UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 06, 2008

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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 September 30, 2008.**

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 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	12,905,326
(Title of Class)	(Number of shares outstanding at 9/30/08)

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) September 30, 2008	(SEE NOTE) December 31, 2007
	($ in thousands, except per share data)	
ASSETS		
Cash and due from banks	**$ 33,598**	$ 47,135
Interest-bearing deposits with other banks	**725**	502
Federal funds sold	**15,076**	11,748
Investment securities held-to-maturity (fair value $2,705 and $1,933 at September 30, 2008 and December 31, 2007, respectively)	**2,642**	1,862
Investment securities available-for-sale	**416,162**	421,586
Loans and leases	**1,441,899**	1,355,442
Less: Reserve for loan and lease losses	**(14,954)**	(13,086)
Net loans and leases	**1,426,945**	1,342,356
Premises and equipment, net	**32,791**	27,977
Goodwill	**44,589**	44,438
Other intangibles, net of accumulated amortization of $5,049 and $4,596 at September 30, 2008 and December 31, 2007, respectively	**2,229**	2,643
Cash surrender value of insurance policies	**45,395**	46,689
Accrued interest and other assets	**26,238**	25,569
Total assets	**$ 2,046,390**	$ 1,972,505
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 226,606**	$ 226,513
Demand deposits, interest-bearing	**493,497**	582,528
Savings deposits	**290,333**	233,766
Time deposits	**497,091**	489,796
Total deposits	**1,507,527**	1,532,603
Securities sold under agreements to repurchase	**77,475**	94,276
Other short term debt	**83,900**	
Accrued expenses and other liabilities	**30,244**	32,447
Long-term debt	**115,249**	85,584
Subordinated notes	**7,125**	8,250
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities)	**20,619**	20,619
Total liabilities	**1,842,139**	1,773,779

SHAREHOLDERS EQUITY		
Common stock, $5 par value: 24,000,000 shares authorized at September 30, 2008 and December 31, 2007; 14,873,904 shares issued at September 30, 2008 and December 31, 2007; 12,905,326 and 12,830,609 shares outstanding at September 30, 2008 and December 31, 2007, respectively	**74,370**	74,370
Additional paid-in capital	**22,732**	22,591
Retained earnings	**150,767**	143,066
Accumulated other comprehensive loss, net of tax benefit	**(5,587)**	(1,768)
Unearned compensation Restricted Stock Awards	**(447)**	(380)
Treasury stock, at cost; 1,968,578 and 2,043,295 shares at September 30, 2008 and December 31, 2007, respectively	**(37,584)**	(39,153)
Total shareholders equity	**204,251**	198,726
Total liabilities and shareholders equity	**$ 2,046,390**	$ 1,972,505

Note: The condensed consolidated balance sheet at December 31, 2007 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 for complete financial statements. See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	($ in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 20,621**	$ 23,626	**$ 62,405**	$ 69,610
Exempt from federal income taxes	**934**	1,050	**2,787**	3,103
Total interest and fees on loans and leases	**21,555**	24,676	**65,192**	72,713
Interest and dividends on investment securities:				
Taxable	**4,197**	3,932	**13,011**	11,331
Exempt from federal income taxes	**970**	981	**3,236**	2,899
Other interest income	**17**	193	**403**	345
Total interest income	**26,739**	29,782	**81,842**	87,288
Interest expense				
Interest on deposits	**8,080**	11,804	**26,900**	33,478
Interest on long-term borrowings	**1,432**	1,613	**4,333**	4,640
Interest on short-term borrowings	**636**	572	**1,447**	2,294
Total interest expense	**10,148**	13,989	**32,680**	40,412
Net interest income	**16,591**	15,793	**49,162**	46,876
Provision for loan and lease losses	**3,046**	456	**6,342**	1,733
Net interest income after provision for loan and lease losses	**13,545**	15,337	**42,820**	45,143
Noninterest income				
Trust fee income	**1,578**	1,525	**4,833**	4,493
Service charges on deposit accounts	**1,719**	1,706	**5,085**	5,058
Investment advisory commission and fee income	**581**	647	**1,838**	2,012
Insurance commission and fee income	**1,266**	1,385	**4,595**	4,576
Life insurance income	**241**	391	**2,766**	1,125
Other service fee income	**732**	913	**2,581**	2,709
Net (loss) gain on sales of and impairments on securities	**(692)**	259	**(849)**	310
Net loss on disposition of fixed assets	**(28)**		**(33)**	(64)
Other	**89**	86	**231**	173
Total noninterest income	**5,486**	6,912	**21,047**	20,392

Noninterest expense								
Salaries and benefits		**7,935**		7,659		**24,122**		23,293
Net occupancy		**1,318**		1,188		**3,895**		3,625
Equipment		**792**		793		**2,357**		2,396
Marketing and advertising		**268**		255		**989**		663
Other		**3,352**		3,187		**10,995**		9,598
Total noninterest expense		**13,665**		13,082		**42,358**		39,575
Income before income taxes		**5,366**		9,167		**21,509**		25,960
Applicable income taxes		**1,176**		2,479		**4,724**		6,950
Net income	**$**	**4,190**	$	6,688	**$**	**16,785**	$	19,010
Net income per share:								
Basic	**$**	**0.33**	$	0.52	**$**	**1.31**	$	1.47
Diluted		**0.33**		0.52		**1.30**		1.47
Dividends declared		**0.20**		0.20		**0.60**		0.60

Note: 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 Nine Months Ended September 30,	
	2008	**2007**
	($ in thousands)	
Cash flows from operating activities:		
Net income	**$ 16,785**	$ 19,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**6,342**	1,733
Depreciation of premises and equipment	**1,644**	1,495
Realized losses (gains) on investment securities	**849**	(310)
Realized losses on dispositions of fixed assets	**33**	64
Life insurance income	**(2,766)**	(1,125)
Other adjustments to reconcile net income to cash provided by operating activities	**(854)**	(119)
Decrease in interest receivable and other assets	**6,777**	668
(Decrease) increase in accrued expenses and other liabilities	**(3,756)**	1,563
Net cash provided by operating activities	**25,054**	22,979
Cash flows from investing activities:		
Net cash paid due to acquisitions, net of cash acquired	**(151)**	(200)
Net capital expenditures	**(6,491)**	(2,428)
Proceeds from maturities of securities held-to-maturity	**5,322**	608
Proceeds from maturities of securities available-for-sale	**161,582**	57,999
Proceeds from calls of securities held-to-maturity	**28,800**	
Proceeds from sales and calls of securities available-for-sale	**95,993**	28,703
Purchases of investment securities held-to-maturity	**(34,900)**	
Purchases of investment securities available-for-sale	**(258,966)**	(98,781)
Proceeds from sales of loans and leases	**5,284**	2,734
Purchases of lease financings	**(41,070)**	(27,287)
Net (increase) decrease in loans and leases	**(55,422)**	6,163
Purchase of bank owned life insurance		(8,500)
Net increase in interest-bearing deposits	**(223)**	(31)
Net (increase) decrease in federal funds sold	**(3,328)**	9,557
Net cash used in investing activities	**(103,570)**	(31,463)
Cash flows from financing activities:		
Net (decrease) increase in deposits	**(25,070)**	29,740
Net increase (decrease) in short-term borrowings	**67,099**	(22,680)
Issuance of long-term debt	**30,000**	10,000
Repayment of long-term debt		(1,000)
Repayment of subordinated debt	**(1,125)**	(1,125)
Purchases of treasury stock	**(1,227)**	(7,065)

Proceeds from sales of treasury stock	**122**	
Stock issued under dividend reinvestment and employee stock purchase plans	**1,441**	1,494
Proceeds from exercise of stock options, including tax benefits	**1,438**	414
Cash dividends paid	**(7,699)**	(7,784)
Net cash provided by financing activities	**64,979**	1,994
Net decrease in cash and due from banks	**(13,537)**	(6,490)
Cash and due from banks at beginning of year	**47,135**	46,956
Cash and due from banks at end of period	**$ 33,598**	$ 40,466
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	**$ 34,457**	$ 39,804
Income taxes, net of refunds received	**5,893**	7,568

Note: See accompanying notes to the unaudited condensed consolidated financial statements.

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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. Operating results for the nine-month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007, which has been filed with the SEC on March 6, 2008.

Note 2. Loans and Leases

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

($ in thousands)	At September 30, 2008	At December 31, 2007
Commercial, financial and agricultural	**$ 431,874**	$ 381,826
Real estate-commercial	**393,705**	393,686
Real estate-construction	**146,830**	134,448
Real estate-residential	**311,586**	310,571
Loans to individuals	**59,075**	72,476
Lease financings	**106,216**	68,100
Total gross loans and leases	**1,449,286**	1,361,107
Less: Unearned income	**(7,387)**	(5,665)
Total loans and leases	**$ 1,441,899**	$ 1,355,442

Note 3. 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 September 30,		Nine Months Ended September 30,	
($ in thousands)	**2008**	**2007**	**2008**	**2007**
Reserve for loan and lease losses at beginning of period	**$ 13,713**	$ 13,793	**$ 13,086**	$ 13,283
Provision for loan and lease losses	**3,046**	456	**6,342**	1,733
Recoveries	**134**	166	**351**	522
Loans charged off	**(1,939)**	(543)	**(4,825)**	(1,666)
Reserve for loan and lease losses at period end	**$ 14,954**	$ 13,872	**$ 14,954**	$ 13,872

Information with respect to loans and leases that are considered to be impaired under SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114) at September 30, 2008 and December 31, 2007 is as follows:

	At September 30, 2008		At December 31, 2007	
($ 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	**$ 5,220**	**$ 2,496**	$ 4,120	$ 1,755
Recorded investment in impaired loans and leases at period-end requiring no specific reserve for loan and lease losses	**3,149**		2,758	
Recorded investment in impaired loans and leases at period-end	**$ 8,369**		$ 6,878	
Recorded investment in nonaccrual and restructured loans and leases	**$ 8,434**		$ 6,878	

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2008**	**2007**	**2008**	**2007**
Nonaccrual and restructured loans and leases at period end	**$ 8,434**	$ 7,380	**$ 8,434**	$ 7,380
Average recorded investment in impaired loans and leases	**7,730**	7,266	**7,011**	7,554
Interest income that would have been recognized under original terms	**266**	146	**564**	542

Interest income of $5 thousand was recognized on these loans for both three- and nine-month periods ended September 30, 2008 and $0 thousand for the same periods in 2007.

Note 4. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands, except per share data)	**2008**	2007	**2008**	2007
Numerator:				
Numerator for basic and diluted earnings per share				
Income available to common shareholders	**$ 4,190**	$ 6,688	**$ 16,785**	$ 19,010
Denominator:				
Denominator for basic earnings per share				
weighted average shares outstanding	**12,875**	12,811	**12,856**	12,917
Effect of dilutive securities:				
Employee stock options	**35**	7	**13**	18
Denominator for diluted earnings per share				
adjusted weighted-average shares outstanding	**12,910**	12,818	**12,869**	12,935
Basic earnings per share	**$ 0.33**	$ 0.52	**$ 1.31**	$ 1.47
Diluted earnings per share	**0.33**	0.52	**1.30**	1.47

Note 5. Accumulated Comprehensive Income

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
($ in thousands)	**2008**	2007	**2008**	2007
Net Income	**$ 4,190**	$ 6,688	**$ 16,785**	$ 19,010
Unrealized (loss) gain on available-for-sale investment securities:				
Unrealized (losses) and gains arising during the period	**(2,250)**	2,363	**(4,617)**	574
Less: reclassification adjustment for (losses) and gains realized in net income	**(450)**	169	**(552)**	202
Defined benefit pension plans:				
Unrealized gains (losses) arising during the period	**4**	(19)	**13**	(135)
Less: amortization of net gain included in net periodic pension costs	**(59)**	(67)	**(177)**	(179)
Prior service costs arising during the period	**29**	(7)	**87**	70
Less: accretion of prior service cost included in net periodic pension costs	**10**	9	31	33
Total comprehensive income	**$ 2,472**	$ 8,914	**$ 12,966**	$ 19,463

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Note 6. Pensions and Other Postretirement Benefits

Components of net periodic benefit cost:

	Three Months Ended September 30,			
	2008	2007	2008	2007
($ in thousands)	Retirement Plans		Other Postretirement	
Service cost	**$ 308**	$ 334	**$ 17**	$ 16
Interest cost	**511**	426	**21**	19
Expected return on plan assets	**(471)**	(456)		
Amortization of net loss	**90**	100	**1**	3
Amortization of prior service cost	**(11)**	(8)	**(5)**	(5)
Net periodic cost	**$ 427**	$ 396	**$ 34**	$ 33

	Nine Months Ended September 30,			
	2008	2007	2008	2007
($ in thousands)	Retirement Plans		Other Postretirement	
Service cost	**$ 933**	$ 1,020	**$ 51**	$ 48
Interest cost	**1,468**	1,274	**63**	58
Expected return on plan assets	**(1,400)**	(1,341)		
Amortization of net loss	**269**	268	**3**	8
Amortization of prior service cost	**(32)**	(35)	**(15)**	(15)
Net periodic cost	**$ 1,238**	$ 1,186	**$ 102**	$ 99

The Corporation previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to make payments of $2.1 million for its qualified and non-qualified retirement plans and $97 thousand for its other postretirement benefit plans in 2008. As of September 30, 2008, $1.5 million and $67 thousand have been paid to participants from its qualified and non-qualified retirement plans and other postretirement plans, respectively. During the nine months ended September 30, 2008, the Corporation contributed $443 thousand and $67 thousand to its non-qualified retirement plans and other postretirement plans, respectively.

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

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

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

Note 7. Income Taxes

As of January 1, 2008 the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. Tax Years 2005 through 2007 remain subject to Federal examination as well as examination by state taxing jurisdictions.

Note 8. 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, derivative contracts 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 and mortgage servicing rights.

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), MBS and ABS securities; and not readily marketable equity investments.

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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 equity securities that do not have readily available market prices, certain municipal bonds, certain ABS and other less liquid investment securities.

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 Company s loans held for sale are primarily residential mortgage loan and are generally classified in Level 2 due to the observable pricing data.

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.

Assets and liabilities measured at fair value on a recurring basis, all of which were measured at fair value prior to the adoption of SFAS 157, are summarized below:

	At September 30, 2008			
($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities	$ 3,546	$ 403,015	$ 9,601	$ 416,162
Mortgage servicing rights		476		476
Total assets	$ 3,546	$ 403,491	$ 9,601	$ 416,638
Liabilities:				
Total liabilities	$	$	$	$

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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 September 30, 2008				
($ in thousands)	Balance at June 30, 2008	Total Unrealized Gains or (Losses)	Total Realized Gains or (Losses)	Purchases (Sales or Paydowns)	Balance at September 30, 2008
Available-for-sale securities:					
Asset-backed securities	$ 1,684	$ (18)	$	$ (244)	$ 1,422
Commercial mortgage obligations	7,321	(576)		(147)	6,598
Not readily marketable equity securities	1,581				1,581
Total Level 3 assets	$ 10,586	$ (594)	$	$ (391)	$ 9,601

	For the Nine Months Ended September 30, 2008				
($ in thousands)	Balance at December 31, 2007	Total Unrealized Gains or (Losses)	Total Realized Gains or (Losses)	Purchases (Sales or Paydowns)	Balance at September 30, 2008
Available-for-sale securities:					
Asset-backed securities	$ 1,995	$	$	$ (573)	$ 1,422
Commercial mortgage obligations	7,644	(539)		(507)	6,598
Not readily marketable equity securities	1,581				1,581
Total Level 3 assets	$ 11,220	$ (539)	$	$ (1,080)	$ 9,601

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- and nine-month periods ended September 30, 2008.

Note 9. Related-Party Transactions

During the first quarter of 2008, Univest purchased $29.4 million in tax-free municipal bonds issued on behalf of Grand View Hospital (GVH). These bonds were called during the second quarter of 2008. During the third quarter of 2008, Univest purchased $1.2 million in tax-free municipal bonds issued on behalf of GVH. William S. Aichele, Chairman, President and CEO of the Corporation, and P. Gregory Shelly, Director of the Corporation, are members of the Board of Trustees for GVH.

Note 10. Recent Accounting Pronouncements

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

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

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

Note 11. Other Information

On April 7, 2008 a retired key employee passed away. The Corporation held several BOLI policies on this individual for which the death benefit exceeded the cash surrender value. In the second quarter of 2008, the Corporation recorded $1.4 million of income related to these policies.

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 .)

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.

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Executive Overview

The Corporation recorded net income for the nine months ended September 30, 2008 of $16.8 million, an 11.7% decrease compared to the September 30, 2007 period. Basic and diluted net income per share decreased 10.9% and 11.6%, respectively.

Average interest-earning assets increased $88.0 million and average interest-bearing liabilities increased $80.4 million when comparing the nine-month periods ended September 30, 2008 and 2007. Increased volume in other securities, obligations of state and political subdivision securities, federal funds sold and lease financings along with decreased rates on money market savings were partially offset by decreased rates on commercial business loans and commercial and construction real estate loans; this contributed to a $2.5 million increase in tax-equivalent net interest income. The tax-equivalent net interest margin remained unchanged at 3.73% for the nine-month periods ended September 30, 2008 and 2007.

Non-interest income grew 3.2%, when comparing the nine-month periods ended September 30, 2008 to 2007, primarily due to increases in trust fee income and life insurance income, which increased by $1.6 million due to additional income resulting from death benefit claims. These increases were partially offset by an impairment charge on equity investments of $928 thousand for the nine month period ended September 30, 2008.

Non-interest expense grew 7.0% primarily due to increases in salary and employee benefits, marketing and advertising expense, and other expense, which includes expense associated with a claim under a rent-a-captive arrangement and fee expense associated with student loans.

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 or decrease within 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 September 30, 2008 Versus 2007

The Corporation s consolidated net income and earnings per share for the three months ended September 30, 2008 and 2007 were as follows:

	Three Months Ended September 30,		Change	
($ in thousands, except per share data)	**2008**	**2007**	**Amount**	**Percent**
Net income	**$ 4,190**	$ 6,688	$ (2,498)	(37.4)%
Net income per share:				
Basic	**$ 0.33**	$ 0.52	$ (0.19)	(36.5)
Diluted	**0.33**	0.52	(0.19)	(36.5)

Return on average shareholders equity was 8.13% and return on average assets was 0.82% for the three months ended September 30, 2008 compared to 14.01% and 1.36%, respectively, for the same period in 2007.

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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 September 30, 2008 and 2007. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment/Asset/Liability Management Committee works to maintain an adequate and stable net interest margin for the Corporation.

Tax-equivalent net interest income increased $844 thousand for the three months ended September 30, 2008 compared to 2007 primarily due to increased volume on lease financings, increased volume on real estate commercial and construction loans, increased volume on obligations on state and political subdivision securities, increased volume on other debt and equity securities, decreased rates on money market savings deposits and decreases in both rate and volume of certificates of deposit; partially offset by decreased volume and rates on commercial loans and decreased rates on real estate commercial and construction loans. The decrease in rates is attributable to the 200 basis point reduction in the prime interest rate that occurred during the first quarter of 2008. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.76% and 3.71% for the three-month periods ended September 30, 2008 and 2007, 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 3.35% for the three-months ended September 30, 2008 compared to 3.13% for the same period in 2007. The effect of net interest free funding sources decreased to 0.41% for the three months ended September 30, 2008 compared to 0.58% for the same period in 2007; this represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

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

	For the Three Months Ended September 30, 2008			2007		
($ in thousands)	Average Balance	Income/ Expense	Avg. Rate	Average Balance	Income/ Expense	Avg. Rate
Assets:						
Interest-earning deposits with other banks	**$ 584**	**$ 4**	**2.72%**	$ 3,739	$ 50	5.31%
U.S. Government obligations	**98,876**	**1,136**	**4.57**	114,024	1,330	4.63
Obligations of state and political subdivisions	**86,900**	**1,501**	**6.87**	84,992	1,509	7.04
Other debt and equity securities	**235,531**	**3,036**	**5.13**	191,574	2,577	5.34
Federal Reserve Bank stock	**1,687**	**25**	**5.90**	1,687	25	5.88
Federal funds sold and securities purchased under agreement to resell	**3,232**	**13**	**1.60**	10,886	143	5.21
Total interest-earning deposits, investments and federal funds sold	**426,810**	**5,715**	**5.33**	406,902	5,634	5.49
Commercial, financial and agricultural loans	**399,334**	**5,961**	**5.94**	408,268	8,183	7.95
Real estate commercial and construction loans	**482,213**	**7,817**	**6.45**	431,901	8,668	7.96
Real estate residential loans	**310,982**	**3,986**	**5.10**	306,745	4,165	5.39
Loans to individuals	**60,871**	**1,069**	**6.99**	79,684	1,402	6.98
Municipal loans and leases	**82,753**	**1,298**	**6.24**	92,096	1,371	5.91
Lease financings	**86,621**	**1,788**	**8.21**	54,478	1,208	8.80
Gross loans and leases	**1,422,774**	**21,919**	**6.13**	1,373,172	24,997	7.22
Total interest-earning assets	**1,849,584**	**27,634**	**5.94**	1,780,074	30,631	6.83
Cash and due from banks	**36,841**			40,499		
Reserve for loan and lease losses	**(14,070)**			(13,894)		
Premises and equipment, net	**32,533**			22,204		
Other assets	**115,649**			116,023		
Total assets	**$ 2,020,537**			$ 1,944,906		
Liabilities:						
Interest-bearing checking deposits	**$ 143,774**	**$ 114**	**0.32**	$ 135,094	$ 128	0.38
Money market savings	**362,864**	**1,725**	**1.89**	385,243	4,009	4.13

Regular savings	**286,554**	**1,142**	**1.59**	222,666	1,108	1.97
Certificates of deposit	**476,357**	**5,065**	**4.23**	525,733	6,222	4.70
Time open and club accounts	**6,905**	**34**	**1.96**	27,788	337	4.81
Total time and interest-bearing deposits	**1,276,454**	**8,080**	**2.52**	1,296,524	11,804	3.61
Securities sold under agreements to repurchase	**84,931**	**228**	**1.07**	83,436	497	2.36
Other short-term debt	**72,302**	**408**	**2.24**	5,669	76	5.32
Long-term debt	**98,678**	**1,055**	**4.25**	85,755	1,028	4.76
Subordinated notes and capital securities	**27,744**	**377**	**5.41**	29,248	584	7.92
Total borrowings	**283,655**	**2,068**	**2.90**	204,108	2,185	4.25
Total interest-bearing liabilities	**1,560,109**	**10,148**	**2.59**	1,500,632	13,989	3.70
Demand deposits, non-interest bearing	**226,948**			224,474		
Accrued expenses and other liabilities	**28,418**			30,380		
Total liabilities	**1,815,475**			1,755,486		
Shareholders Equity:						
Common stock	**74,370**			74,370		
Additional paid-in capital	**22,647**			22,508		
Retained earnings and other equity	**108,045**			92,542		
Total shareholders equity	**205,062**			189,420		
Total liabilities and shareholders equity	**$ 2,020,537**			$ 1,944,906		
Net interest income		**$ 17,486**			$ 16,642	
Net interest spread			**3.35**			3.13
Effect of net interest-free funding sources			**.41**			0.58
Net interest margin			**3.76%**			3.71%
Ratio of average interest-earning assets to average interest-bearing liabilities	**118.55%**			118.62%		

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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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 September 30, 2008 Versus 2007		
($ in thousands)	Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	$ (22)	$ (24)	$ (46)
U.S. Government obligations	(177)	(17)	(194)
Obligations of state and political subdivisions	28	(36)	(8)
Other debt and equity securities	560	(101)	459
Federal Reserve Bank stock			
Federal funds sold and securities purchased under agreement to resell	(31)	(99)	(130)
Interest on deposits, investments and federal funds sold	358	(277)	81
Commercial, financial and agricultural loans	(154)	(2,068)	(2,222)
Real estate commercial and construction loans	793	(1,644)	(851)
Real estate residential loans	45	(224)	(179)
Loans to individuals	(335)	2	(333)
Municipal loans and leases	(150)	77	(73)
Lease financings	661	(81)	580
Interest and fees on loans and leases	860	(3,938)	(3,078)
Total interest income	1,218	(4,215)	(2,997)
Interest expense:			
Interest checking deposits	6	(20)	(14)
Money market savings	(109)	(2,175)	(2,284)
Regular savings	247	(213)	34
Certificates of deposit	(534)	(623)	(1,157)
Time open and club accounts	(103)	(200)	(303)
Interest on deposits	(493)	(3,231)	(3,724)
Securities sold under agreement to repurchase	3	(271)	(268)
Other short-term debt	376	(44)	332
Long-term debt	137	(110)	27
Subordinated notes and capital securities	(21)	(187)	(208)
Interest on borrowings	495	(612)	(117)
Total interest expense	2	(3,843)	(3,841)

Net interest income	$	1,216	$	(372)	$	844

Notes: Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35 percent. Nonaccrual loans and leases and unearned discounts have been included in the average loan and lease balances.

Interest Income

Interest income on U. S. Government obligations decreased due to a decline in average volume that was partially offset by a decrease in average rates. Interest income on other securities increased primarily due to average volume increases on mortgage-backed securities. Interest income decreased on federal funds sold primarily due to decreases in average rate.

The decline in interest and fees on loans and leases is due primarily to average rate decreases on commercial business loans and real estate commercial and construction loans. The rate decreases are attributable to the 275 basis point decline in average prime rate comparing the three months ended September 30, 2007 to the same period in 2008. The average interest yield on the commercial loan portfolio decreased 201 basis points; which, along with average volume decline of $8.9 million, contributed to a $2.2 million decrease in interest income. The average yield on real estate commercial and construction loans decreased 151 basis points which contributed to an $851 thousand decline in interest income. The average volume declined on loans to individuals of $18.8 million, contributed to a $333 thousand decrease in interest income. These decreases were offset by an increase in average volume on lease financings of $32.1 million; this contributed to a $580 thousand increase in interest income.

Interest Expense

The Corporation s average rate on deposits decreased 109 basis points for the three months ended September 30, 2008 compared to the same period in 2007. Average rate decreases along with the decline in the average volume of $20.1 million, contributed to a $3.7 million decrease in interest expense on deposits. The average rate paid on money market savings decreased 224 basis points and the average volume decreased $22.4 million; the net effect contributed to a $2.3 million decrease in interest expense. Interest on regular savings increased $34 thousand due to an average volume increase of $63.9 million that was offset by a 38 basis-point decrease in average rate. Interest on certificates of deposit decreased $1.2 million, due to a $49.4 million average decrease in volume and a 47 basis-point decrease in average rate. Interest on other time deposit accounts decreased $303 thousand due to average rate decrease of 285 basis points and an average balance decrease of $20.9 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 $64 thousand in the aggregate during the three months ended September 30, 2008 compared to 2007 primarily due to average volume increases of $68.1 million and a 94 basis-point decline in rates.

Interest expense on subordinated notes and capital securities decreased $208 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 September 30, 2008 and 2007 was $3.0 million and $456 thousand, respectively. This increase was primarily due to an increase in net charge-offs of $1.4 million for the three months ended September 30, 2008 compared to the same period in 2007, loan growth, the deterioration of underlying collateral and economic factors.

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 September 30, 2008 compared to 2007 primarily due to other-than-temporary impairment losses on available-for-sale securities.

	Three Months Ended September30,		Change	
($ in thousands)	**2008**	2007	Amount	Percent
Trust fee income	**$ 1,578**	$ 1,525	$ 53	3.5%
Service charges on deposit accounts	**1,719**	1,706	13	0.8
Investment advisory commission and fee income	**581**	647	(66)	(10.2)
Insurance commission and fee income	**1,266**	1,385	(119)	(8.6)
Life insurance income	**241**	391	(150)	(38.4)
Other service fee income	**732**	913	(181)	(19.8)
Net (loss) gain on sales of and impairments on securities	**(692)**	259	(951)	(367.2)
Net loss on dispositions of fixed assets	**(28)**		(28)	N/M
Other	**89**	86	3	(3.5)
Total noninterest income	**$ 5,486**	$ 6,912	$ (1,426)	(20.6)

Trust fee income increased in 2008 over 2007 primarily due to an increase in the number and market value of managed accounts. Service charges on deposit accounts remained relatively constant when comparing the third quarter of 2008 to the same period in 2007.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., decreased in 2008 over 2007 due to market fluctuations that resulted in decreased fees and commissions received.

Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc. decreased in the third quarter of 2008 over 2007 primarily due to market conditions.

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 prior quarter and a decline in the market value of the underlying assets, life insurance income decreased in the third quarter of 2008 over 2007.

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 third quarter of 2008 over 2007 primarily due to mortgage placement fee income and the sales of official checks.

Gains on Sale of Assets

Sales of $1.4 million in loans and leases during the three months ended September 30, 2008 resulted in gains of $45 thousand compared to sales of $972 thousand for gains of $19 thousand for the three months ended September 30, 2007.

During the three months ended September 30, 2008, approximately $1.7 million of securities were sold recognizing gains of $1 thousand. Additionally, the Corporation realized an impairment charge of $693 thousand on its equity portfolio during the third quarter of 2008. The Corporation determined that it was probable that certain equity securities would not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other under-water equity securities, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable than the market value of the equity securities will recover to the Corporation s cost basis in the individual securities. Additionally, the Corporation has the positive intent and ability to hold those securities until such recovery occurs. During the three months ended September 30, 2007, the Corporation sold $644 thousand in securities that resulted in a gain of $8 thousand and the Corporation also received $251 thousand from the sales of shares created through conversion of one of its vendor relationships from a membership association to a private share corporation.

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 September 30,		Change	
($ in thousands)	**2008**	**2007**	**Amount**	**Percent**
Salaries and benefits	**$ 7,935**	$ 7,659	$ 276	3.6%
Net occupancy	**1,318**	1,188	130	10.9
Equipment	**792**	793	(1)	(0.1)
Marketing and advertising	**268**	255	13	5.1
Other	**3,352**	3,187	165	5.2
Total noninterest expense	**$ 13,665**	$ 13,082	$ 583	4.5

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Salaries and benefits increased due to normal base pay increases and stock-based compensation 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.

During the third quarter of 2008, the Corporation utilized the remainder of its FDIC insurance assessment credits causing a $138 thousand variance compared to the corresponding period in 2007. This along with increases in telephone expense contributed to the increase in other expenses.

Tax Provision

The provision for income taxes was $1.2 million for the three months ended September 30, 2008 compared to $2.5 million in 2007, at effective rates of 21.92% and 27.04%, 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 Nine Months Ended September 30, 2008 Versus 2007

The Corporation s consolidated net income and earnings per share for the nine months ended September 30, 2008 and 2007 were as follows:

($ in thousands, except per share data)	For the Nine Months Ended September 30, 2008	2007	Change Amount	Percent
Net income	**$ 16,785**	$ 19,010	$ (2,225)	(11.7)%
Net income per share:				
Basic	**$ 1.31**	$ 1.47	$ (0.16)	(10.9)
Diluted	**1.30**	1.47	(0.17)	(11.6)

Return on average shareholders equity was 11.01% and return on average assets was 1.11% for the nine months ended September 30, 2008 compared to 13.46% and 1.32%, respectively, for the same period in 2007.

Net Interest Income

Net interest income is the difference between interest earned on loans, 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. The following table presents a summary of the Corporation s average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities for the nine months ended September 30, 2008 and 2007. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Investment/Asset/Liability Management Committee works to maintain an adequate and reliable net interest margin for the Corporation.

Tax-equivalent net interest income increased $2.5 million for the nine months ended September 30, 2008 compared to 2007 primarily due to increased volume on other securities, obligations of state and political subdivision securities, federal funds sold and lease financings along with decreased rates on money market savings. These increases were partially offset by decreased rates on commercial business loans and real estate commercial and construction loans. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.73% for both nine-month periods ended September 30, 2008 and 2007. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.29% for the nine months ended September 30, 2008 compared to 3.15% for the same period in 2007. The effect of net interest free funding sources decreased to 0.44% for the nine months ended September 30, 2008 compared to 0.58% for the same period in 2007; this represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

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

	For the Nine Months Ended September 30,					
	2008			2007		
($ in thousands)	Average Balance	Income/ Expense	Avg. Rate	Average Balance	Income/ Expense	Avg. Rate
Assets:						
Interest-earning deposits with other banks	**$ 680**	**$ 11**	**2.16%**	$ 1,655	$ 65	5.25%
U.S. Government obligations	**100,721**	**3,525**	**4.67**	119,502	4,047	4.53
Obligations of state & political subdivisions	**96,315**	**4,731**	**6.56**	84,186	4,460	7.08
Other debt and equity securities	**245,298**	**9,410**	**5.12**	181,067	7,208	5.32
Federal Reserve Bank stock	**1,687**	**76**	**6.02**	1,687	76	6.02
Federal funds sold and securities purchased under agreement to resell	**19,275**	**392**	**2.72**	7,287	280	5.14
Total interest-earning deposits, investments and federal funds sold	**463,976**	**18,145**	**5.22**	395,384	16,136	5.46
Commercial, financial and agricultural loans	**382,337**	**18,149**	**6.34**	411,315	24,423	7.94
Real estate commercial and construction loans	**478,277**	**23,936**	**6.69**	433,756	25,561	7.88
Real estate residential loans	**307,692**	**12,087**	**5.25**	306,267	12,432	5.43
Loans to individuals	**64,934**	**3,413**	**7.02**	83,313	4,336	6.96
Municipal loans and leases	**82,043**	**3,846**	**6.26**	92,711	3,917	5.65
Lease financings	**74,682**	**4,820**	**8.62**	43,157	2,858	8.85
Gross loans and leases	**1,389,965**	**66,251**	**6.37**	1,370,519	73,527	7.17
Total interest-earning assets	**1,853,941**	**84,396**	**6.08**	1,765,903	89,663	6.79
Cash and due from banks	**35,912**			40,024		
Reserve for loan and lease losses	**(13,402)**			(13,590)		
Premises and equipment, net	**31,076**			21,979		
Other assets	**116,198**			111,555		
Total assets	**$ 2,023,725**			$ 1,925,871		
Liabilities:						
Interest-bearing checking deposits	**$ 143,517**	**$ 350**	**0.33**	$ 137,481	$ 329	0.32
Money market savings	**430,758**	**7,595**	**2.36**	374,038	11,520	4.12

Regular savings	**267,563**	**3,211**	**1.60**	209,260	2,671	1.71
Certificates of deposit	**469,752**	**15,614**	**4.44**	523,809	18,063	4.61
Time open and club accounts	**6,691**	**130**	**2.60**	24,728	895	4.84
Total time and interest-bearing deposits	**1,318,281**	**26,900**	**2.73**	1,269,316	33,478	3.53
Securities sold under agreements to repurchase	**84,766**	**759**	**1.20**	86,537	1,547	2.39
Other short-term debt	**39,422**	**688**	**2.33**	18,446	747	5.41
Long-term debt	**95,602**	**3,084**	**4.31**	81,916	2,892	4.72
Subordinated notes and capital securities	**28,131**	**1,249**	**5.93**	29,620	1,748	7.89
Total borrowings	**247,921**	**5,780**	**3.11**	216,519	6,934	4.28
Total interest-bearing liabilities	**1,566,202**	**32,680**	**2.79**	1,485,835	40,412	3.64
Demand deposits, non-interest bearing	**224,611**			221,556		
Accrued expenses and other liabilities	**29,250**			29,711		
Total liabilities	**1,820,063**			1,737,102		
Shareholders Equity:						
Common stock	**74,370**			74,370		
Additional paid-in capital	**22,636**			22,498		
Retained earnings and other equity	**106,656**			91,901		
Total shareholders equity	**203,662**			188,769		
Total liabilities and shareholders equity	**$ 2,023,725**			$ 1,925,871		
Net interest income		**$ 51,716**			$ 49,251	
Net interest spread			**3.29**			3.15
Effect of net interest-free funding sources			**0.44**			0.58
Net interest margin			**3.73%**			3.73%
Ratio of average interest-earning assets to average interest-bearing liabilities	**118.37%**			118.85%		

Notes: Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35 percent.
For rate calculation purposes, average loan categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.

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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 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 Nine Months Ended September 30, 2008 Versus 2007		
($ in thousands)	Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	$ (16)	$ (38)	$ (54)
U.S. Government obligations	(647)	125	(522)
Obligations of state and political subdivisions	598	(327)	271
Other debt and equity securities	2,473	(271)	2,202
Federal Reserve bank stock			
Federal funds sold and securities purchased under agreement to resell	244	(132)	112
Interest on deposits, investments and federal funds sold	2,652	(643)	2,009
Commercial, financial and agricultural loans	(1,352)	(4,922)	(6,274)
Real estate-commercial and construction loans	2,236	(3,861)	(1,625)
Real estate-residential loans	67	(412)	(345)
Loans to individuals	(960)	37	(923)
Municipal loans and leases	(494)	423	(71)
Lease financings	2,036	(74)	1,962
Interest and fees on loans and leases	1,533	(8,809)	(7,276)
Total interest income	4,185	(9,452)	(5,267)
Interest expense:			
Interest checking deposits	11	10	21
Money market savings	999	(4,924)	(3,925)
Regular savings	712	(172)	540
Certificates of deposit	(1,783)	(666)	(2,449)
Time open and club accounts	(351)	(414)	(765)
Interest on deposits	(412)	(6,166)	(6,578)
Securities sold under agreement to repurchase	(18)	(770)	(788)
Other short-term debt	366	(425)	(59)
Long-term debt	443	(251)	192
Subordinated notes and capital securities	(65)	(434)	(499)
Interest on borrowings	726	(1,880)	(1,154)
Total interest expense	314	(8,046)	(7,732)

Net interest income	$ 3,871	$ (1,406)	$ 2,465

Notes: Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35 percent. Nonaccrual loan and lease unearned discounts have been included in the average loan and lease balances.

Interest Income

Interest income on U. S. Government obligations decreased during the nine months ended September 30, 2008 compared to 2007 due to a decline in average volume that was partially offset by an increase in average rates. Interest income on obligations of state and political subdivisions increased due to average volume increases that were partially offset by a decline in average rates. Interest income on other securities increased primarily due to average volume increases on mortgage-backed securities. Interest income increased on federal funds sold was due primarily to increases in average volume.

The decline in interest and fees on loans and leases during the nine months ended September 30, 2008 compared to 2007 is due primarily to average rate decreases on commercial business loans and real estate commercial and construction loans. The rate decreases are attributable to the 287 basis point decline in average prime rate comparing the nine months ended September 30, 2008 to the same period in 2007. The average interest yield on the commercial loan portfolio decreased 160 basis points for the nine months ended September 30, 2008 compared to the same period in 2007; which, along with average volume decline of $29.0 million, contributed to a $6.3 million decrease in interest income. The average interest yield on the commercial and construction real estate loan portfolios decreased 119 basis points; this was partially offset by a $44.5 million increase in volume resulting in a $1.6 million decline in interest income. The average volume decline on loans to individuals of $18.4 million, contributed to a $923 thousand decrease in interest income. These decreases were offset by an increase in average volume on lease financings of $31.5 million; this contributed to a $2.0 million increase in interest income.

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Interest Expense

The Corporation s average rate on deposits decreased 80 basis points for the nine months ended September 30, 2008 compared to the same period in 2007. The average rate paid on money market savings decreased 176 basis points while the average volume increased $56.7 million; the net effect contributed to a $3.9 million decrease in interest expense. The increase in money market savings was primarily due to a $92.6 million short-term deposit received from one customer during the first six months of 2008. Interest on certificates of deposit decreased $2.4 million, primarily due to a decrease in volume of $54.1 million.

Interest expense on short-term borrowings includes interest paid on federal funds purchased and short-term FHLB debt. In addition, the Bank offers a sweep account. Interest expense on short-term borrowings decreased $847 thousand in the aggregate during the nine months ended September 30, 2008 compared to 2007 primarily due to a 136 basis-point decline in short-term rates.

Interest expense on long-term debt increased $192 thousand primarily due to a volume increase of $13.7 million partially offset by a 41 basis-point decrease in the rate paid on FHLB long term borrowings. Interest expense on subordinated notes and capital securities decreased primarily due to a 196 basis-point decline in rate.

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 activities, policies, real estate and other loan commitments, and significant changes in charge-off activity. 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 for under SFAS 114. Any of the above criteria may cause the provision to fluctuate. The bank s primary regulators, as an integral part of their examination process, may require adjustments to the allowance. The provision for the nine months ended September 30, 2008 and 2007 was $6.3 million and $1.7 million, respectively. This increase was primarily due to an increase in net charge-offs of $3.3 million for the nine months ended September 30, 2008 compared to the same period in 2007, loan growth, the deterioration of underlying collateral and economic factors.

Noninterest Income

Non-interest income consists of trust department fee income, service charges on deposits income, commission income, net gains on sales of securities, and other miscellaneous types of income. It also includes various types of service fees, such as ATM fees, and life insurance income which primarily represents changes in the cash surrender value of bank-owned life insurance. Total noninterest income increased during the nine months ended September 30, 2008 compared to 2007 primarily due to death benefit claims on bank-owned life insurance policies resulting in additional income of $1.9 million and higher trust fees, partially offset by $928 thousand in other-than-temporary impairments on equity securities.

	For the Nine Months Ended September 30,		Change	
($ in thousands)	**2008**	2007	Amount	Percent
Trust fee income	**$ 4,833**	$ 4,493	$ 340	7.6%
Service charges on deposit accounts	**5,085**	5,058	27	0.5
Investment advisory commission and fee income	**1,838**	2,012	(174)	(8.6)
Insurance commission and fee income	**4,595**	4,576	19	0.4
Life insurance income	**2,766**	1,125	1,641	145.9
Other service fee income	**2,581**	2,709	(128)	(4.7)
Net (loss) gain on sales of and impairments on securities	**(849)**	310	(1,159)	(373.9)
Net loss on dispositions of fixed assets	**(33)**	(64)	31	48.4
Other	**231**	173	58	33.5
Total noninterest income	**$ 21,047**	$ 20,392	$ 655	3.2

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Trust fee income increased in 2008 over 2007 primarily due to an increase in the number and market value of managed accounts. Service charges on deposit accounts remained relatively constant when comparing the nine months ended September 30, 2008 to the same period in 2007.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., decreased in 2008 over 2007 due to market fluctuations that resulted in decreased fees and commissions received.

Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc., increased in the nine months ended September 30, 2008 over 2007 primarily due to an increase in contingent commissions received from insurance carriers. This was partially offset by decreased fees and commissions due to market conditions.

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. The increase recognized in the nine months ended September 30, 2008 over 2007 was primarily due to additional income resulting from death benefit claims of $1.9 million.

Other service fee income primarily consists of Mastermoney fees, non-customer debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Other service fee income decreased for the nine months ended September 30, 2008 over 2007 primarily due to a decrease in mortgage placement fee income.

Other non-interest income includes losses on investments in partnerships, gains on sales of mortgages, gains on sales of other real estate owned, reinsurance income and other miscellaneous income. Other non-interest income increased over the prior year primarily due to a $93 thousand increase in the sale of loans and leases as detailed below.

Gains on Sale of Assets

Sales of $5.3 million in loans and leases during the nine months ended September 30, 2008 resulted in gains of $154 thousand compared to sales of $2.7 million for gains of $61 thousand for the nine months ended September 30, 2007. During the nine months ended September 30, 2008, approximately $16.4 million of securities were sold recognizing gains of $79 thousand. Additionally, the Corporation realized an impairment charge of $928 thousand on its equity portfolio during the nine-month period ended September 30, 2008. The Corporation determined that it was probable that certain equity securities would not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other under-water equity securities, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities. Additionally, the Corporation has the positive intent and ability to hold those securities until such recovery occurs. During the nine months ended September 30, 2007, the Corporation sold $8.5 million in securities that resulted in $59 thousand in net gains and the Corporation also received $251 thousand from the sales of shares created through conversion of one of its vendor relationships from a membership association to a private share corporation.

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:

($ in thousands)	For the Nine Months Ended September 30, 2008	2007	Change Amount	Percent
Salaries and benefits	**$ 24,122**	$ 23,293	$ 829	3.6%
Net occupancy	**3,895**	3,625	270	7.4
Equipment	**2,357**	2,396	(39)	(1.6)
Marketing and advertising	**989**	663	326	49.2
Other	**10,995**	9,598	1,397	14.6
Total non-interest expense	**$ 42,358**	$ 39,575	$ 2,783	7.0

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

Equipment expense decreased slightly due to the reduction of furniture and equipment rental costs and depreciation expense of capitalized furniture and equipment. These decreases were offset by increases in computer software licenses and maintenance. Marketing and advertising expenses increased primarily due to the Corporation s UnivestOne campaign which was launched in the second quarter of 2008 to increase awareness of its on-line banking website. Other expenses increased primarily due to expense associated with a claim under a rent-a-captive arrangement of $349 thousand and fee expense of $257 thousand associated with student loans; both charges are not recurring in nature. Increases in consultant fees, FDIC insurance premiums and telephone expenses also contributed to the increase in other expenses.

Tax Provision

The provision for income taxes was $4.7 million for the first nine months ended September 30, 2008 compared to $7.0 million in 2007, at effective rates of 21.96% and 26.77%, 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 nine-month periods is primarily due to a larger percentage of tax-exempt income to pre-tax income. Tax-exempt income increased primarily due to death benefit claims on bank-owned life insurance.

Financial Condition

Assets

Total assets increased $73.9 million since December 31, 2007. The increase was primarily due to net growth in total loans and leases and net premises and equipment. The following table presents the assets for the periods indicated:

($ in thousands)	At September 30, 2008	At December 31, 2007	Change Amount	Percent
Cash, deposits and federal funds sold	**$ 49,399**	$ 59,385	$ (9,986)	(16.8)%
Investment securities	**418,804**	423,448	(4,644)	(1.1)
Total loans and leases	**1,441,899**	1,355,442	86,457	6.4
Reserve for loan and lease losses	**(14,954)**	(13,086)	(1,868)	(14.3)
Premises and equipment, net	**32,791**	27,977	4,814	17.2
Goodwill and other intangibles, net	**46,818**	47,081	(263)	(0.6)
Cash surrender value of insurance policies	**45,395**	46,689	(1,294)	(2.8)
Accrued interest and other assets	**26,238**	25,569	669	2.6
Total assets	**$ 2,046,390**	$ 1,972,505	$ 73,885	3.7

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 $166.9 million and sales and calls of $124.7 million that were partially offset by purchases of $293.9 million.

Loans and Leases
Total loans and leases increased in the nine months ended September 30, 2008 due to increases in commercial, financial and agricultural loans of $50.0 million, real estate construction loans of $12.4 million and lease financings of $38.1 million. These increases were partially offset by a decrease in loans to individuals of $13.4 million.

Total cash, deposits and federal funds sold decreased $10.0 million primarily to fund loan growth.

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

When a loan or lease, including a loan or lease impaired under SFAS 114, is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease is classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectibles of principal or interest, even though the loan 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 collectibility of principal.

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

Cash basis, restructured and nonaccrual loans and leases totaled $8.4 million at September 30, 2008, $6.9 million at December 31, 2007 and $7.4 million at September 30, 2007 and consist mainly of commercial loans and real estate related commercial loans. For the nine months ended September 30, 2008 and 2007, nonaccrual loans and leases resulted in lost interest income of $564 thousand and $542 thousand, respectively. Loans and leases 90 days or more past due totaled $1.6 million at September 30, 2008, $1.9 million at December 31, 2007 and $1.7 million at September 30, 2007. Other real estate owned totaled $346 thousand at September 30, 2008. However, there were no other real estate owned at December 31, 2007 and September 30, 2007. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 0.69% at September 30, 2008, 0.65% at December 31, 2007 and 0.66% at September 30, 2007.

At September 30, 2008, the recorded investment in loans and leases that are considered to be impaired under SFAS 114 was $8.4 million, $7.9 million were on a nonaccrual basis; the related reserve for loan and lease losses for those credits was $2.5 million. At December 31, 2007, the recorded investment in loans and leases that are considered to be impaired under SFAS 114 was $6.9 million, all of which were on a nonaccrual basis. The related reserve for loan and lease losses for those credits was $1.8 million. At September 30, 2007, 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 $2.4 million. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits.

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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 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. Quarterly, this analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. 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 $1.9 million from December 31, 2007 to September 30, 2008 primarily due to loan growth, 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 1.04% at September 30, 2008 and 0.97% at December 31, 2007.

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Goodwill and Other Intangible Assets

The Corporation has goodwill of $44.6 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 142, the Corporation conducts an annual impairment analysis on all intangible assets during the fourth quarter to determine if impairment of the asset exists. Additionally, throughout the year, the Corporation reviews its intangible assets for indicators of impairment in accordance with SFAS 142. At September 30, 2008, there was no impairment indicated.

Liabilities

Total liabilities increased since December 31, 2007 primarily due to an increase in borrowings, partially offset by a decrease in deposits. The following table presents the liabilities for the periods indicated:

	At September 30, 2008	At December 31, 2007	Change Amount	Change Percent
Deposits	**$ 1,507,527**	$ 1,532,603	$ (25,076)	(1.6)%
Borrowings	**304,368**	208,729	95,639	45.8
Accrued expenses and other liabilities	**30,244**	32,447	(2,203)	(6.8)
Total liabilities	**$ 1,842,139**	$ 1,773,779	$ 68,360	3.9

Deposits

Total deposits decreased at the Bank primarily due to decreases in money market savings accounts of $89.0 million. These decreases were partially offset by increases in regular savings of $56.6 million and time deposits of $7.3 million. Due to market conditions, there was a price advantage in overnight borrowings compared to money market and time deposit rates. As a result, the Corporation was willing to accept less robust deposit growth in favor of higher net interest income.

Borrowings

Long-term borrowings at September 30, 2008, included $7.1 million in Subordinated Capital Notes, $20.6 million of Trust Preferred Securities, and $115.2 million in long-term borrowings from the FHLB. The consolidated balance sheet also includes a $749 thousand fair market value adjustment relating to FHLB long-term borrowings acquired in the First County Bank and Suburban Community Bank acquisitions. Long-term borrowings increased due to the issuance of an additional $30.0 million in FHLB borrowings. Short-term borrowings typically include federal funds purchased and short-term FHLB borrowings. Short-term borrowings increased due to short-term FHLB borrowings of $83.9 million, which is partially offset by a decline in the sweep accounts of $16.8 million.

Shareholders Equity

Total shareholders equity increased since December 31, 2007 primarily due to current earnings; this increase was partially offset by cash dividends paid and an increase in accumulated other comprehensive loss.

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

	At September 30, 2008	At December 31, 2007	Change Amount	Change Percent
Common stock	**$ 74,370**	$ 74,370	$	%
Additional paid-in capital	**22,732**	22,591	141	0.6
Retained earnings	**150,767**	143,066	7,701	5.4
Accumulated other comprehensive loss	**(5,587)**	(1,768)	(3,819)	(216.0)
Unearned Compensation restricted stock awards	**(447)**	(380)	(67)	(17.6)
Treasury stock	**(37,584)**	(39,153)	1,569	4.0
Total shareholders equity	**$ 204,251**	$ 198,726	$ 5,525	2.8

Retained earnings were favorably impacted by nine months of net income of $16.8 million partially offset by cash dividends of $7.7 million declared during the first nine months of 2008 and the incremental effect of adopting EITF 06-4 of $1.6 million. Treasury stock decreased primarily due to sales for the employee stock purchase plan, employee options and restricted stock awards. There is a buyback program in place that allows the Corporation to purchase an additional 643,782 shares of its outstanding common stock in the open market or in negotiated transactions.

Accumulated other comprehensive loss related to securities of $2.2 million, net of taxes, is included in shareholders equity as of September 30, 2008. Accumulated other comprehensive income related to securities of $1.9 million, net of taxes, has been included in shareholders equity as of December 31, 2007. Accumulated other comprehensive income (loss) related to securities is the unrealized gain (loss), or the difference between the book value and market value, on the available-for-sale investment portfolio, net of taxes. The period-to-period reduction in accumulated other comprehensive income (loss) was primarily a result of decreases in the market values of mortgage-backed government agency debt securities, municipal bonds and equity securities.

Accumulated other comprehensive loss related to pension and other post-retirement benefits amounted to $3.4 million as of September 30, 2008. Accumulated other comprehensive loss related to pension and other post-retirement benefits amount to $3.7 million at December 31, 2007. The change in the accumulated other comprehensive income loss related to pension and other post-retirement benefits represent the changes in the actuarial gains and losses and the prior service costs and credits that arise during the period.

Capital Adequacy

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 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.

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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 September 30, 2008:						
Total Capital (to Risk-Weighted Assets):						
Corporation	**$ 201,106**	**12.30%**	**$ 130,751**	**8.00%**	**$ 163,439**	**10.00%**
Bank	**189,268**	**11.69**	**129,491**	**8.00**	**161,864**	**10.00**
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	**183,302**	**11.22**	**65,376**	**4.00**	**98,063**	**6.00**
Bank	**174,164**	**10.76**	**64,745**	**4.00**	**97,118**	**6.00**
Tier 1 Capital (to Average Assets):						
Corporation	**183,302**	**9.29**	**59,169**	**3.00**	**78,892**	**4.00**
Bank	**174,164**	**8.89**	**58,748**	**3.00**	**78,330**	**4.00**
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 190,283	12.46%	$ 122,173	8.00%	$ 152,716	10.00%
Bank	179,294	12.02	119,374	8.00	149,218	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	173,297	11.35	61,086	4.00	91,630	6.00
Bank	166,058	11.13	59,687	4.00	89,531	6.00
Tier 1 Capital (to Average Assets):						
Corporation	173,297	9.11	57,079	3.00	76,105	4.00
Bank	166,058	8.81	56,574	3.00	75,432	4.00

As of September 30, 2008 and December 31, 2007, 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, its Tier 1 and Total Capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. As of December 31, 2007, 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.

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 2007 Annual Report on Form 10-K.

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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 September 30, 2008, the Bank had $40.0 million in PLGIT deposits.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $293.6 million. At September 30, 2008, outstanding long-term borrowings with FHLB totaled $115.2 million, overnight funds of $65.0 million and there was an outstanding irrevocable standby letter of credit of $40.7 million. The maximum borrowing capacity changes as a function of qualifying collateral assets and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Corporation maintains federal fund lines with several correspondent banks totaling $77.0 million. At September 30, 2008, there were $18.9 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 September 30, 2008, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The contractual obligations and commitments table presents, as of September 30, 2008, significant fixed and determinable contractual obligations and commitments to third parties. 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 March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 enhances disclosures about fair value of derivative instruments and their gains or losses and the company s objectives and strategies for using derivative instruments and whether or not they are designated as hedging instruments. SFAS 161 is effective prospectively for interim periods and fiscal years beginning after November 15, 2008. The Corporation does not anticipate the adoption of SFAS 161 to have a material impact on its consolidated financial statements.

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

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

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, 2007.

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 September 30, 2008 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, 2007.

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, 2007 as filed with the Securities and Exchange Commission on March 6, 2008.

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 September 30, 2008.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
July 1 31, 2008	18,500	$ 20.51	18,500	643,782
August 1 31, 2008				643,782
September 1 30, 2008				643,782
Total	18,500		18,500	

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.
Exhibit 32.2	Certification of Jeffrey M. Schweitzer, Chief Financial 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 (Registrant)
Date: November 6, 2008	/s/ William S. Aichele William S. Aichele, Chairman, President and Chief Executive Officer
Date: November 6, 2008	/s/ Jeffrey M. Schweitzer Jeffrey M. Schweitzer, Executive Vice President, and Chief Financial Officer

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EXHIBIT INDEX

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