,691** | | 1,565 |
| Marketing and advertising | | **317** | | 532 | | **480** | | 721 |
| Deposit insurance premiums | | **1,477** | | 64 | | **2,060** | | 107 |
| Other | | **3,454** | | 4,385 | | **6,546** | | 7,536 |
| Total noninterest expense | | **16,790** | | 15,085 | | **32,293** | | 28,693 |
| Income before income taxes | | **2,856** | | 7,162 | | **7,716** | | 16,143 |
| Applicable income taxes | | **187** | | 1,288 | | **1,211** | | 3,548 |
| Net income | **$** | **2,669** | $ | 5,874 | **$** | **6,505** | $ | 12,595 |
| **Net income per share:** | | | | | | | | |
| Basic | **$** | **.21** | $ | .46 | **$** | **.50** | $ | .98 |
| Diluted | | **.21** | | .46 | | **.50** | | .98 |
| Dividends declared | | **.20** | | .20 | | **.40** | | .40 |

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited condensed consolidated financial statements.

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**UNIVEST CORPORATION OF PENNSYLVANIA**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | For the Six Months Ended June 30, 2009 | 2008 |
|---|---|---|
| | ($ in thousands) | |
| Cash flows from operating activities: | | |
| Net income | **$ 6,505** | $ 12,595 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan and lease losses | **7,509** | 3,296 |
| Depreciation of premises and equipment | **1,186** | 1,053 |
| Other-than-temporary impairment on investment securities | **1,400** | 235 |
| Net gains on sale of investment securities | **(15)** | (78) |
| Net losses on dispositions of fixed assets | **147** | 5 |
| Net gains on sale of loans held for sale | **(930)** | (35) |
| Originations of loans held for sale | **(72,404)** | (2,592) |
| Proceeds from the sale of loans held for sale | **71,138** | 2,565 |
| Bank owned life insurance income | **(565)** | (2,525) |
| Other adjustments to reconcile net income to cash provided by operating activities | **(212)** | (770) |
| (Increase) decrease in interest receivable and other assets | **(3,478)** | 2,866 |
| Increase (decrease) in accrued expenses and other liabilities | **8,789** | (3,856) |
| Net cash provided by operating activities | **19,070** | 12,759 |
| Cash flows from investing activities: | | |
| Net cash paid due to acquisitions, net of cash acquired | **(165)** | (151) |
| Net capital expenditures | **(1,188)** | (5,361) |
| Proceeds from maturities of securities held-to-maturity | **176** | 5,207 |
| Proceeds from maturities of securities available-for-sale | **30,522** | 145,833 |
| Proceeds from sales and calls of securities held-to-maturity | | 28,750 |
| Proceeds from sales and calls of securities available-for-sale | **103,158** | 83,341 |
| Purchases of investment securities held-to-maturity | | (33,725) |
| Purchases of investment securities available-for-sale | **(126,365)** | (239,200) |
| Purchases of lease financings | **(3,451)** | (20,900) |
| Net increase in loans and leases | **(14,899)** | (24,602) |
| Net increase (decrease) in interest-bearing deposits | **3,320** | (43) |
| Net increase in federal funds sold | | 8,460 |
| Net cash used in investing activities | **(8,892)** | (52,391) |
| Cash flows from financing activities: | | |
| Net increase in deposits | **37,748** | (28,590) |
| Net (decrease) increase in short-term borrowings | **(47,088)** | 57,588 |
| Issuance of long-term debt | | 10,000 |
| Repayment of subordinated debt | **(750)** | (750) |

| | | | | |
|---|---|---|---|---|
| Purchases of treasury stock | | **(370)** | | (848) |
| Stock issued under dividend reinvestment and employee stock purchase plans | | **1,070** | | 1,349 |
| Proceeds from exercise of stock options, including tax benefits | | **63** | | 55 |
| Cash dividends paid | | **(5,185)** | | (5,124) |
| Net cash (used in) provided by financing activities | | **(14,512)** | | 33,680 |
| Net decrease in cash and due from banks | | **(4,334)** | | (5,952) |
| Cash and due from banks at beginning of year | | **34,800** | | 47,135 |
| Cash and due from banks at end of period | **$** | **30,466** | $ | 41,183 |
| Supplemental disclosures of cash flow information Cash paid during the year for: | | | | |
| Interest | **$** | **15,949** | $ | 24,827 |
| Income taxes, net of refunds received | | **1,498** | | 4,531 |

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited condensed consolidated financial statements.

**UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

**Note 1. Financial Information**

The accompanying unaudited condensed consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation ) and its wholly owned subsidiaries; the Corporation s primary subsidiary is Univest National Bank and Trust Co. (the Bank ). The unaudited condensed consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary to present a fair statement of the results and condition for the interim periods presented. Certain amounts have been reclassified to conform to the current-year presentation. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the registrant s Annual Report on Form 10-K for the year ended December 31, 2008, which has been filed with the SEC on March 6, 2009.

The Corporation has evaluated subsequent events for potential recognition and/or disclosure through the issuance date of this Quarterly Report on Form 10-Q.

**Use of Estimates**

The preparation of the unaudited condensed 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.

**Previous Quarter Adjustments**

In connection with preparing the Form 10-Q for June 30, 2009, the statement of cash flows in the Form 10-Q for March 31, 2009 have been revised as a result of incorrect amounts in the Proceeds from the sale of loans and leases within Net cash provided by operating activities which was overstated by approximately $17.5 million and Net increase in loans and leases which was understated by approximately $17.5 million within Net cash used in investing activities. The following table outlines the corrections to the cash flow statement for the three month period ended March 31, 2009.

| | As Reported 03/31/09 | Adjustments | As Revised 03/31/09 |
|---|---|---|---|
| Proceeds from the sale of loans and leases | $ 34,289 | $ (17,507) | $ 16,782 |
| Net cash provided by operating activities | 41,379 | (17,507) | 23,872 |
| Net (increase) decrease in loans and leases | (39,422) | 17,507 | 21,915 |
| Net cash used in investing activities | (19,259) | 17,507 | (1,752) |

The Corporation will present these revised amounts for March 31, 2009 in the statements of cash flows when filing its Form 10-Q for the quarter ending March 31, 2010. The revised amounts are refelected in the June 30, 2009 cash flow information presented in this Form 10-Q.

**Note 2. 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 June 30, 2009 and December 31, 2008 by maturity within each type.

| | June 30, 2009 | | | |
|---|---|---|---|---|
| | Book Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Securities Held-to-Maturity** | | | | |
| Mortgage-backed securities: | | | | |
| 1 to 5 years | $ 160 | $ 8 | $ | $ 168 |
| 5 to 10 years | 398 | 27 | | 425 |
| Over 10 years | 618 | 53 | | 671 |
| | 1,176 | 88 | | 1,264 |
| Other: | | | | |
| 1 to 5 years | 16 | | | 16 |
| | 16 | | | 16 |
| Total | $ 1,192 | $ 88 | $ | $ 1,280 |
| **Securities Available-for-Sale** | | | | |
| U.S. Treasury, government corporations and agencies | | | | |
| 1 to 5 years | $ 109,007 | $ 457 | $ (208) | $ 109,256 |
| | 109,007 | 457 | (208) | 109,256 |
| State and political subdivisions | | | | |
| Within 1 year | 5,666 | 191 | | 5,857 |
| 1 to 5 years | 10,631 | 343 | (28) | 10,946 |
| 5 to 10 years | 22,294 | 337 | (95) | 22,536 |
| Over 10 years | 65,525 | 610 | (707) | 65,428 |
| | 104,116 | 1,481 | (830) | 104,767 |
| Mortgage-backed securities | | | | |
| Within 1 year | 2,129 | 72 | | 2,201 |
| 1 to 5 years | 119 | 7 | | 126 |
| 5 to 10 years | 8,318 | 155 | | 8,473 |
| Over 10 years | 109,176 | 4,014 | (2) | 113,188 |
| | 119,742 | 4,248 | (2) | 123,988 |

| | | | | |
|---|---|---|---|---|
| Collateral mortgage obligations | | | | |
| 5 to 10 years | 4,037 | 67 | | 4,104 |
| Over 10 years | 69,627 | 1,883 | (1,225) | 70,285 |
| | 73,664 | 1,950 | (1,225) | 74,389 |
| Asset backed securities | | | | |
| 1 to 5 years | 872 | 14 | | 886 |
| | 872 | 14 | | 886 |
| Other securities | | | | |
| Within 1 year | 2,446 | | | 2,446 |
| 1 to 5 years | 6,994 | 123 | (60) | 7,057 |
| | 9,440 | 123 | (60) | 9,503 |
| Equity securities | | | | |
| No stated maturity | 1,897 | 181 | (285) | 1,793 |
| | 1,897 | 181 | (285) | 1,793 |
| Total | $ 418,738 | $ 8,454 | $ (2,610) | $ 424,582 |

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| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Book Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Securities Held-to-Maturity** | | | | |
| Mortgage-backed securities: | | | | |
| Within 1 year | $ 5 | $ | $ | $ 5 |
| 1 to 5 years | 222 | 8 | | 230 |
| 5 to 10 years | 199 | 10 | | 209 |
| Over 10 years | 927 | 46 | | 973 |
| | 1,353 | 64 | | 1,417 |
| Other: | | | | |
| 1 to 5 years | 15 | | | 15 |
| | 15 | | | 15 |
| Total | $ 1,368 | $ 64 | $ | $ 1,432 |
| **Securities Available-for-Sale** | | | | |
| U.S. Treasury, government corporations and agencies | | | | |
| Within 1 year | $ 5,871 | $ | $ (9) | $ 5,862 |
| 1 to 5 years | 97,994 | 884 | (34) | 98,844 |
| | 103,865 | 884 | (43) | 104,706 |
| State and political subdivisions | | | | |
| 1 to 5 years | 3,048 | 109 | (5) | 3,152 |
| 5 to 10 years | 28,176 | 939 | (37) | 29,078 |
| Over 10 years | 68,572 | 478 | (930) | 68,120 |
| | 99,796 | 1,526 | (972) | 100,350 |
| Mortgage-backed securities | | | | |
| Within 1 year | 175 | 1 | | 176 |
| 1 to 5 years | 2,910 | 3 | (4) | 2,909 |
| 5 to 10 years | 3,760 | 130 | | 3,890 |
| Over 10 years | 119,907 | 3,091 | (65) | 122,933 |
| | 126,752 | 3,225 | (69) | 129,908 |

| | | | | |
|---|---|---|---|---|
| Collateral mortgage obligations | | | | |
| 5 to 10 years | 4,763 | 13 | (55) | 4,721 |
| Over 10 years | 75,957 | 1,421 | (1,894) | 75,484 |
| | 80,720 | 1,434 | (1,949) | 80,205 |
| Asset backed securities | | | | |
| 1 to 5 years | 1,231 | | (20) | 1,211 |
| | 1,231 | | (20) | 1,211 |
| Other securities | | | | |
| Within 1 year | 4,583 | | | 4,583 |
| 1 to 5 years | 6,992 | 165 | (130) | 7,027 |
| | 11,575 | 165 | (130) | 11,610 |
| Equity securities | | | | |
| No stated maturity | 3,447 | 53 | (592) | 2,908 |
| | 3,447 | 53 | (592) | 2,908 |
| Total | $ 427,386 | $ 7,287 | $ (3,775) | $ 430,898 |

Securities with a market value of $310.4 million and $311.7 million at June 30, 2009 and December 31, 2008, respectively, were pledged to secure public deposits and for other purposes as required by law.

During the six months ended June 30, 2009 and 2008, available-for-sale securities with a fair value at the date of sale of $33.0 million and $14.7 million, respectively, were sold. Gross realized gains on such sales totaled $43 thousand during 2009 and $78 thousand in 2008. Gross realized losses on sales totaled $28 thousand in 2009 and there were no losses on realized sales in 2008. Tax expense related to net realized gains from the sales of investment securities for the six months ended June 30, 2009 and 2008 were $5 thousand and $27 thousand, respectively. Accumulated other comprehensive income related to securities of $3.8 million and $2.3 million, net of taxes, has been included in shareholders equity at June 30, 2009 and December 31, 2008, respectively.

Unrealized losses in investment securities at June 30, 2009 and December 31, 2008 do not represent other-than-temporary impairments. The Corporation realized an impairment charge of $1.4 million to noninterest income on its equity portfolio during the six months ended June 30, 2009. 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 probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced recent declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation intends to hold the securities and does not believe it will be required to sell the securities before recovery occurs. The Corporation does not consider those investments to be other-than-temporarily impaired at June 30, 2009.

Management evaluates debt securities, which comprises 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 has the intent to hold the securities and will not be required to sell the securities before recovery occurs.

At June 30, 2009 and December 2008, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the amount of securities that were in an unrealized loss position at June 30, 2009 and December 31, 2008:

| | At June 30, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less than Twelve Months | | Twelve Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury, government corporations and agencies | $ 37,484 | $ (208) | $ | $ | $ 37,484 | $ (208) |
| State and political subdivisions | 21,278 | (297) | 18,843 | (533) | 40,121 | (830) |
| Mortgage-backed securities | | | 154 | (2) | 154 | (2) |
| Collateral mortgage obligations | 5,490 | (97) | 5,415 | (1,128) | 10,905 | (1,225) |
| Asset-backed securities | | | | | | |
| Other securities | 3,940 | (60) | | | 3,940 | (60) |
| Equity securities | 349 | (86) | 518 | (199) | 867 | (285) |
| Total | $ 68,541 | $ (748) | $ 24,930 | $ (1,862) | $ 93,471 | $ (2,610) |

| | At December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Total | |

| | Less than Twelve Months | | Twelve Months or Longer | | | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury, government corporations and agencies | $ 10,869 | $ (43) | $ | $ | $ 10,869 | $ (43) |
| State and political subdivisions | 32,985 | (704) | 6,897 | (268) | 39,882 | (972) |
| Mortgage-backed securities | 12,718 | (69) | | | 12,718 | (69) |
| Collateral mortgage obligations | 4,449 | (9) | 8,909 | (1,940) | 13,358 | (1,949) |
| Asset-backed securities | 1,211 | (20) | | | 1,211 | (20) |
| Other securities | 2,863 | (130) | | | 2,863 | (130) |
| Equity securities | 1,062 | (270) | 1,137 | (322) | 2,199 | (592) |
| Total | $ 66,157 | $ (1,245) | $ 16,943 | $ (2,530) | $ 83,100 | $ (3,775) |

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**Note 3. Loans and Leases**

The following is a summary of the major loan and lease categories:

| ($ in thousands) | At June 30, 2009 | At December 31, 2008 |
|---|---|---|
| Commercial, financial and agricultural | **$ 454,148** | $ 424,649 |
| Real estate commercial | **428,366** | 399,003 |
| Real estate construction | **150,152** | 153,506 |
| Real estate residential | **287,752** | 316,039 |
| Loans to individuals | **49,684** | 54,212 |
| Lease financings | **103,742** | 110,095 |
| Total gross loans and leases | **1,473,844** | 1,457,504 |
| Less: Unearned income | **(8,958)** | (7,612) |
| Total loans and leases | **$ 1,464,886** | $ 1,449,892 |

**Note 4. Reserve for Loan and Lease Losses**

A summary of the activity in the reserve for loan and lease losses is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| ($ in thousands) | 2009 | 2008 | 2009 | 2008 |
| Reserve for loan and lease losses at beginning of period | **$ 14,720** | $ 12,997 | **$ 13,118** | $ 13,086 |
| Provision for loan and lease losses | **5,353** | 2,297 | **7,509** | 3,296 |
| Recoveries | **180** | 108 | **374** | 217 |
| Loans charged off | **(1,429)** | (1,689) | **(2,177)** | (2,886) |
| Reserve for loan and lease losses at period end | **$ 18,824** | $ 13,713 | **$ 18,824** | $ 13,713 |

Information with respect to loans and leases that are considered to be impaired under Statement of Financial Accounting Standard ( SFAS ) SFAS No. 114, Accounting by Creditors for Impairment of a Loan ( SFAS 114 ) a June 30, 2009 and December 31, 2008 is as follows:

| | At June 30, 2009 | | At December 31, 2008 | |
|---|---|---|---|---|
| ($ in thousands) | Balance | Specific Reserve | Balance | Specific Reserve |
| Recorded investment in impaired loans and leases at period-end subject to a specific reserve for loan and lease losses and corresponding specific reserve | **$ 4,379** | **$ 2,061** | $ 166 | $ 36 |
| Recorded investment in impaired loans and leases at period-end requiring no specific reserve for loan and lease losses | **4,707** | | 5,243 | |
| Recorded investment in impaired loans and leases at period-end | **$ 9,086** | | $ 5,409 | |
| | **$ 9,086** | | $ 5,409 | |

Recorded investment in nonaccrual and restructured loans and leases

The following is an analysis of interest on nonaccrual and restructured loans and leases:

| ($ in thousands) | **Three Months Ended June 30, 2009** | **Three Months Ended June 30, 2008** | **Six Months Ended June 30, 2009** | **Six Months Ended June 30, 2008** |
|---|---|---|---|---|
| Nonaccrual and restructured loans and leases at period end | **$ 9,086** | $ 7,415 | **$ 9,086** | $ 7,415 |
| Average recorded investment in impaired loans and leases | **6,764** | 6,243 | **5,855** | 6,458 |
| Interest income that would have been recognized under original terms | **98** | 155 | **190** | 297 |

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Interest income of $41 thousand and $52 thousand was recognized on these loans for the three- and six- month periods ended June 30, 2009. There was no interest income recognized on these loans and leases for the three- and six-month periods ended June 30, 2008.

**Note 5. Mortgage Servicing Rights**

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method using an accelerated amortization method and are subject to periodic impairment testing. Changes in the carrying value of capitalized mortgage servicing rights are summarized as follows:

| | | |
|---|---|---|
| Beginning, January 1, 2009 | $ | 585 |
| Servicing rights capitalized | | 692 |
| Amortization of servicing rights | | (37) |
| Balance, June 30, 2009 | $ | 1,240 |

Activity in the valuation allowance for mortgage servicing rights was as follows:

| | | |
|---|---|---|
| Beginning, January 1, 2009 | $ | (167) |
| Additions | | (53) |
| Reductions | | |
| Direct write downs | | |
| Balance, June 30, 2009 | $ | (220) |

The Corporation services loans for others with unpaid principal balances at June 30, 2009 and December 31, 2008 of approximately $115.3 million and $53.8 million, respectively.

Estimated Amortization Expense:

| | | |
|---|---|---|
| For the six months ended December 31, 2009 | $ | 88 |
| For the year ended December 31, 2010 | | 161 |
| For the year ended December 31, 2011 | | 127 |
| For the year ended December 31, 2012 | | 95 |
| For the year ended December 31, 2013 | | 73 |
| For the year ended December 31, 2014 | | 132 |
| Thereafter | | 344 |
| | $ | 1,020 |

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**Note 6. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

| ($ in thousands) | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|---|---|
| Numerator: | | | | |
| Numerator for basic and diluted earnings per share Income available to common shareholders | **$ 2,669** | $ 5,874 | **$ 6,505** | $ 12,595 |
| Denominator: | | | | |
| Denominator for basic earnings per share weighted-average shares outstanding | **13,023** | 12,855 | **13,000** | 12,847 |
| Effect of dilutive securities: | | | | |
| Employee stock options | | 29 | | 13 |
| Denominator for diluted earnings per share adjusted weighted-average shares outstanding | **13,023** | 12,884 | **13,000** | 12,860 |
| Basic earnings per share | **$ 0.21** | $ 0.46 | **$ .50** | $ 0.98 |
| Diluted earnings per share | **0.21** | 0.46 | **.50** | 0.98 |

**Note 7. Accumulated Comprehensive Income**

The following shows the accumulated comprehensive income, net of income taxes, for the periods presented:

| ($ in thousands) | For the Three Months Ended June 30, 2009 | For the Three Months Ended June 30, 2008 | For the Six Months Ended June 30, 2009 | For the Six Months Ended June 30, 2008 |
|---|---|---|---|---|
| Net Income | **$ 2,669** | $ 5,874 | **$ 6,505** | $ 12,595 |
| Unrealized gain on cash flow hedges: | | | | |
| Unrealized holding gains arising during the period | **933** | | **1,244** | |
| Unrealized gain on available-for-sale investment securities: | | | | |
| Unrealized gains (losses) arising during the period | **330** | (4,047) | **617** | (2,367) |
| Less: reclassification adjustment for losses realized in net income | **(159)** | (138) | **(900)** | (102) |
| Defined benefit pension plans: | | | | |
| Unrealized (losses) gains arising during the period | **(15)** | 4 | **(3)** | 9 |
| Less: amortization of net gain included in net periodic pension costs | **(162)** | (59) | **(296)** | (118) |
| Prior service costs arising during the period | **7** | 8 | **18** | 17 |
| Less: amortization (accretion) of prior service cost included in net periodic pension costs | **3** | (10) | **9** | (20) |
| Total net comprehensive income | **$ 4,242** | $ 2,046 | **$ 9,568** | $ 10,494 |

Other-than-temporary impairment on securities does not have an impact on other comprehensive income.

**Note 8. Pensions and Other Postretirement Benefits**

Components of net periodic benefit cost:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| ($ in thousands) | **Retirement Plans** | | **Other Post Retirement** | |
| Service cost | **$ 374** | $ 295 | **$ 18** | $ 17 |
| Interest cost | **470** | 495 | **23** | 21 |
| Expected return on plan assets | **(359)** | (471) | | |
| Amortization of net loss | **244** | 89 | **5** | 1 |
| Amortization (accretion) of prior service cost | **10** | (11) | **(5)** | (5) |
| Net periodic cost | **$ 739** | $ 397 | **$ 41** | $ 34 |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| ($ in thousands) | **Retirement Plans** | | **Other Post Retirement** | |
| Service cost | **$ 709** | $ 625 | **$ 36** | $ 34 |
| Interest cost | **978** | 957 | **47** | 42 |
| Expected return on plan assets | **(772)** | (929) | | |
| Amortization of net loss | **448** | 179 | **7** | 2 |
| Amortization (accretion) of prior service cost | **24** | (21) | **(10)** | (10) |
| Net periodic cost | **$ 1,387** | $ 811 | **$ 80** | $ 68 |

The Corporation previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to make payments of $2.2 million for its qualified and non-qualified retirement plans and $126 thousand for its other postretirement benefit plans in 2009. As of June 30, 2009, $958 thousand and $42 thousand have been paid to participants from its qualified and non-qualified retirement plans and other postretirement plans, respectively. During the six months ended June 30, 2008, the Corporation contributed $971 thousand and $45 thousand to its qualified and non-qualified retirement plans and other postretirement plans, respectively.

**Note 9. Income Taxes**

As of January 1, 2009 and June 30, 2009, 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. Tax Years 2005 through 2008 remain subject to Federal examination as well as examination by state taxing jurisdictions.

**Note 10. Derivative Instruments and Hedging Activities**

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 and fair value hedging relationships in compliance with SFAS 133 by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows or fair value of assets or liabilities that are being hedged. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in fair value of the ineffective part of the instrument would need to be charged to the statement of operations, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods.

The Corporation s credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in equity until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in income. Under SFAS 133, for a qualifying fair value hedge, the gain or loss on the hedging instrument is recognized in earnings, and the change in fair value on the hedge item to the extent attributable to the hedged risk adjusts the carrying amount of the hedge item and is recognized in earnings.

Derivative loan commitments represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. The Corporation s derivative loan commitments are commitments to sell loans secured by 1-to-4 family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. At June 30, 2009, derivative loan commitments had a positive fair value of $134 thousand and is classified on the balance sheet as a component of other assets.

At June 30, 2008, there were no interest rate swaps outstanding.

On March 24, 2009, the Corporation entered into a $22.0 million notional interest rate swap, which has been classified as a fair value hedge on a commercial loan. Under the terms of the swap agreement, the Corporation will pay a fixed rate of 6.49% and receive a floating rate which is based on the one month U.S. London Interbank Borrowing Rate ( LIBOR ) with a 357 basis point spread and a termination date of April 1, 2019. The Corporation performed an assessment of the hedge at inception. At June 30, 2009, the interest rate swap had a positive fair value of $1.1 million, which is classified on the balance sheet as other assets, and the hedged loan had a negative fair value of $833 thousand, which is classified on the balance sheet as a component of loans and leases. The Corporation has elected to record the change in fair value of the interest rate swap and hedged loan as a component of noninterest income on the income statement. The amount of ineffectiveness for the six months ended June 30, 2009 was a positive $280 thousand, which is recorded as a component of other income on the income statement.

At June 30, 2009, the Corporation had a cash flow hedge with a notional amount of $20.0 million that had the effect of converting the variable rates on trust preferred securities to a fixed rate. The cash payment on the interest rate swap of $149 thousand for the six months ended June 30, 2009 was recorded as a component of interest expense on the income statement. At June 30, 2009, the cash flow hedge had a positive fair value of $1.7 million, which is classified on the balance sheet as a component of other assets, and was determined to be highly effective in offsetting the value of the hedged items. The change in the fair value of the interest rate swap net of taxes of $1.1 million is recorded as a component of other comprehensive income on the balance sheet.

**Note 11. Fair Value Disclosures**

As of January 1, 2008, the Corporation adopted SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The Corporation does not currently hold any trading assets, or other financial instruments that are measured at fair value on a recurring basis that were impacted by the adoption of SFAS 157.

SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation s assumptions that the market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Assets and liabilities utilizing Level 1 inputs include: Exchange-traded equity and most U.S. Government securities.

Level 2 Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include: most U.S. Government agency mortgage-backed debt securities ( MBS ), corporate debt securities, corporate and municipal bonds, asset-backed securities ( ABS ), residential mortgage loans held for sale, certain commercial loans, mortgage servicing rights and derivative financial instruments.

Level 3 Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities utilizing Level 3 inputs include: financial instruments whose value is determined using pricing models, discounted cash-flow methodologies, or similar techniques, as well as instruments for which the fair value calculation requires significant management judgment or estimation. These assets and liabilities include: certain commercial mortgage obligations ( CMOs ) and MBS and ABS securities.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Investment Securities*

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid U.S. Treasury securities, U.S. Government sponsored enterprises, and most equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain MBS, CMOs, ABS and municipal bonds. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain municipal bonds, certain ABS and other less liquid investment securities.

*Hedged Loans*

The fair value of hedged loans is based on a regression model which takes into consideration the changes in market value due to changes in LIBOR. Hedged loans are classified within Level 2 hierarchy.

*Loans Held for Sale*

The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including, interest rates, and bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale at June 30, 2009 were carried at the lower of cost or estimated fair value.

*Mortgage Servicing Rights*

The Corporation estimates the fair value of Mortgage Servicing Rights ( MSRs ) using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. MSRs are classified within level 2 of the valuation hierarchy. MSRs are carried at the lower of amortized cost or estimated fair value.

*Derivative Financial Instruments*

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Derivative financial instruments are classified within level 2 of the valuation hierarchy.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and December 31, 2008, classified using the SFAS 157 valuation hierarchy:

| | **At June 30, 2009** | | | |
|---|---|---|---|---|
| ($ in thousands) | **Level 1** | **Level 2** | **Level 3** | **Assets/ Liabilities at Fair Value** |
| Assets: | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury, government corporations and agencies | $ | $ 109,256 | $ | $ 109,256 |
| State and political subdivisions | | 104,767 | | 104,767 |
| Mortgage-backed securities | | 123,988 | | 123,988 |
| Collateral mortgage obligations | | 68,974 | 5,415 | 74,389 |
| Asset-backed securities | | | 886 | 886 |
| Other securities | | 9,503 | | 9,503 |
| Equity securities | 1,793 | | | 1,793 |
| Total available-for-sale securities | 1,793 | 416,488 | 6,301 | 424,582 |

| | At June 30, 2009 | | | |
|---|---|---|---|---|
| ($ in thousands) | **Level 1** | **Level 2** | **Level 3** | **Assets/ Liabilities at Fair Value** |
| Hedged loans | | 21,167 | | 21,167 |
| Mortgage servicing rights | | 1,019 | | 1,019 |
| Interest rate swaps | | 2,797 | | 2,797 |
| Derivative loan commitments | | 134 | | 134 |
| Total assets | $ 1,793 | $ 441,605 | $ 6,301 | $ 449,699 |
| Liabilities: | | | | |
| Interest rate swaps | $ | $ | $ | $ |
| Total liabilities | $ | $ | $ | $ |

| | At December 31, 2008 | | | |
|---|---|---|---|---|
| ($ in thousands) | **Level 1** | **Level 2** | **Level 3** | **Assets/ Liabilities at Fair Value** |
| Assets: | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury, government corporations and agencies | $ | $ 104,706 | $ | $ 104,706 |
| State and political subdivisions | | 100,350 | | 100,350 |
| Mortgage-backed securities | | 129,908 | | 129,908 |
| Collateral mortgage obligations | | 74,865 | 5,340 | 80,205 |
| Asset-backed securities | | | 1,211 | 1,211 |
| Other securities | | 11,610 | | 11,610 |
| Equity securities | 2,908 | | | 2,908 |
| Total available-for-sale securities | 2,908 | 421,439 | 6,551 | 430,898 |
| Mortgage servicing rights | | 418 | | 418 |
| Total assets | $ 2,908 | $ 421,857 | $ 6,551 | $ 431,316 |
| Liabilities: | | | | |
| Interest rate swaps | $ | $ 229 | $ | $ 229 |
| Total liabilities | $ | $ 229 | $ | $ 229 |

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Corporation utilized Level 3 inputs to determine fair value:

| | For the Three Months Ended June 30, 2009 | | | | |
|---|---|---|---|---|---|
| ($ in thousands) | Balance at March 31, 2009 | Total Unrealized Gains or (Losses) | Total Realized Gains or (Losses) | Purchases (Sales or Paydowns) | Balance at June 30, 2009 |
| Available-for-sale securities: | | | | | |
| Asset-backed securities | $ 1,036 | $ 37 | $ | $ (187) | $ 886 |
| Commercial mortgage obligations | 5,203 | 633 | | (421) | 5,415 |
| Total Level 3 assets | $ 6,239 | $ 670 | $ | $ (608) | $ 6,301 |

| ($ in thousands) | Balance at December 31, 2008 | For the Six Months Ended June 30, 2009 Total Unrealized Gains or (Losses) | Total Realized Gains or (Losses) | Purchases (Sales or Paydowns) | Balance at June 30, 2009 |
|---|---|---|---|---|---|
| Available-for-sale securities: | | | | | |
| Asset-backed securities | $ 1,211 | $ 34 | $ | $ (359) | $ 886 |
| Commercial mortgage obligations | 5,340 | 757 | | (682) | 5,415 |
| Total Level 3 assets | $ 6,551 | $ 791 | $ | $ (1,041) | $ 6,301 |

Realized gains or losses are recognized in the Consolidated Statement of Income. There were no realized gains or losses recognized on Level 3 assets during the three or six month periods ended June 30, 2009.
The following table represents assets measured at fair value on a non-recurring basis as of June 30, 2009.

| ($ in thousands) | At June 30, 2009 Level 1 | Level 2 | Level 3 | Assets at Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Acquired leases | $ | $ | $ 5,551 | $ 5,551 |
| Impaired loans and leases | | | 587 | 587 |
| | $ | $ | $ 6,138 | $ 6,138 |

Acquired leases are measured at the time of acquisition and are based on the fair value of the collateral securing these loans. Acquired leases are classified within level 3 of the valuation hierarchy.
Impaired loans and leases include those collateral-dependent loans and leases for which the practical expedient under SFAS 114 was applied, resulting in a fair-value adjustment to the loan or lease. Impaired loans and leases are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans less cost to sell and is classified at a level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation.
Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other intangible assets. During the six months ended June 30, 2009, there were no triggering events to fair value goodwill and other intangible assets.
The following table represents the estimates of fair value of financial instruments:

| | At June 30, 2009 | | At December 31, 2008 | |
|---|---|---|---|---|
| | Carrying, Notional or Contract | Fair Value | Carrying, Notional or Contract | Fair Value |
| Assets: | | | | |
| Cash and Short-term assets | **$ 32,412** | **$ 32,412** | $ 40,066 | $ 40,066 |
| Investment securities | **425,774** | **425,862** | 432,266 | 432,330 |
| Loans held for sale | **1,119** | **1,142** | 544 | 550 |
| Net loans and leases | **1,446,062** | **1,494,614** | 1,436,774 | 1,502,733 |
| Interest rate swaps | **42,000** | **2,797** | | |

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Deposits | **1,565,076** | **1,544,249** | 1,527,328 | 1,539,879 |
| Short-term borrowings | **183,642** | **184,718** | 192,730 | 192,730 |
| Long-term borrowings | **81,815** | **84,476** | 120,006 | 124,084 |
| Interest rate swap | | | 20,000 | 229 |
| Off-Balance-Sheet: | | | | |
| Commitments to extend credit | **430,905** | **(308)** | 425,271 | (389) |
| Letters of credit | **70,502** | **(718)** | 81,462 | (829) |

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The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

*Cash and short-term assets:* The carrying amounts reported in the balance sheets for cash and due from banks, interest-earning deposits with other banks, and federal funds sold and other short-term investments approximates those assets fair values.

*Investment securities:* Fair values for the held-to-maturity and available-for-sale investments securities are based on quoted market prices.

*Loans and leases:* The fair values for loans are estimated using discounted cash flow analyses, using a discount rate consisting of an appropriate risk free rate, as well as components for credit risk, operating expense, and embedded prepayment options.

*Deposit liabilities:* The fair values for deposits with fixed maturities are estimated by discounting the final maturity, and the fair values for non-maturity deposits are established using a decay factor estimate of cash flows based upon industry-accepted assumptions. The discount rate applied to deposits consists of an appropriate risk free rate and includes components for credit risk, operating expense, and embedded prepayment options.

*Short-term borrowings:* The carrying amounts of securities sold under repurchase agreements, and other short-term borrowings approximate their fair values.

*Long-term borrowings:* The fair values of the Corporation s long-term borrowings (other than deposits) are estimated using a discounted cash flow analysis using a discount rate consisting of an appropriate risk free rate, as well as components for credit risk, operating expense, and embedded prepayment options.

*Off-balance-sheet instruments:* Fair values for the Corporation s off-balance-sheet instruments are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing.

**Note 12. Recent Accounting Pronouncements**

In April 2009, FASB issued FSP No. FAS 107-1, Disclosure of Fair Value of Financial Instruments in Interim Statements ( FAS 107-1 ), and Accounting Principles Board Opinion ( APB ) No. 28-1, Interim Financial Reporting ( APB 28-1 ) amends both SFAS No. 107 and APB Opinion No. 28 to require that disclosures concerning the fair value of financial instruments be presented in interim as well as in annual financial statements. FAS 107-1 and APB 28-1 are effective for interim reporting periods ending after June 15, 2009. The application of the provisions of FAS 107-1 and APB 28-1 resulted in additional disclosure about the fair value of financial instruments in connection with the Corporation s June 30, 2009 quarterly report on Form 10-Q, but did not have a material impact on its consolidated financial statements.

In April 2009, FASB issued FSP No. FAS 115-2 and No. FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ( FAS115-2 and FAS 124-2 ) which amends the other-than-temporary guidance ( OTTI ) for debt securities to make such guidance more operational and to improve the presentation and disclosures of OTTI for both debt and equity securities. FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The application of the provisions of FAS 115-2 and FAS 124-2 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In April 2009, FASB issued FASB FSP No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies ( FAS No. 141(R)-1 ) which amends SFAS No. 141(R) to provide guidance in respect of initial recognition and measurement, subsequent measurement, and disclosures concerning assets and liabilities arising from pre-acquisition contingencies in a business combination. FAS No. 141(R)-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The application of the provisions of FAS 141(R)-1 did not have a material impact on the Corporations s consolidated financial statements as of June 30, 2009.

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In April 2009, FASB issued FASB FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FAS 157-4 ) which amends SFAS No. 157 to provide additional guidance for determining fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability have decreased significantly. FAS 157-4 also provides guidance for determining whether a transaction is an orderly one. FAS 157-4 is effective prospectively for interim periods and annual years ending after June 15, 2009. The application of the provisions of FSP 157-4 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In May 2009, FASB issued SFAS No. 165, Subsequent Events (as amended) which establishes guidance for the accounting for and the disclosure of events that happen after the date of the balance sheet but before the release of the financial statements. SFAS No. 165 is effective for reporting periods that end after June 15, 2009. The application of the provisions of SFAS No. 165 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In June 2009, FASB issued FASB Statement No. 166 ( FAS 166 ), Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. FAS 166 was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Specifically to address: (1) practices that have developed since the issuance of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. FAS 166 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The Corporation does not anticipate the adoption of FAS 166 to have a material impact on the Corporation s consolidated financial statements.

In June 2009, FASB issued Statement No. 167 ( FAS 167 ), Amendments to FASB Interpretation No. 46(R). FAS 167 was issued to improve financial reporting by enterprises involved with variable interest entities. Specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, Accounting for Transfers of Financial Assets, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. FAS 167 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes and must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The Corporation does not anticipate the adoption of FAS 167 to have a material impact on the Corporation s consolidated financial statements.

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## Item 2. 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 . Certain amounts have been reclassified to conform to the current-year presentation.)***

### Forward-Looking Statements

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 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.

### General

Univest Corporation of Pennsylvania, (the Corporation ), is a Financial Holding Company. It owns all of the capital stock of Univest National Bank and Trust Co. (the Bank ), Univest Realty Corporation, Univest Delaware, Inc., and Univest Reinsurance Corporation.

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., a wholly owned subsidiary of the Bank, provides lease financing. Delview, Inc., a wholly owned subsidiary of the Bank, 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. TCG Investment Advisory, a wholly owned subsidiary of the Bank, is a registered investment advisor and provides discretionary investment consulting and management services.

### Executive Overview

The Corporation recorded net income for the six months ended June 30, 2009 of $6.5 million, a 48.4% decrease compared to the June 30, 2008 period. Basic and diluted net income per share decreased by 49.0% for the six months ended June 30, 2009 as compared to June 30, 2008.

Average interest-earning assets increased $31.5 million and average interest-bearing liabilities increased $37.7 million when comparing the six-month periods ended June 30, 2009 and 2008. Increased volume in commercial business, commercial real estate and construction and lease financings along with decreased rates on money market savings and time deposits were partially offset by decreased rates on commercial business loans and commercial and construction real estate loans; this contributed to a $1.5 million increase in tax-equivalent net interest income. The tax-equivalent net interest margin increased to 3.82% for the six month period ended June 30, 2009 from 3.71% when compared to the same period in 2008.

Non-interest income decreased by 11.0%, when comparing the six-month periods ended June 30, 2009 to 2008, due to a decrease in bank owned life insurance income of $2.0 million, primarily due to a death benefit recorded in 2008 and other-than-temporary impairments on equity securities being $1.2 million greater in 2009 over 2008. These decreases were partially offset by increases in investment advisory fees, insurance commissions and fee income, the gain on sale of loans held for sale and other income.

Non-interest expense grew 12.6% primarily due to salary and benefit expenses associated with the acquisitions of Liberty Benefits, Inc. and the Trollinger Consulting Group in December 2008, additional personnel to grow the mortgage banking business, normal base pay increases and pension plan expense. Additionally, FDIC insurance premiums increased in 2009 over 2008 due to a special assessment of five basis points on each FDIC-insured depository institution s assets, minus its Tier 1 capital, as of June 30, 2009, which equated to $983 thousand, and credits that were utilized by the Corporation in 2008 causing an aggregated variance of $2.0 million.

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The Corporation earns its revenues primarily from the margins and fees it generates from loans and leases and depository services it provides as well as from trust, insurance and investment commissions and fees. 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 approved levels. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation maintains a relatively neutral interest rate risk profile and anticipates that an increase of 200 basis points in interest rates would not significantly impact its net interest margin.

The Corporation seeks to establish itself as the financial provider of choice in the markets it serves. It plans to achieve this goal by offering a broad range of high quality financial products and services and by increasing market awareness of its brand and the benefits that can be derived from its products. The Corporation operates in an attractive market for financial services but also is in intense competition with domestic and international banking organizations and other insurance and investment providers for the financial services business. The Corporation has taken initiatives to achieve its business objectives by acquiring banks and other financial service providers in strategic markets, through marketing, public relations and advertising, by establishing standards of service excellence for its customers, and by using technology to ensure that the needs of its customers are understood and satisfied.

**Results of Operations Three Months Ended June 30, 2009 Versus 2008**

The Corporation s consolidated net income and earnings per share for the three months ended June 30, 2009 and 2008 were as follows:

| | For the Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **Percent** |
| Net income | **$ 2,669** | $ 5,874 | $ (3,205) | (54.6)% |
| Net income per share: | | | | |
| Basic | **$ .21** | $ .46 | $ (.25) | (54.3)% |
| Diluted | **.21** | .46 | (.25) | (54.3)% |

Return on average shareholders equity was 5.14% and return on average assets was 0.52% for the three months ended June 30, 2009, compared to 11.50% and 1.16%, respectively, for the same period in 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 three months ended June 30, 2009 and 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 Committee works to maintain an adequate and stable net interest margin for the Corporation.

Tax-equivalent net interest income increased $805 thousand for the three months ended June 30, 2009 compared to 2008 primarily due to rate decreases in money market and time deposits. Decreased rates on commercial business loans and commercial real estate and commercial construction loans were partially offset by increased volumes on commercial business and commercial real estate and construction loans and lease financings. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.87% and 3.75% for the three-month periods ended June 30, 2009 and 2008, respectively. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.60% for the three months ended June 30, 2009 compared to 3.35% for the same period in 2008. The effect of net interest free funding sources decreased to 0.27% for the three months ended June 30, 2009 compared to 0.40% for the same period in 2008; this represents the

effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

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**Table 1 Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential**

| | For the Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Average Balance | Income/ Expense | Average Rate | Average Balance | Income/ Expense | Average Rate |
| **Assets:** | | | | | | |
| Interest-earning deposits with other banks | $ 3,399 | $ 2 | 0.24% | $ 758 | $ 3 | 1.59% |
| U.S. Government obligations | 98,532 | 782 | 3.18 | 100,530 | 1,148 | 4.59 |
| Obligations of states and political subdivisions | 104,606 | 1,760 | 6.75 | 109,035 | 1,680 | 6.20 |
| Other debt and equity securities | 210,004 | 2,640 | 5.04 | 240,505 | 3,117 | 5.21 |
| Federal funds sold | | | | 21,431 | 121 | 2.27 |
| Total interest-earning deposits, investments and federal funds sold | 416,541 | 5,184 | 4.99 | 472,259 | 6,069 | 5.17 |
| Commercial, financial and agricultural loans | 414,482 | 4,652 | 4.50 | 390,353 | 5,952 | 6.13 |
| Real estate commercial and construction loans | 525,984 | 8,039 | 6.13 | 477,482 | 7,780 | 6.55 |
| Real estate residential loans | 298,370 | 3,472 | 4.67 | 304,901 | 3,971 | 5.24 |
| Loans to individuals | 50,950 | 851 | 6.70 | 64,642 | 1,121 | 6.97 |
| Municipal loans and leases | 88,916 | 1,379 | 6.22 | 81,879 | 1,286 | 6.32 |
| Lease financings | 92,541 | 1,987 | 8.61 | 72,920 | 1,594 | 8.79 |
| Gross loans and leases | 1,471,243 | 20,380 | 5.56 | 1,392,177 | 21,704 | 6.27 |
| Total interest-earning assets | 1,887,784 | 25,564 | 5.43 | 1,864,436 | 27,773 | 5.99 |
| Cash and due from banks | 30,633 | | | 35,263 | | |
| Reserve for loan and lease losses | (15,897) | | | (13,173) | | |
| Premises and equipment, net | 33,254 | | | 31,463 | | |
| Other assets | 141,791 | | | 126,998 | | |
| Total assets | $ 2,077,565 | | | $ 2,044,987 | | |
| **Liabilities:** | | | | | | |
| Interest-bearing checking deposits | $ 165,642 | 55 | 0.13 | $ 147,206 | 111 | 0.30 |
| Money market savings | 314,554 | 403 | 0.51 | 442,553 | 2,223 | 2.02 |
| Regular savings | 343,838 | 718 | 0.84 | 268,757 | 981 | 1.47 |
| Time deposits | 514,667 | 4,530 | 3.53 | 471,528 | 5,198 | 4.43 |
| | 1,338,701 | 5,706 | 1.71 | 1,330,044 | 8,513 | 2.57 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total time and interest-bearing deposits | | | | | | |
| Securities sold under agreements to repurchase | 85,919 | 143 | 0.67 | 88,108 | 238 | 1.09 |
| Other short-term borrowings | 99,968 | 681 | 2.73 | 37,817 | 217 | 2.31 |
| Long-term debt | 57,350 | 501 | 3.50 | 95,419 | 1,017 | 4.29 |
| Subordinated notes and capital securities | 26,619 | 325 | 4.90 | 28,119 | 385 | 5.51 |
| Total borrowings | 269,856 | 1,650 | 2.45 | 249,463 | 1,857 | 2.99 |
| Total interest-bearing liabilities | 1,608,557 | 7,356 | 1.83 | 1,579,507 | 10,370 | 2.64 |
| Demand deposits, non-interest bearing | 221,616 | | | 229,971 | | |
| Accrued expenses and other liabilities | 39,071 | | | 30,045 | | |
| Total liabilities | 1,869,244 | | | 1,839,523 | | |
| **Shareholders Equity:** | | | | | | |
| Common stock | 74,370 | | | 74,370 | | |
| Additional paid-in capital | 22,784 | | | 22,633 | | |
| Retained earnings and other equity | 111,167 | | | 108,461 | | |
| Total shareholders equity | 208,321 | | | 205,464 | | |
| Total liabilities and shareholders equity | $ 2,077,565 | | | $ 2,044,987 | | |
| Net interest income | | $ 18,208 | | | $ 17,403 | |
| Net interest spread | | | 3.60 | | | 3.35 |
| Effect of net interest-free funding sources | | | 0.27 | | | 0.40 |
| Net interest margin | | | 3.87% | | | 3.75% |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 117.36% | | | 118.04% | | |

Notes: Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35 percent.

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.

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**Table 2 Analysis of Changes in Net Interest Income**

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the periods 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 Three Months Ended June 30, 2009 Versus 2008 | | |
|---|---|---|---|
| | Volume Change | Rate Change | Total |
| Interest income: | | | |
| Interest-earning deposits with other banks | $ 2 | $ (3) | $ (1) |
| U.S. Government obligations | (14) | (352) | (366) |
| Obligations of states and political subdivisions | (69) | 149 | 80 |
| Other debt and equity securities | (375) | (102) | (477) |
| Federal funds sold | (121) | | (121) |
| Interest on deposits, investments and federal funds sold | (577) | (308) | (885) |
| Commercial, financial and agricultural loans and leases | 282 | (1,582) | (1,300) |
| Real estate-commercial and construction loans | 758 | (499) | 259 |
| Real estate-residential loans | (67) | (432) | (499) |
| Loans to individuals | (227) | (43) | (270) |
| Municipal loans and leases | 113 | (20) | 93 |
| Lease financings | 426 | (33) | 393 |
| Interest and fees on loans and leases | 1,285 | (2,609) | (1,324) |
| Total interest income | 708 | (2,917) | (2,209) |
| Interest expense: | | | |
| Interest-bearing checking deposits | 6 | (62) | (56) |
| Money market savings | (158) | (1,662) | (1,820) |
| Regular savings | 158 | (421) | (263) |
| Time deposits | 387 | (1,055) | (668) |
| Interest on time and interest-bearing deposits | 393 | (3,200) | (2,807) |
| Securities sold under agreement to repurchase | (3) | (92) | (95) |
| Other short-term borrowings | 425 | 39 | 464 |
| Long-term debt | (329) | (187) | (516) |
| Subordinated notes and capital securities | (17) | (43) | (60) |
| Interest on borrowings | 76 | (283) | (207) |
| Total interest expense | 469 | (3,483) | (3,014) |
| Net interest income | $ 239 | $ 566 | $ 805 |

Notes:

Tax-equivalent amounts for both periods have been calculated using the Corporation s federal applicable rate of 35%.

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.

**Interest Income**

Interest income on U. S. Government obligations decreased during the three months ended June 30, 2009 compared to 2008 due to a decline in average volume and average rates. Interest income on obligations of state and political subdivisions decreased due to a decline in average volume and average rates. Interest income on other debt and equity securities decreased primarily due to average volume decreases on mortgage-backed securities. Interest income decreased on federal funds sold primarily due to decreases in the average volume.

The decline in interest and fees on loans and leases is due primarily to average rate decreases on commercial business loans and commercial real estate and construction loans. The rate decreases are attributable to the 175 basis point decline in average prime rate comparing the three months ended June 30, 2009 to the same period in 2008. The average interest yield on the commercial loan portfolio decreased 163 basis points; which contributed to a $1.3 million decrease in interest income. The average volume decline on loans to individuals of $13.7 million, contributed to a $270 thousand decrease in interest income. These decreases were offset by an increase in average volume on lease financings of $19.6 million; this contributed to a $393 thousand increase in interest income and an increase in average volume on commercial real estate and construction loans of $48.5 million; this contributed to a $259 thousand increase in interest income.

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**Interest Expense**

The Corporation s average cost of deposits decreased 86 basis points for the three months ended June 30, 2009 compared to the same period in 2008. This decrease in average rate contributed to a $2.8 million decrease in interest expense on deposits. The average rate paid on money market savings decreased 151 basis points and the average volume decreased $128.0 million; the net effect contributed to a $1.8 million decrease in interest expense. The decrease in money market savings was primarily due to a $92.6 million short-term deposit received from one customer during the three months ended March 31, 2008. Interest on regular savings decreased $263 thousand due to a 63 basis-point decrease in average rate that was partially offset by an average volume increase of $75.1 million. Interest on certificates of deposit decreased $668 thousand, due to a 90 basis-point decrease in average rate while the average volume increased by $43.1 million.

Interest expense on short-term borrowings includes interest paid on federal funds purchased and short-term FHLB debt. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account ( sweep accounts ). Interest expense on short-term borrowings increased $369 thousand in the aggregate during the three months ended June 30, 2009 compared to 2008 primarily due to average volume increases of $60.0 million.

Interest on long-term debt, which consists of long-term FHLB borrowings, decreased due to a decline in average volume of $38.1 million and a 79 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 $60 thousand primarily due to rate decreases.

**Provision for Loan and Lease Losses**

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charged-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans and leases initial effective interest rates or the fair value of the collateral for certain collateral dependent loans as provided for under SFAS No. 114. Any of the above criteria may cause the reserve to fluctuate. The provision for the three months ended June 30, 2009 and 2008 was $5.4 million and $2.3 million, respectively. The increase in the provision for loan losses is 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 $2.1 million at June 30, 2009 from $36 thousand at December 31 2008. Additionally, nonaccrual loans and restructured loans increased to $9.1 million at June 30, 2009 from $7.4 million at June 30, 2008.

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**Noninterest Income**

Non-interest income consists of trust department fee income, service charges on deposits, 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 cash surrender value of bank-owned life insurance policies and any excess proceeds from death benefit claims. Total non-interest income decreased during the three months ended June 30, 2009 compared to 2008 primarily due to a decrease of $1.3 million in bank owned life insurance income and a decrease in trust fee income.

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **Percent** |
| Trust fee income | **$ 1,325** | $ 1,628 | $ (303) | (18.6)% |
| Service charges on deposit accounts | **1,692** | 1,708 | (16) | (0.9) |
| Investment advisory commission and fee income | **917** | 642 | 275 | 42.8 |
| Insurance commission and fee income | **1,813** | 1,271 | 542 | 42.6 |
| Bank owned life insurance income | **408** | 1,734 | (1,326) | (76.5) |
| Other service fee income | **927** | 1,091 | (164) | (15.0) |
| Other-than-temporary impairments on securities | **(223)** | (235) | (12) | 5.1 |
| Net loss on the sales of securities | **(22)** | 22 | (44) | N/M |
| Gain on sale of loans held for sale | **669** | 16 | 653 | N/M |
| Net loss on dispositions of fixed assets | **(17)** | (4) | (13) | N/M |
| Other | **337** | 106 | 231 | N/M |
| Total noninterest income | **$ 7,826** | $ 7,979 | $ (153) | (1.9) |

Trust fee income decreased in 2009 over 2008 primarily due to a decrease in the market value of managed accounts. Service charges on deposit accounts decreased slightly when comparing the second quarter of 2009 to the same period in 2008 due to a reduction in overdraft fees.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc. and TCG Investment Advisory, Inc., increased in 2009 over 2008 due to the acquisition of the Trollinger Consulting Group in December 2008 that resulted in increased fees and commissions received. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc. increased in the second quarter of 2009 over 2008 primarily due to the acquisition of Liberty Benefits.

Life insurance income is primarily the change in the cash surrender values of bank owned life insurance policies, which is affected by the market value of the underlying assets. Life insurance income may also be recognized as the result of a death benefit claim. As a result of a payment for a death benefit claim in the second quarter of 2008 of $1.4 million and a decline in the market value of the underlying assets, life insurance income decreased in the second quarter of 2009 over 2008.

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 and mortgage placement income. Other service fee income decreased for the second quarter of 2009 over 2008 primarily due to income recognized in 2008 which resulted from a renegotiated contract with a service provider.

Other non-interest income includes fair value adjustments on derivatives, gains on sales of other real estate owned, reinsurance income and other miscellaneous income. Other non-interest income increased for the three months ended 2009 compared to the same period in 2008 primarily due to a positive fair value adjustment on interest rate swaps.

**Gains on Sale of Assets**

Sales of $54.2 million in loans held for sale, primarily due to increased mortgage activity, during the three months ended June 30, 2009 resulted in gains of $669 thousand compared to sales of $942 thousand for gains of $16 thousand

for the three months ended June 30, 2008.

During the three months ended June 30, 2009, approximately $5.3 million of available for sale securities were sold recognizing losses of $22 thousand. Additionally, the Corporation realized an other-than-temporary impairment charge of $223 thousand on its equity portfolio during the second quarter of 2009. The Corporation determined that there was an increased severity and duration of the decline in fair values during the quarter 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 securities, at this time, as the financial performance and near-term prospects of the underlying companies are not indicative of the market deterioration of their stock. Additionally, the Corporation has the intent to hold the securities and will not be required to sell the securities before recovery occurs.

During the three months ended June 30, 2008, the Corporation sold $7.0 million in securities that resulted in a gain of $22 thousand. Additionally, the Corporation realized an impairment charge of $235 thousand on its equity portfolio during the second quarter of 2008.

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**Noninterest Expense**

The operating costs of the Corporation are known as non-interest 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.

The following table presents noninterest expense for the periods indicated:

| | For the Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2009 | 2008 | Amount | Percent |
| Salaries and benefits | **$ 9,417** | $ 8,019 | $ 1,398 | 17.4% |
| Net occupancy | **1,275** | 1,286 | (11) | (0.9) |
| Equipment | **850** | 799 | 51 | 6.4 |
| Marketing and advertising | **317** | 532 | (215) | (40.4) |
| Deposit insurance premiums | **1,477** | 64 | 1,413 | N/M |
| Other | **3,454** | 4,385 | (931) | (21.2) |
| Total noninterest expense | **$ 16,790** | $ 15,085 | $ 1,705 | 11.3 |

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

Deposit insurance premiums increased due to a special assessment of five basis points on each FDIC-insured depository institution s assets, minus its Tier 1 capital, as of June 30, 2009 and credits, which equated to $938 thousand, that were utilized by the Corporation in 2008 causing an aggregate variance of $1.4 million.

Other expenses decreased primarily due to expenses associated with a claim under a rent-a-captive arrangement of $349 thousand and fee expense of $257 thousand associated with student loans, both recognized in the 2008 period and which are not recurring in nature, and higher consulting fees in 2008.

**Tax Provision**

The provision for income taxes was $187 thousand for the three months ended June 30, 2009 compared to $1.3 million in 2008, at effective rates of 6.55% and 17.98%, 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 three-month periods is primarily due to a larger percentage of tax-exempt income to pre-tax income.

**Results of Operations Six Months Ended June 30, 2009 Versus 2008**

The Corporation s consolidated net income and earnings per share for the six months ended June 30, 2009 and 2008 were as follows:

| | For the Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2009 | 2008 | Amount | Percent |
| Net income | **$ 6,505** | $ 12,595 | $ (6,090) | (48.4)% |
| Net income per share: | | | | |
| Basic | **$ 0.50** | $ 0.98 | $ (0.48) | (49.0) |
| Diluted | **0.50** | 0.98 | (0.48) | (49.0) |

Return on average shareholders equity was 6.35% and return on average assets was 0.63% for the six months ended June 30, 2009, compared to 12.48% and 1.25%, respectively, for the same period in 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 six months ended June 30, 2009 and 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 Committee works to maintain an adequate and stable net interest margin for the Corporation.

Tax-equivalent net interest income increased $1.5 million for the six months ended June 30, 2009 compared to 2008 primarily due to rate decreases in money market and time deposits. Decreased rates on commercial business loans and commercial real estate and commercial construction loans were partially offset by increased volumes on commercial business and commercial real estate and construction loans and lease financings. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.82% and 3.71% for the six-month periods ended June 30, 2009 and 2008, respectively. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.54% for the six months ended June 30, 2009 compared to 3.27% for the same period in 2008. The effect of net interest free funding sources decreased to 0.28% for the six months ended June 30, 2009 compared to 0.44% for the same period in 2008; this represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

**Table 1 Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential**

| | For the Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Average Balance | Income/ Expense | Average Rate | Average Balance | Income/ Expense | Average Rate |
| **Assets:** | | | | | | |
| Interest-earning deposits with other banks | $ 3,366 | $ 5 | 0.30% | $ 729 | $ 8 | 2.21% |
| U.S. Government obligations | 96,698 | 1,764 | 3.68 | 101,653 | 2,390 | 4.73 |
| Obligations of states and political subdivisions | 102,540 | 3,472 | 6.83 | 101,074 | 3,230 | 6.43 |
| Other debt and equity securities | 217,312 | 5,474 | 5.08 | 243,076 | 6,263 | 5.18 |
| Federal funds sold | 116 | | | 27,385 | 378 | 2.78 |
| Total interest-earning deposits, investments and federal funds sold | 420,032 | 10,715 | 5.14 | 473,917 | 12,269 | 5.21 |
| Commercial, financial and agricultural loans | 405,355 | 9,219 | 4.59 | 373,747 | 12,187 | 6.56 |
| Real estate-commercial and construction loans | 514,113 | 15,317 | 6.01 | 476,287 | 16,120 | 6.81 |
| Real estate-residential loans | 304,613 | 7,190 | 4.76 | 306,030 | 8,101 | 5.32 |
| Loans to individuals | 52,106 | 1,792 | 6.94 | 66,986 | 2,344 | 7.04 |
| Municipal loans and leases | 87,416 | 2,693 | 6.21 | 81,684 | 2,565 | 6.31 |
| Lease financings | 95,165 | 4,031 | 8.54 | 68,646 | 3,032 | 8.88 |
| Gross loans and leases | 1,458,768 | 40,242 | 5.56 | 1,373,380 | 44,349 | 6.49 |
| Total interest-earning assets | 1,878,800 | 50,957 | 5.47 | 1,847,297 | 56,618 | 6.16 |
| Cash and due from banks | 30,907 | | | 35,442 | | |
| Reserve for loan and lease losses | (14,789) | | | (13,064) | | |
| Premises and equipment, net | 32,877 | | | 30,339 | | |
| Other assets | 140,905 | | | 125,323 | | |
| Total assets | $ 2,068,700 | | | $ 2,025,337 | | |
| **Liabilities:** | | | | | | |
| Interest-bearing checking deposits | $ 160,424 | 142 | 0.18 | $ 143,386 | 236 | 0.33 |
| Money market savings | 321,129 | 1,047 | 0.66 | 465,077 | 5,871 | 2.54 |
| Regular savings | 331,734 | 1,497 | 0.91 | 257,964 | 2,069 | 1.61 |
| Time deposits | 528,156 | 9,432 | 3.60 | 472,996 | 10,644 | 4.53 |
| | 1,341,443 | 12,118 | 1.82 | 1,339,423 | 18,820 | 2.83 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total time and interest-bearing deposits | | | | | | |
| Securities sold under agreements to repurchase | 80,745 | 261 | 0.65 | 84,682 | 531 | 1.26 |
| Other short-term borrowings | 87,435 | 1,042 | 2.40 | 22,802 | 280 | 2.47 |
| Long-term debt | 70,585 | 1,339 | 3.83 | 94,047 | 2,028 | 4.34 |
| Subordinated notes and capital securities | 26,808 | 653 | 4.91 | 28,327 | 873 | 6.20 |
| Total borrowings | 265,573 | 3,295 | 2.50 | 229,858 | 3,712 | 3.25 |
| Total interest-bearing liabilities | 1,607,016 | 15,413 | 1.93 | 1,569,281 | 22,532 | 2.89 |
| Demand deposits, non-interest bearing | 216,709 | | | 223,430 | | |
| Accrued expenses and other liabilities | 38,532 | | | 29,672 | | |
| Total liabilities | 1,862,257 | | | 1,822,383 | | |
| **Shareholders Equity:** | | | | | | |
| Common stock | 74,370 | | | 74,370 | | |
| Additional paid-in capital | 22,789 | | | 22,630 | | |
| Retained earnings and other equity | 109,284 | | | 105,954 | | |
| Total shareholders equity | 206,443 | | | 202,954 | | |
| Total liabilities and shareholders equity | $ 2,068,700 | | | $ 2,025,337 | | |
| Net interest income | | $ 35,544 | | | $ 34,086 | |
| Net interest spread | | | 3.54 | | | 3.27 |
| Effect of net interest-free funding sources | | | 0.28 | | | 0.44 |
| Net interest margin | | | 3.82% | | | 3.71% |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 116.91% | | | 117.72% | | |

Notes: Tax-equivalent amounts have been calculated using the

Corporation s federal applicable rate of 35 percent.

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.

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**Table 2 Analysis of Changes in Net Interest Income**

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest income for the periods 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 Six Months Ended June 30, 2009 Versus 2008 | | |
|---|---|---|---|
| | Volume Change | Rate Change | Total |
| Interest income: | | | |
| Interest-earning deposits with other banks | $ 4 | $ (7) | $ (3) |
| U.S. Government obligations | (95) | (531) | (626) |
| Obligations of states and political subdivisions | 41 | 201 | 242 |
| Other debt and equity securities | (668) | (121) | (789) |
| Federal funds sold | (378) | | (378) |
| Interest on deposits, investments and federal funds sold | (1,096) | (458) | (1,554) |
| Commercial, financial and agricultural loans and leases | 693 | (3,661) | (2,968) |
| Real estate commercial and construction loans | 1,092 | (1,895) | (803) |
| Real estate residential loans | (59) | (852) | (911) |
| Loans to individuals | (519) | (33) | (552) |
| Municipal loans and leases | 169 | (41) | 128 |
| Lease financings | 1,115 | (116) | 999 |
| Interest and fees on loans and leases | 2,491 | (6,598) | (4,107) |
| Total interest income | 1,395 | (7,056) | (5,661) |
| Interest expense: | | | |
| Interest-bearing checking deposits | 13 | (107) | (94) |
| Money market savings | (476) | (4,348) | (4,824) |
| Regular savings | 326 | (898) | (572) |
| Time deposits | 975 | (2,187) | (1,212) |
| Interest on time and interest-bearing deposits | 838 | (7,540) | (6,702) |
| Securities sold under agreement to repurchase | (13) | (257) | (270) |
| Other short-term borrowings | 770 | (8) | 762 |
| Long-term debt | (450) | (239) | (689) |
| Subordinated notes and capital securities | (38) | (182) | (220) |
| Interest on borrowings | 269 | (686) | (417) |
| Total interest expense | 1,107 | (8,226) | (7,119) |
| Net interest income | $ 288 | $ 1,170 | $ 1,458 |

Notes: Tax-equivalent amounts for both periods have been calculated using the Corporation s federal applicable rate of 35%.

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.

**Interest Income**

Interest income on U. S. Government obligations decreased during the six months ended June 30, 2009 compared to 2008 due to a decline in average volume and average rates. Interest income on obligations of state and political subdivisions increased due to increases in average volume and average rates. Interest income on other debt and equity securities decreased primarily due to average volume decreases on mortgage-backed securities. Interest income decreased on federal funds sold primarily due to decreases in the average volume.

The decline in interest and fees on loans and leases is due primarily to average rate decreases on commercial business loans and commercial real estate and construction loans. The rate decreases are attributable to the 206 basis point decline in average prime rate comparing the six months ended June 30, 2009 to the same period in 2008. The average interest yield on the commercial loan portfolio decreased 197 basis points; which contributed to a $3.0 million decrease in interest income. The average yield on commercial real estate and construction loans decreased 80 basis points which contributed to a $803 thousand decline in interest income. The average volume decline on loans to individuals of $14.9 million, contributed to a $552 thousand decrease in interest income. These decreases were offset by an increase in average volume on lease financings of $26.5 million; this contributed to a $999 thousand increase in interest income and the increases in the average volume of commercial loans of $31.6 million and commercial real estate and construction loans of $37.8 million.

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**Interest Expense**

The Corporation s average cost of deposits decreased 101 basis points for the six months ended June 30, 2009 compared to the same period in 2008. This decrease in average rate contributed to a $6.7 million decrease in interest expense on deposits. The average rate paid on money market savings decreased 188 basis points and the average volume decreased $143.9 million; the net effect contributed to a $4.8 million decrease in interest expense. The decrease in money market savings was primarily due to a $92.6 million short-term deposit received from one customer during the three months ended March 31, 2008. Interest on regular savings decreased $572 thousand due to a 70 basis-point decrease in average rate that was partially offset by an average volume increase of $73.8 million. Interest on certificates of deposit decreased $1.2 million, due to a 93 basis-point decrease in average rate while the average volume increased by $55.2 million.

Interest expense on short-term borrowings includes interest paid on federal funds purchased and short-term FHLB debt. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account ( sweep accounts ). Interest expense on short-term borrowings increased $492 thousand in the aggregate during the six months ended June 30, 2009 compared to 2008 primarily due to average volume increases of $60.7 million.

Interest on long-term debt, which consists of long-term FHLB borrowings, decreased due to a decline in average volume of $23.5 million and a 51 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 $220 thousand primarily due to rate decreases.

**Provision for Loan and Lease Losses**

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charged-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans and leases initial effective interest rates or the fair value of the collateral for certain collateral dependent loans as provided for under SFAS No. 114. Any of the above criteria may cause the reserve to fluctuate. The provision for the six months ended June 30, 2009 and 2008 was $7.5 million and $3.3 million, respectively. The increase in the provision for loan 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 $2.1 million at June 30, 2009 from $36 thousand at December 31 2008. Additionally, nonaccrual loans and restructured loans increased to $9.1 million at June 30, 2009 from $7.4 million at June 30, 2008.

**Noninterest Income**

Non-interest income consists of trust department fee income, service charges on deposits, 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 cash surrender value of bank-owned life insurance policies and any excess proceeds from death benefit claims. Total non-interest income decreased during the six months ended June 30, 2009 compared to 2008 primarily due to a decrease of $2.0 million in bank owned life insurance income and $1.4 million in other-than-temporary impairment losses on available-for-sale securities.

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2009 | 2008 | Amount | Percent |
| Trust fee income | **$ 2,750** | $ 3,255 | $ (505) | (15.5)% |
| Service charges on deposit accounts | **3,305** | 3,366 | (61) | (1.8) |
| Investment advisory commission and fee income | **1,824** | 1,257 | 567 | 45.1 |
| Insurance commission and fee income | **3,799** | 3,329 | 470 | 14.1 |
| Bank owned life insurance income | **565** | 2,525 | (1,960) | (77.6) |
| Other service fee income | **1,724** | 1,849 | (125) | (6.8) |
| Other-than-temporary impairments on securities | **(1,400)** | (235) | (1,165) | N/M |
| Net gain on sale of securities | **15** | 78 | (63) | (80.8) |
| Gain on sale of loans held for sale | **930** | 35 | 895 | N/M |
| Net loss on dispositions of fixed assets | **(147)** | (5) | (142) | N/M |
| Other | **635** | 268 | 367 | 136.9 |
| Total noninterest income | **$ 14,000** | $ 15,722 | $ (1,722) | (11.0) |

Trust fee income decreased in 2009 over 2008 primarily due to a decrease in the market value of managed accounts. Service charges on deposit accounts decreased slightly when comparing the six months ended June 30, 2009 to the same period in 2008.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc. and TCG Investment Advisory, Inc. increased in 2009 over 2008 due to the acquisition of the Trollinger Consulting Group in December 2008 that resulted in increased fees and commissions received. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc. increased during the six- month period ended June 30, 2009 over the same period in 2008 primarily due to the acquisition of Liberty Benefits, Inc. in December 2008.

Life insurance income is primarily the change in the cash surrender values of bank owned life insurance policies, which is affected by the market value of the underlying assets. Life insurance income may also be recognized as the result of a death benefit claim. As a result of payments for death benefit claims during the six months ended June 30, 2008 of $1.9 million and a decline in the market value of the underlying assets, life insurance income decreased when comparing the six months ended June 30, 2009 to the same period in 2008.

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 and mortgage placement income. Other service fee income decreased for the six months ended June 30, 2009 over the same period in 2008 primarily due to income recognized in 2008 which resulted from a renegotiated contract with a service provider.

Other non-interest income includes fair value adjustments on derivatives, gains on sales of other real estate owned, reinsurance income and other miscellaneous income. Other non-interest income increased for the six months ended 2009 compared to the same period in 2008 primarily due to a positive fair value adjustment on derivative loan commitments and interest rate swaps.

**Gains on Sale of Assets**

Sales of $70.9 million in loans held for sale, primarily due to increased mortgage activity, during the six months ended June 30, 2009 resulted in gains of $930 thousand compared to sales of $2.6 million for gains of $35 thousand for the six months ended June 30, 2008.

During the six months ended June 30, 2009, approximately $33.0 million of available for sale securities were sold recognizing gains of $15 thousand. Additionally, the Corporation realized an other-than-temporary impairment charge of $1.4 million on its equity portfolio during the six month period ended June 30, 2009. The Corporation determined that there was an increased severity and duration of the decline in fair values during the quarter 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 securities, at this time, as the financial performance and near-term prospects of the underlying companies are not indicative of the market deterioration of their stock. Additionally, the Corporation has the intent to hold the securities and will not be required to sell the securities before recovery occurs. During the six months ended June 30, 2008, the Corporation sold $14.7 million in securities that resulted in a gain of $78 thousand. Additionally, the Corporation realized an other-than-temporary impairment charge of $235 thousand on its equity portfolio during the six month period ended June 30, 2008.

Net losses on the disposition of fixed assets were $147 thousand and $5 thousand for the six months ended June 30, 2009 and 2008. Net losses in 2009 were primarily the result of relocating a banking office within one of its supermarket locations to a traditional office and the demolition of the Corporation s former operations center.

**Noninterest Expense**

The operating costs of the Corporation are known as non-interest 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.

The following table presents noninterest expense for the periods indicated:

| | For the Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | **2009** | **2008** | **Amount** | **Percent** |
| Salaries and benefits | **$ 18,849** | $ 16,187 | $ 2,662 | 16.4% |
| Net occupancy | **2,667** | 2,577 | 90 | 3.5 |
| Equipment | **1,691** | 1,565 | 126 | 8.1 |
| Marketing and advertising | **480** | 721 | (241) | (33.4) |
| Deposit insurance premiums | **2,060** | 107 | 1,953 | N/M |
| Other | **6,546** | 7,536 | (990) | (13.1) |
| Total noninterest expense | **$ 32,293** | $ 28,693 | $ 3,600 | 12.6 |

Salaries and benefits increased due to salary and benefit expenses associated with the acquisitions of Liberty Benefits, Inc. and the Trollinger Consulting Group in December 2008, additional personnel to grow the mortgage banking business, normal base pay increases and pension plan expense. Net occupancy costs increased due to increases in rental expense on leased properties which was offset by a slight increase in rental income on leased office space.

Deposit insurance premiums increased due to a special assessment of five basis points on each FDIC-insured depository institution s assets, minus its Tier 1 capital, as of June 30, 2009, which equated to $938 thousand, and credits that were utilized by the Corporation in 2008 causing an aggregate variance of $2.0 million.

Other expenses decreased primarily due to expenses associated with a claim under a rent-a-captive arrangement of $349 thousand and fee expense of $257 thousand associated with student loans, both recognized in the 2008 period and which are not recurring in nature, and lower contributions made in 2009 primarily due to timing. These decreases are partially offset by increases in the amortization of customer intangible lists which increased by $379 thousand due to the acquisitions stated above and miscellaneous tax expense.

**Tax Provision**

The provision for income taxes was $1.2 million for the six months ended June 30, 2009 compared to $3.5 million in 2008, at effective rates of 15.69% and 21.98%, 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 six-month periods is primarily due to a larger percentage of tax-exempt income to pre-tax income.

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## Financial Condition

***Assets***

Total assets increased $2.0 million since December 31, 2008. This increase was primarily due to an increase in total loans and leases and accrued interest and other assets which is partially offset by a decrease in cash, deposits and federal funds sold, investment securities and the reserve for loan and lease losses. The following table presents the assets for the periods indicated:

| | At June 30, 2009 | At December 31, 2008 | Change | |
|---|---|---|---|---|
| | | | Amount | Percent |
| Cash, deposits and federal funds sold | $ 32,412 | $ 40,066 | $ (7,654) | (19.1)% |
| Investment securities | 425,774 | 432,266 | (6,492) | (1.5) |
| Loans held for sale | 1,119 | 544 | 575 | 105.7 |
| Total loans and leases | 1,464,886 | 1,449,892 | 14,994 | 1.0 |
| Reserve for loan and lease losses | (18,824) | (13,118) | (5,706) | (43.5) |
| Premises and equipment, net | 33,240 | 32,602 | 638 | 2.0 |
| Goodwill and other intangibles, net | 56,183 | 56,051 | 132 | 0.2 |
| Cash surrender value of insurance policies | 45,984 | 45,419 | 565 | 1.2 |
| Accrued interest and other assets | 46,047 | 41,075 | 4,972 | 12.1 |
| Total assets | $ 2,086,821 | $ 2,084,797 | $ 2,024 | 0.1 |

***Investment Securities***

The investment portfolio is managed as part of the overall asset and liability management process to 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 decreased primarily due to security maturities of $30.7 million and sales and calls of $103.2 million that were partially offset by purchases of $126.4 million.

***Loans and Leases***

Total loans and leases increased in the six months ended June 30, 2009 due to increases in commercial real estate of $29.4 million and commercial, financial and agriculture loans of $29.5 million. These increases were partially offset by decreases in construction loans of $3.4 million, residential loans of $28.3 million, loans to individuals of $4.5 million and lease financings, net of unearned income of $7.7 million.

***Asset Quality***

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

When a loan or lease, including a loan or lease impaired 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 collectability of principal or interest, even though the loan or lease is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal.

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

Total cash basis, restructured and nonaccrual loans and leases totaled $9.1 million at June 30, 2009, $5.4 million at December 31, 2008 and $7.4 million at June 30, 2008 and consist mainly of commercial loans and real estate related commercial loans. For the six months ended June 30, 2009 and 2008, nonaccrual loans and leases resulted in lost interest income of $190 thousand and $297 thousand, respectively. Loans and leases 90 days or more past due totaled $1.8 million at June 30, 2009, $1.1 million at December 31, 2008 and $3.0 million at June 30, 2008. Other real estate owned totaled $2.8 million and $346 thousand at June 30, 2009 and December 31, 2008. There was no other real estate owned at June 30, 2008. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 0.94% at June 30, 2009, 0.48% at December 31, 2008 and 0.75% at June 30, 2008. The ratio of nonperforming assets to total assets was 0.66% at June 30, 2009, 0.33% at December 31, 2008 and 0.52% at June 30, 2008.

The following table presents nonperforming assets for the periods indicated:

| | **06/30/08** | 12/31/08 |
|---|---|---|
| Commercial, financial and agricultural | **$ 3,430** | $ 835 |
| Real estate commercial owner occupied | **2,281** | 1,824 |
| Real estate commercial non-owner occupied | **1,503** | 3,173 |
| Real estate construction | **596** | |
| Real estate residential | **1,502** | 409 |
| Loans to individuals | **159** | 370 |
| Lease financings | **1,454** | 430 |
| Other real estate owned | **2,812** | 346 |
| Total | **$ 13,737** | $ 7,387 |

At June 30, 2009, the recorded investment in loans and leases that are considered to be impaired under SFAS 114 was $9.1 million, all of which were on a nonaccrual basis or trouble debt restructured. The related reserve for loan and lease losses for those loans was $2.1 million. 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. At June 30, 2008, the recorded investment in loans and leases that are considered to be impaired under SFAS 114 was $7.4 million and the related reserve for loan and lease losses for those credits was $2.0 million. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits.

***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 probable losses in the loan and lease portfolio. Management s methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Non-accrual loans and leases, and those which have been restructured, are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience, loss factors are determined giving consideration to the areas noted in the first paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve. Loans are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rate or the fair value of the collateral for certain collateral-dependent loans as provided under SFAS 114. Management also reviews the activity within the reserve to determine what actions, if any, should be taken to address differences between estimated and actual losses.

Any of the above factors may cause the provision to fluctuate.
Wholesale leasing portfolios are purchased by the Bank s subsidiary, Univest Capital, Inc. 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 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 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 initial effective interest rate, or at the loan s observable market price or the fair value of the collateral 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 and lease loss experience, current trends, and management assessments. The unallocated reserve is based on both general economic conditions and other risk factors in the Corporation s individual markets and portfolios.

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

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

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

The reserve for loan and lease losses increased $5.7 million from December 31, 2008 to June 30, 2009, primarily due to deterioration of underlying collateral and economic factors. Management believes that the reserve is maintained at a level that is adequate to absorb losses in the loan and lease portfolio. The ratio of the reserve for loan and lease losses to total loans and leases was 1.29% at June 30, 2009 and 0.90% at December 31, 2008.

***Goodwill and Other Intangible Assets***

The Corporation has goodwill of $50.4 million, which is deemed to be an indefinite intangible asset and in accordance with SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ), is not amortized. The Corporation also 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.

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. At June 30, 2009, there was no impairment indicated.

***Liabilities***

Total liabilities decreased since December 31, 2008 primarily due to a decrease in borrowings, partially offset by an increase in deposits and accrued expenses and other liabilities. The following table presents the liabilities for the periods indicated:

| | At June 30, 2009 | At December 31, 2008 | Change Amount | Change Percent |
|---|---|---|---|---|
| Deposits | $ 1,565,076 | $ 1,527,328 | $ 37,748 | 2.5% |
| Borrowings | 265,457 | 312,736 | (47,279) | (15.1) |
| Accrued expenses and other liabilities | 47,930 | 41,526 | 6,404 | 15.4 |
| Total liabilities | $ 1,878,463 | $ 1,881,590 | $ (3,127) | (0.2) |

***Deposits***

Total deposits increased at the Bank primarily due to increases of $51.2 million in regular savings which is partially offset by a decrease of $21.6 million in money market savings accounts.

***Borrowings***

Long-term borrowings at June 30, 2009, included $6.0 million in Subordinated Capital Notes, $20.6 million of Trust Preferred Securities, $54.4 million in long-term borrowings from the FHLB and $783 thousand in a capital lease obligation. Long-term borrowings decreased due to a reclassification of long-term debt to short-term debt in the amount of $38.0 million due to the remaining term to maturity being one year or less. Short-term borrowings typically include federal funds purchased, Federal Reserve Bank discount window borrowings and short-term FHLB borrowings. Short-term borrowings decreased due to the repayment of $39.6 million in federal funds purchased and $4.5 million in FHLB short-term borrowings. These decreases are partially offset by increases in short-term Federal Reserve Bank borrowings of $30.0 million, securities under agreement to repurchase of $5.0 million and the reclassification of $38.0 million from long-term debt.

***Shareholders Equity***

Total shareholders equity increased since December 31, 2008 primarily due to current earnings and a reduction in accumulated other comprehensive loss; this increase was partially offset by cash dividends paid.

The following table presents the shareholders equity for the periods indicated:

| | At June 30, 2009 | At December 31, 2008 | Change Amount | Change Percent |
|---|---|---|---|---|
| Common stock | **$ 74,370** | $ 74,370 | $ | % |
| Additional paid-in capital | **21,382** | 22,459 | (1,077) | (4.8) |
| Retained earnings | **152,950** | 151,816 | 1,134 | 0.7 |
| Accumulated other comprehensive loss | **(5,556)** | (8,619) | 3,063 | 35.5 |
| Treasury stock | **(34,788)** | (36,819) | 2,031 | 5.5 |
| Total shareholders equity | **$ 208,358** | $ 203,207 | $ 5,151 | 2.5 |

Retained earnings were favorably impacted by six months of net income of $6.5 million partially offset by cash dividends of $5.2 million declared during the first six months of 2009. Treasury stock decreased primarily due to issuances for the employee stock purchase plan, employee stock 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 loss decreased by $3.1 million primarily due to unrealized gain related to securities of $3.8 million, net of taxes, is included in shareholders equity as of June 30, 2009 when compared to $2.3 million, net of taxes, as of December 31, 2008. The period-to-period recovery in accumulated other comprehensive income (loss) was a result of increases in the fair values of non-mortgage-backed government agency debt securities and mortgage-backed government agency debt securities and other mortgage-backed securities.

**Capital Adequacy**

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation s and the Bank s financial statements. Capital adequacy guidelines, and additionally for the Bank prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

| | Actual | | For Capital Adequacy Purposes | | To Be Well-Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of June 30, 2009: | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Corporation | **$ 199,352** | **11.89%** | **$ 134,150** | **8.00%** | **$ 167,688** | **10.00%** |
| Bank | **186,279** | **11.28** | **132,094** | **8.00** | **165,118** | **10.00** |
| Tier 1 Capital (to Risk-Weighted Assets): | | | | | | |
| Corporation | **178,580** | **10.65** | **67,075** | **4.00** | **100,613** | **6.00** |
| Bank | **167,307** | **10.13** | **66,047** | **4.00** | **99,071** | **6.00** |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Corporation | **178,580** | **8.86** | **60,500** | **3.00** | **80,667** | **4.00** |
| Bank | **167,307** | **8.36** | **60,004** | **3.00** | **80,006** | **4.00** |
| As of December 31, 2008: | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Corporation | $ 191,469 | 11.60% | $ 132,060 | 8.00% | $ 165,075 | 10.00% |
| Bank | 178,535 | 10.97 | 130,196 | 8.00 | 162,745 | 10.00 |
| Tier 1 Capital (to Risk-Weighted Assets): | | | | | | |
| Corporation | 175,801 | 10.65 | 66,030 | 4.00 | 99,045 | 6.00 |
| Bank | 165,267 | 10.16 | 65,098 | 4.00 | 97,647 | 6.00 |
| Tier 1 Capital (to Average Assets): | | | | | | |
| Corporation | 175,801 | 8.94 | 59,023 | 3.00 | 78,697 | 4.00 |
| Bank | 165,267 | 8.46 | 58,640 | 3.00 | 78,186 | 4.00 |

As of June 30, 2009 and December 31, 2008, management believes that the Corporation and the Bank met all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 Capital and Total Capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). The Bank, like other depository institutions, is required to maintain similar capital levels

under capital adequacy guidelines. For a depository institution to be considered well-capitalized under the regulatory framework for prompt corrective action, it s Tier 1 and Total Capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. As of June 30, 2009, the most recent notification from the Office of Comptroller of the Currency and Federal Deposit Insurance Corporation ( FDIC ) categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category.

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**Critical Accounting Policies**

Management, in order to prepare the Corporation s financial statements in conformity with 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 and benefit plans as its critical accounting policies. For more information on these critical accounting policies, please refer to our 2008 Annual Report on Form 10-K.

**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 interest-sensitivity gap analysis and simulation techniques 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.

**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 deposit withdrawals. The Corporation manages its liquidity risk by measuring and monitoring its liquidity sources and estimated funding needs. The Corporation has a contingency funding plan in place to address liquidity needs in the event of an institution-specific or a systemic financial crisis.

***Sources of Funds***

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

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

The Bank purchases Certificates from the Pennsylvania Local Government Investment Trust ( PLGIT ) to augment its short-term fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the FHLB; therefore, Univest National Bank is not required to provide collateral on these deposits. At June 30, 2009, the Bank had no PLGIT deposits.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $278.7 million. At June 30, 2009, total outstanding short-term and long-term borrowings with the FHLB totaled $107.0 million. The maximum borrowing capacity changes as a function of qualifying collateral assets and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Corporation maintains federal fund lines with several correspondent banks totaling $82.0 million. At June 30, 2009, there were $14.4 million 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 June 30, 2009, the Corporation had outstanding borrowings of $30.0 million under this line.

***Cash Requirements***

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Securities sold under agreement to repurchase constitute the next largest payment obligation which is short term in nature. 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.

Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

**Recent Accounting Pronouncements**

In April 2009, FASB issued FSP No. FAS 107-1, Disclosure of Fair Value of Financial Instruments in Interim Statements ( FAS 107-1 ), and Accounting Principles Board Opinion ( APB ) No. 28-1, Interim Financial Reporting ( APB 28-1 ) amends both SFAS No. 107 and APB Opinion No. 28 to require that disclosures concerning the fair value of financial instruments be presented in interim as well as in annual financial statements. FAS 107-1 and APB 28-1 are effective for interim reporting periods ending after June 15, 2009. The application of the provisions of FAS 107-1 and APB 28-1 resulted in additional disclosure about the fair value of financial instruments in connection with the Corporation s June 30, 2009 quarterly report on Form 10-Q, but did not have a material impact on its consolidated financial statements.

In April 2009, FASB issued FSP No. FAS 115-2 and No. FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ( FAS115-2 and FAS 124-2 ) which amends the other-than-temporary guidance ( OTTI ) for debt securities to make such guidance more operational and to improve the presentation and disclosures of OTTI for both debt and equity securities. FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The application of the provisions of FAS 115-2 and FAS 124-2 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In April 2009, FASB issued FASB FSP No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies ( FAS No. 141(R)-1 ) which amends SFAS No. 141(R) to provide guidance in respect of initial recognition and measurement, subsequent measurement, and disclosures concerning assets and liabilities arising from pre-acquisition contingencies in a business combination. FAS No. 141(R)-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The application of the provisions of FAS 141(R)-1 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In April 2009, FASB issued FASB FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FAS 157-4 ) which amends SFAS No. 157 to provide additional guidance for determining fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability have decreased significantly. FAS 157-4 also provides guidance for determining whether a transaction is an orderly one. FAS 157-4 is effective prospectively for interim periods and annual years ending after June 15, 2009. The application of the provisions of FSP 157-4 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In May 2009, FASB issued SFAS No. 165, Subsequent Events (as amended) which establishes guidance for the accounting for and the disclosure of events that happen after the date of the balance sheet but before the release of the financial statements. SFAS No. 165 is effective for reporting periods that end after June 15, 2009. The application of the provisions of SFAS No. 165 did not have a material impact on the Corporation s consolidated financial statements as of June 30, 2009.

In June 2009, FASB issued FASB Statement No. 166 ( FAS 166 ), Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. FAS 166 was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Specifically to address: (1) practices that have developed since the issuance of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. FAS 166 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The Corporation does not anticipate the adoption of FAS 166 to have a material impact on the Corporation s consolidated financial statements.

In June 2009, FASB issued Statement No. 167 ( FAS 167 ), Amendments to FASB Interpretation No. 46(R). FAS 167 was issued to improve financial reporting by enterprises involved with variable interest entities. Specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, Accounting for Transfers of Financial Assets, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. FAS 167 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes and must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The Corporation does not anticipate the adoption of FAS 167 to have a material impact on the Corporation s consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

No material changes in the Corporation s market risk or market strategy occurred during the current period. A detailed discussion of market risk is provided in the Registrant s Annual Report on Form 10-K for the period ended December 31, 2008.

**Item 4. Controls and Procedures**

Management is responsible for the disclosure controls and procedures of Univest Corporation of Pennsylvania ( Univest ). Disclosure controls and procedures are in place to assure that all material information is collected and disclosed in accordance with Rule 13a 15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on their evaluation Management believes that the financial information required to be disclosed in accordance with the Securities Exchange Act of 1934 is presented fairly, recorded, summarized and reported within the required time periods.

As of June 30, 2009 an evaluation was performed under the supervision and with the participation of the Corporation s management, including the CEO and CFO, of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures. Based on that evaluation, the Corporation s management, including the CEO and CFO, concluded that the Corporation s disclosure controls and procedures were effective and there have been no changes in the Corporation s internal controls or in other factors that have materially affected or are reasonably likely

to materially affect internal controls subsequent to December 31, 2008.

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PART II. OTHER INFORMATION

Item 1. 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 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in the Registrant s Form 10-K, Part 1, Item 1A, for the Year Ended December 31, 2008 as filed with the Securities and Exchange Commission on March 6, 2009.

**The Company Borrows 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 ( FHLB ) 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. In this regard, the FHLB of Pittsburgh has taken impairment charges and has suspended dividends and repurchases of capital stock. Any change or termination would have an adverse affect on our liquidity and profitability.

**A Substantial Decline in the Value of Our Federal Home Loan Bank of Pittsburgh Common Stock May Adversely Affect Our Financial Condition.**

We own common stock of the FHLB of Pittsburgh in order to qualify for membership in the FHLB system, which enables us to borrow funds under the FHLB advance program. The carrying value of our FHLB common stock was $7.4 million as of June 30, 2009.

The FHLB of Pittsburgh has taken impairment charges and has suspended dividends and repurchases of capital stock. Consequently, given that there is no market for our FHLB common stock, we believe that there is a risk that our investment could be deemed other than temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on repurchases by the Corporation of its common stock during the three months ended June 30, 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 (3) |
|---|---|---|---|---|
| April 1 30, 2009 | | | | 643,782 |
| May 1 31, 2009 | | | | 643,782 |
| June 1 30, 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 August 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 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 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

a. Exhibits

| | |
|---|---|
| Exhibit 31.1 | Certification of William S. Aichele, Chairman, President and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Jeffrey M. Schweitzer Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification of William S. Aichele, Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002. |
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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | Univest Corporation of Pennsylvania<br>(Registrant) |
| Date: July 31, 2009 | /s/ William S. Aichele<br>William S. Aichele, Chairman, President<br>and Chief Executive Officer |
| Date: July 31, 2009 | /s/ Jeffrey M. Schweitzer<br>Jeffrey M. Schweitzer, Executive Vice<br>President,<br>and Chief Financial Officer |

## EXHIBIT INDEX

| | |
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