UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2007

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007.

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 (State or other jurisdiction of incorporation of organization)	23-1886144 (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. þYes oNo

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

Large accelerated filer £ Accelerated filer þ Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
£Yes RNo

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

Common Stock, $5 par value (Title of Class)	12,875,642 (Number of shares outstanding at 06/30/07)

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) June 30, 2007	(SEE NOTE) December 31, 2006
	(In thousands, except share data)	
ASSETS		
Cash and due from banks	**$ 50,237**	$ 46,956
Interest-earning deposits with other banks	**473**	582
Federal funds sold	**27,451**	22,817
Investment securities held-to-maturity (market value $2,218 and $2,685 at June 30, 2007 and December 31, 2006, respectively)	**2,169**	2,619
Investment securities available-for-sale	**395,295**	379,781
Loans and leases	**1,380,736**	1,353,681
Less: Reserve for loan and lease losses	**(13,793)**	(13,283)
Net loans and leases	**1,366,943**	1,340,398
Premises and equipment, net	**21,817**	21,878
Goodwill, net of accumulated amortization of $2,942 at June 30, 2007 and December 31, 20069	**44,436**	44,273
Other intangibles, net of accumulated amortization and fair value adjustments of $5,502 and $5,113 at June 30, 2007 and December 31, 2006, respectively	**2,995**	3,335
Cash surrender value of insurance policies	**37,420**	36,686
Accrued interest and other assets	**29,036**	30,176
Total assets	**$ 1,978,272**	$ 1,929,501
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 238,141**	$ 263,417
Demand deposits, interest-bearing	**528,363**	508,140
Savings deposits	**215,161**	195,126
Time deposits	**575,036**	521,862
Total deposits	**1,556,701**	1,488,545
Securities sold under agreements to repurchase	**87,360**	99,761
Other short-term borrowings	**-**	17,900
Accrued expenses and other liabilities	**31,132**	30,505
Long-term debt	**85,807**	77,036
Subordinated notes	**9,000**	9,750
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest ("Trust Preferred Securities")	**20,619**	20,619
Total liabilities	**1,790,619**	1,744,116
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 24,000,000 shares authorized at June 30, 2007 and December 31, 2006; 14,873,904 shares issued at June 30, 2007 and December 31, 2006; 12,875,642 and 13,005,329 shares outstanding at June 30, 2007 and December 31, 2006, respectively	**74,370**	74,370
Additional paid-in capital	**22,504**	22,459

Retained earnings		**135,267**		128,242
Accumulated other comprehensive loss, net of tax benefit		**(6,236)**		(4,463)
Treasury stock, at cost; 1,998,262 and 1,868,575 shares at June 30, 2007 and December 31, 2006, respectively		**(38,252)**		(35,223)
Total shareholders' equity		**187,653**		185,385
Total liabilities and shareholders' equity	**$**	**1,978,272**	$	1,929,501

Note: The condensed consolidated balance sheet at December 31, 2006 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 statement. See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	($ in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	$ **23,400**	$ 20,896	$ **45,985**	$ 40,056
Exempt from federal income taxes	**1,033**	941	**2,052**	1,857
Total interest and fees on loans and leases	**24,433**	21,837	**48,037**	41,913
Interest and dividends on investment securities:				
Taxable	**3,715**	2,800	**7,399**	5,246
Exempt from federal income taxes	**970**	981	**1,918**	1,948
Other interest income	**88**	111	**152**	174
Total interest income	**29,206**	25,729	**57,506**	49,281
Interest expense				
Interest on deposits	**11,279**	8,410	**21,674**	15,107
Interest on long-term debt and capital securities	**1,561**	1,187	**3,027**	2,343
Interest on short-term debt	**728**	577	**1,722**	1,284
Total interest expense	**13,568**	10,174	**26,423**	18,734
Net interest income	**15,638**	15,555	**31,083**	30,547
Provision for loan and lease losses	**653**	515	**1,277**	1,026
Net interest income after provision for loan and lease losses	**14,985**	15,040	**29,806**	29,521
Noninterest income				
Trust fee income	**1,481**	1,448	**2,968**	2,999
Service charges on deposit accounts	**1,702**	1,671	**3,352**	3,343
Investment advisory commission and fee income	**686**	607	**1,365**	1,156
Insurance commission and fee income	**1,316**	924	**3,191**	2,301
Life insurance income	**412**	235	**734**	621
Other service fee income	**930**	790	**1,796**	1,544
Net gain on sales of securities	**51**	47	**51**	47
Net loss on disposition of fixed assets	**(64)**	(64)	**(64)**	(67)
Other	**50**	17	**87**	176
Total noninterest income	**6,564**	5,675	**13,480**	12,120
Noninterest expense				
Salaries and benefits	**7,840**	7,198	**15,634**	14,503
Net occupancy	**1,186**	1,059	**2,437**	2,127
Equipment	**828**	805	**1,603**	1,577
Marketing and Advertising	**243**	446	**408**	981
Other	**3,234**	2,998	**6,411**	5,807
Total noninterest expense	**13,331**	12,506	**26,493**	24,995

Income before income taxes		**8,218**		8,209		**16,793**		16,646
Applicable income taxes		**2,143**		2,194		**4,471**		4,417
Net income	**$**	**6,075**	$	6,015	**$**	**12,322**	$	12,229
Net income per share:								
Basic	**$**	**0.47**	$	0.47	**$**	**0.95**	$	0.95
Diluted		**0.47**		0.46		**0.95**		0.94
Dividends declared		**0.20**		0.19		**0.40**		0.38

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

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

	For the Six Months Ended June 30,	
	2007	**2006**
	($ in thousands)	
Cash flows from operating activities:		
Net income	**$ 12,322**	$ 12,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,277**	1,026
Depreciation of premises and equipment	**1,014**	1,081
Realized gains on investment securities	**(51)**	(47)
Realized losses on dispositions of fixed assets	**64**	67
Increase in cash surrender value of insurance policies	**(734)**	(621)
Other adjustments to reconcile net income to cash provided by operating activities	**412**	467
Decrease (increase) in interest receivable and other assets	**1,640**	(161)
Increase (decrease) in accrued expenses and other liabilities	**440**	(11,265)
Net cash provided by operating activities	**16,384**	2,776
Cash flows from investing activities:		
Net cash paid due to acquisitions, net of cash acquired	**(198)**	(152)
Net capital expenditures	**(1,017)**	(1,532)
Proceeds from maturing securities held-to-maturity	**452**	571
Proceeds from maturing securities available-for-sale	**26,248**	38,753
Proceeds from sales and calls of securities available-for-sale	**21,858**	18,515
Purchases of investment securities available-for-sale	**(66,221)**	(83,682)
Proceeds from sales of loans and leases	**1,617**	756
Purchases of financing leases	**(20,488)**	(271)
Net increase in loans and leases	**(8,736)**	(72,145)
Net decrease (increase) in interest-bearing deposits	**109**	(46)
Net (increase) decrease in federal funds sold	**(4,634)**	9,915
Net cash used in investing activities	**(51,010)**	(89,318)
Cash flows from financing activities:		
Net increase in deposits	**68,247**	73,184
Net (decrease) increase in short-term borrowings	**(30,301)**	20,709
Issuance of long term debt	**10,000**	—
Repayment of long-term debt	**(1,000)**	(5,000)
Repayment of subordinated debt	**(750)**	(750)
Purchases of treasury stock	**(4,478)**	(2,192)
Stock issued under dividend reinvestment and employee stock purchase plans	**1,002**	1,043
Proceeds from exercise of stock options	**384**	749
Cash dividends paid	**(5,197)**	(4,924)
Net cash (used in) provided by financing activities	**37,907**	82,819
Net decrease in cash and due from banks	**3,281**	(3,723)
Cash and due from banks at beginning of year	**46,956**	46,226
Cash and due from banks at end of period	**$ 50,237**	$ 42,503

Supplemental disclosures of cash flow information		
Cash paid (received) during the year for:		
Interest expense	**$ 26,501**	$ 19,137
Income taxes, net of refunds received	**5,319**	5,134

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

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1. Financial Information

The accompanying unaudited condensed consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the "Corporation") and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest National Bank and Trust Co. (the "Bank"). The unaudited condensed consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary to present a fair statement of the results and condition for the interim periods presented. Operating results for the six-month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006, which has been filed with the SEC on March 8, 2007.

Note 2. Loans and Leases

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

($ in thousands)	**At June 30, 2007**	At December 31, 2006
Commercial, financial and agricultural	**$ 446,111**	$ 442,182
Real estate-commercial	**352,189**	352,596
Real estate-construction	**139,748**	136,331
Real estate-residential	**308,527**	305,306
Loans to individuals	**82,363**	89,217
Lease financings	**55,697**	30,186
Total gross loans and leases	**1,384,635**	1,355,818
Less: Unearned income	**(3,899)**	(2,137)
Total loans and leases	**$ 1,380,736**	$ 1,353,681

Note 3. Reserve for Loan and Lease Losses

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

Information with respect to loans and leases that are considered to be impaired under SFAS 114 at June 30, 2007 and December 31, 2006 is as follows:

	At June 30, 2007		At December 31, 2006	
($ in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2007	2006	**2007**	2006
Reserve for loan and lease losses at beginning of period	**$ 13,414**	$ 13,856	**$ 13,283**	$ 13,363
Provision for loan and lease losses	**653**	515	**1,277**	1,026
Recoveries	**197**	129	**356**	402
Loans charged off	**(471)**	(220)	**(1,123)**	(511)
Reserve for loan and lease losses at period end	**$ 13,793**	$ 14,280	**$ 13,793**	$ 14,280

($ 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	**$ 7,303**	**$ 2,520**	$ 5,606	$ 1,576
Recorded investment in impaired loans and leases at period-end requiring no specific reserve for loan and lease losses	**575**		2,837	
Recorded investment in impaired loans and leases at period-end	**$ 7,878**		$ 8,443	
Recorded investment in nonaccrual and restructured loans and leases	**$ 7,878**		$ 8,443	

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

($ in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Nonaccrual and restructured loans and leases at period end	**$ 7,878**	$ 9,843	**$ 7,878**	$ 9,843
Average recorded investment in impaired loans and leases	**7,868**	5,707	**7,756**	4,967
Interest income that would have been recognized under original terms	**198**	115	**396**	233

No interest income was recognized on these loans for the three- and six-month periods ended June 30, 2007 and 2006.

Note 4. Earnings Per Share

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

($ in thousands, except per share data)	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Numerator:				
Numerator for basic and diluted earnings per share –Net income	**$ 6,075**	$ 6,015	**$ 12,322**	$ 12,229
Denominator:				
Denominator for basic earnings per share – weighted-average shares outstanding	**12,936**	12,939	**12,970**	12,942
Effect of dilutive securities:				
Employee stock options	**22**	79	**33**	69
Denominator for diluted earnings per share – adjusted weighted-average shares outstanding	**12,958**	13,018	**13,003**	13,011
Basic earnings per share	**$ 0.47**	$ 0.47	**$ 0.95**	$ 0.95
Diluted earnings per share	**0.47**	0.46	**0.95**	0.94

Note 5. Accumulated Comprehensive Income

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

($ in thousands)	For the Three Months Ended June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
Net Income	**$ 6,075**	$ 6,015	**$ 12,322**	$ 12,229
Unrealized gain on cash flow hedges:				
Unrealized holding gains arising during the period	**—**	15	**—**	4
Unrealized gain (loss) on available-for-sale investment securities:				
Unrealized losses arising during the period	**(2,298)**	(977)	**(1,789)**	(1,846)
Less: reclassification adjustment for gains realized in net income	**33**	31	**33**	31
Defined benefit pension plans:				
Unrealized gains (losses) arising during the period	**13**	—	**(39)**	—
Less: amortization of net gain included in net periodic pension costs	**(65)**	—	**(112)**	—
Less: accretion of prior service cost included in net periodic pension costs	**9**	—	**24**	—
Total comprehensive income	**$ 3,813**	$ 5,022	**$ 10,549**	$ 10,356

Note 6. Pensions and Other Postretirement Benefits

Components of net periodic benefit cost:

($ in thousands)	Three Months Ended June 30,			
	2007	2006	**2007**	2006
	Retirement Plans		**Other Postretirement**	
Service cost	**$ 324**	$ 347	**$ 16**	$ 15
Interest cost	**429**	406	**20**	20
Expected return on plan assets	**(470)**	(388)	**—**	—
Amortization of net (gain) loss	**98**	70	**2**	3
Amortization of prior service cost	**(9)**	72	**(5)**	(5)
Net periodic benefit cost	**$ 372**	$ 437	**$ 33**	$ 33

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($ in thousands)	Six Months Ended June 30,			
	2007	2006	**2007**	2006
	Retirement Plans		**Other Postretirement**	
Service cost	**$ 686**	$ 687	**$ 32**	$ 29
Interest cost	**848**	820	**39**	39
Expected return on plan assets	**(885)**	(776)	**—**	—
Amortization of net (gain) loss	**168**	166	**5**	6
Amortization of prior service cost	**(27)**	(36)	**(10)**	(10)
Net periodic benefit cost	**$ 790**	$ 861	**$ 66**	$ 64

The Corporation previously disclosed in its financial statements for the year ended December 31, 2006, that it expected to make payments of $1.7 million for its qualified and non-qualified retirement plans and $92 thousand for its other postretirement benefit plans in 2007. As of June 30, 2007, $895 thousand and $49 thousand have been paid from its retirement plans and other postretirement plans, respectively. During the six months ended June 30, 2007, the Corporation contributed $250 thousand and $49 thousand to its non-qualified retirement plans and other postretirement plans, respectively. The Corporation presently anticipates making essentially equal payments for the remaining quarters in 2007 to fund the non-qualified retirement plan and other postretirement plans.

Note 7. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

At June 30, 2006, the total notional amount of the "Pay Floating, Receive Fixed" swap outstanding was $20.0 million. The net payable or receivable from the interest-rate swap agreement was accrued as an adjustment to interest income. The $20.0 million notional amount of interest-rate swap outstanding expired on November 2, 2006. There were no swaps outstanding at June 30, 2007 or December 31, 2006.

Note 8. Income Taxes

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

As of January 1, 2007 the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. As of January 1, 2007, Tax Years 2003 through 2006 remain subject to Federal examination as well as examination by state taxing jurisdictions.

Note 9. Recent Accounting Pronouncements

In September 2006, the Emerging Issues Task Force ("EITF") reach a conclusion on EITF No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," ("EITF 06-4.") EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Under EITF 06-4, if an agreement is to provide the 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 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 potential impact to Univest will be negative cumulative-effect adjustment to retained earnings of approximately $1.6 million and would not be tax affected.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value in GAAP, and enhances disclosures about fair value measurements. SFAS 157 applies when other accounting pronouncement require fair value measurements; it does not require new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those years. The Corporation does not anticipate the adoption of SFAS 157 to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities (Including an amendment of FASB Statement No. 115)" ("SFAS 159.") SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by allowing entities to minimize volatility in reported earnings caused by related assets and liabilities being measured differently. Most of the provisions of SFAS 159 apply only to entities that elect the fair value option. However, SFAS 159 includes an amendment to SFAS 115 which applies to all entities with available-for-sale and trading securities. Entities electing the fair value option will report unrealized gains and losses in earnings and recognize upfront costs and fees related to those items in earnings as they are incurred, not deferred. The following items are eligible for the fair value measurement option established by SFAS 159: 1) Recognized financial assets and financial liabilities, except (a) an investment in a subsidiary that is required to be consolidated, (b) an interest in a variable interest entity that is required to be consolidated, (c) obligations (or assets representing net over funded positions) for pension plans, other postretirement benefits, post employment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, (d) financial assets and liabilities recognized under leases, (e) demand deposit liabilities of financial institutions, and (f) financial instruments classified by the issuer as a component of shareholder's equity; 2) firm commitments that would otherwise not be recognized at inception and that involve only financial instruments; 3) nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services; and, 4) host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument. The fair value option may be applied on an instrument-by-instrument basis, with a few exceptions, such as investments otherwise accounted for by the equity method or multiple advanced made to one borrower under a single contract. The fair value option is irrevocable unless a new election date occurs and applies only to entire instruments and not to portions of instruments. Entities are permitted to elect fair value option for any eligible item within the scope of SFAS 159 at the date they initially adopt the SFAS 159. The adjustment to reflect the difference between the fair value and the current carrying amount of the assets and liabilities for which an entity elects fair value option is reported as a cumulative-effect adjustment to the opening balance of retained earnings upon adoption. SFAS 159 is effective as of the beginning of an entity's second fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. The Corporation chose not to adopt SFAS 159 early. The Corporation does not anticipate the adoption of SFAS 159 to have a material impact on its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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" and similar 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. Vanguard Leasing, 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.

Executive Overview

The Corporation recorded net income for the six months ended June 30, 2007 of $12.3 million, a 0.8% increase over the June 30, 2006 period.

Average earning assets increased $122.7 million and average interest-bearing liabilities increased $116.5 million when comparing the six-month periods ended June 30, 2007 and 2006. Increased volume of commercial loans and lease financings and increased rates on commercial business loans and (commercial construction real estate loans), partially offset by increased rates and volume of money market savings and increased rates on certificates of deposits, contributed to a $536 thousand increase in net interest income. The tax-equivalent net interest margin declined slightly to 3.74% for the six-month period ended June 30, 2007 compared to 3.98% for the same period in 2006.

Non-interest income grew 11.22%, when comparing the six-month periods ended June 30, 2007 to 2006, primarily due to increases in insurance commissions and fee income, investment advisory commissions and fee income, and other service fee income. Non-interest expense grew 5.99% primarily due to an increase in salary and employee benefit expense slightly offset by a decrease in marketing and adverting expenses.

The Corporation earns its revenues primarily from the margins and fees it generates from the loan and lease 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 while the margin impact will vary from bank to bank based upon the structure of its balance sheet. The Corporation maintains a relatively low interest rate risk profile and does not anticipate that an increase in interest rates would be adverse to its net interest margin.

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

Results of Operations – Three Months Ended June 30, 2007 Versus 2006

The Corporation’s consolidated net income and earnings per share for the three months ended June 30, 2007 and 2006 were as follows:

($ in thousands, except per share data)	For the Three Months Ended June 30,			Change		
		2007		2006	**Amount**	**Percent**
Net income	**$**	**6,075**	$	6,015	$ 60	1.0%
Net income per share:						
Basic	**$**	**0.47**	$	0.47	—	—
Diluted		**0.47**		0.46	$ 0.01	2.2%

Return on average shareholders' equity was 12.83% and return on average assets was 1.26% for the three months ended June 30, 2007 compared to 13.53% and 1.32%, respectively, for the same period in 2006.

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation's revenue. 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 three months ended June 30, 2007 and 2006. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Asset/Liability Management and Investment committees work to maintain an adequate and reliable net interest margin for the Corporation.

Net interest income increased $83 thousand for the three months ended June 30, 2007 compared to 2006 primarily due to increased volume on lease financings and increased volume and rates on commercial loans and commercial real estate and construction loans, partially offset by increased volume and rates on money market savings deposits and increased rates on certificates of deposit. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.71% and 3.95% for the three month period ended June 30, 2007 and 2006, 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 3.13% for the three months ended June 30, 2007 compared to 3.47% for the same period in 2006. The effect of net interest free funding sources increased to 0.58% for the three month period ended June 30, 2007 compared to 0.48% for the same period in 2006; 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 Stockholders' Equity; Interest Rates and Interest Differential
($ in thousands)

	For the Three Months Ended June 30,					
	2007			2006		
	Average Balance	Income/ Expense	Avg. Rate	Average Balance	Income/ Expense	Avg. Rate
Assets:						
Interest-earning deposits with other banks	$ **612**	$ **8**	**5.24%**	$ 668	$ 6	3.60%
U.S. Government obligations	**121,336**	**1,366**	**4.52**	150,794	1,314	3.50
Obligations of states & political subdivisions	**84,560**	**1,492**	**7.08**	84,463	1,507	7.16
Other securities	**175,495**	**2,324**	**5.31**	116,033	1,460	5.05
Federal Reserve bank stock	**1,687**	**25**	**5.94**	1,687	26	6.18
Federal funds sold	**5,717**	**80**	**5.61**	8,349	105	5.04
Total interest-earning deposits, investments and federal funds sold	**389,407**	**5,295**	**5.45**	361,994	4,418	4.90
Commercial, financial and agricultural loans	**417,787**	**8,267**	**7.94**	382,770	7,088	7.43
Real estate—commercial and construction loans	**436,640**	**8,562**	**7.87**	422,727	7,919	7.51
Real estate—residential loans	**307,886**	**4,155**	**5.41**	304,469	4,122	5.43
Loans to individuals	**83,577**	**1,449**	**6.95**	107,302	1,756	6.56
Municipal loans	**93,205**	**1,260**	**5.42**	87,352	1,295	5.95
Lease financings	**43,303**	**967**	**8.96**	282	11	15.65
Gross loans and leases	**1,382,398**	**24,660**	**7.16**	1,304,902	22,191	6.82
Total interest-earning assets	**1,771,805**	**29,955**	**6.78**	1,666,896	26,609	6.40
Cash and due from banks	**40,467**			40,586		
Reserve for loan and lease losses	**(13,554)**			(14,034)		
Premises and equipment, net	**21,842**			22,118		
Other assets	**109,717**			106,610		
Total assets	**$ 1,930,277**			$ 1,822,176		
Liabilities:						
Interest-bearing checking deposits	$ **140,731**	$ **110**	**0.31%**	$ 138,897	$ 37	0.11
Money market savings	**370,713**	**3,826**	**4.14**	316,345	2,802	3.55
Regular savings	**206,698**	**846**	**1.64**	197,252	310	0.63
Certificates of deposit	**529,630**	**6,136**	**4.65**	529,125	4,995	3.79
Time open & club accounts	**29,113**	**361**	**4.97**	24,008	266	4.44
Total time and interest-bearing deposits	**1,276,885**	**11,279**	**3.54**	1,205,627	8,410	2.80

Federal funds purchased	**12,445**	**168**	**5.41**	4,295	56	5.23
Securities sold under agreements to repurchase	**84,815**	**512**	**2.42**	93,809	495	2.12
Short-term borrowings	**3,446**	**47**	**5.47**	2,344	26	4.45
Long-term debt	**83,010**	**980**	**4.74**	55,860	606	4.35
Subordinated notes and capital securities	**29,623**	**582**	**7.88**	31,127	581	7.49
Total borrowings	**213,339**	**2,289**	**4.30**	187,435	1,764	3.77
Total interest-bearing liabilities	**1,490,224**	**13,568**	**3.65**	1,393,062	10,174	2.93
Demand deposits, non-interest bearing	**221,200**			228,121		
Accrued expenses & other liabilities	**29,436**			23,171		
Total liabilities	**1,740,860**			1,644,354		
Shareholders' Equity:						
Common stock	**74,370**			74,370		
Additional paid-in capital	**22,501**			22,059		
Retained earnings and other equity	**92,546**			81,393		
Total shareholders' equity	**189,417**			177,822		
Total liabilities and shareholders' equity	**$ 1,930,277**			$ 1,822,176		
Net interest income		**$ 16,387**			$ 16,435	
Net interest spread			**3.13**			3.47
Effect of net interest-free funding sources			**0.58**			0.48
Net interest margin			**3.71%**			3.95%
Ratio of average interest-earning assets to average interest-bearing liabilities	**118.90%**			119.66%		

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.
Certain amounts have been reclassified to conform to the current-year presentation.

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.

($ in thousands)	The Three Months Ended June 31, 2007 Versus 2006		
	Volume Change	Rate Change	Total
Interest income:			
Interest-bearing deposits with other banks	$ (1)	$ 3	$ 2
U.S. Government obligations	(331)	383	52
Obligations of states & political subdivisions	2	(17)	(15)
Other securities	789	75	864
Federal Reserve bank stock	—	(1)	(1)
Federal funds sold	(37)	12	(25)
Interest on deposits, investments and federal funds sold	422	455	877
Commercial, financial and agricultural loans	692	487	1,179
Real estate—commercial and construction loans	264	379	643
Real estate—residential loans	48	(15)	33
Loans to individuals	(411)	104	(307)
Municipal loans	80	(115)	(35)
Lease financings	961	(5)	956
Interest and fees on loans and leases	1,634	835	2,469
Total interest income	2,056	1,290	3,346
Interest expense:			
Interest checking deposits	4	69	73
Money market savings	559	465	1,024
Regular savings	39	497	536
Certificates of deposit	6	1,135	1,141
Time open & club accounts	63	32	95
Interest on deposits	671	2,198	2,869
Federal funds purchased	110	2	112
Securities sold under agreement to repurchase	(53)	70	17
Other short-term borrowings	15	6	21
Long-term debt	320	54	374
Subordinated notes and capital securities	(29)	30	1
Interest on borrowings	363	162	525
Total interest expense	1,034	2,360	3,394
Net interest income	$ 1,022	$ (1,070)	$ (48)

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

The growth in interest and fees on loans is due primarily to increased volume and rates on commercial business loans and commercial and construction real estate loans and increased volume of lease financings. The average interest yield on the commercial loan portfolio increased 51 basis points, primarily due to 36 basis point increase in the average prime rate, for the three months ended June 30, 2007 compared to the same period in 2006; which, along with average volume increases of $35.0 million, contributed to a $1.2 million increase in interest income. The average yield on commercial and construction real estate loans increased by 36 basis points; this along with average volume increases of $13.9 million contributed to a $643 thousand increase in interest income. Lease financing's growth in volume of $43.0 million contributed to the $956 thousand increase in interest income.

Interest on investments, interest-bearing deposits and federal funds sold increased primarily due to rate increases on U.S. Government agency obligations and average volume and rate increases in other securities.

Interest Expense

The Corporation's average rate on deposits increased 74 basis points for the three months ended June 30, 2007 compared to the same period in 2006. The average rate paid on money market savings increased 59 basis points due to new products and promotions offered to grow deposits in the Bank's competitive marketplace. Interest expense on certificates of deposit increased $1.1 million, due to an 86 basis-point increase in average rate. Average rate increases along with the average volume growth of $71.3 million, contributed to a $2.9 million increase in interest expense on deposits.

Interest expense on short-term borrowings includes interest paid on federal funds purchased and short-term FHLB borrowings. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account (“sweep accounts”). Interest expense on federal funds purchased increased $112 thousand due to average volume increase of $8.2 million and a 18 basis point increase in the average rate paid.

Interest expense on long-term debt increased $374 thousand due to an average volume increase of $27.2 million and a 39 basis-point increase in the 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, 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 No. 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. Continued growth in loan and lease volumes and current economic conditions indicated the need for an increase to the reserve in 2007. The provision for loan and lease losses for the three months ended June 30, 2007 and 2006 was $653 thousand and $515 thousand, respectively.

Noninterest Income

Noninterest income consists of trust department fees, service charges on deposits, commissions, 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 insurance. Total noninterest income increased during the three months ended June 30, 2007 compared to 2006 primarily due to higher insurance commission and fee income.

The following table presents noninterest income for the periods indicated:

($ in thousands)	**For the Three Months Ended June 30,**		Change	
	2007	**2006**	Amount	Percent
Trust fee income	$ **1,481**	$ 1,448	$ 33	2.3%
Service charges on deposit accounts	**1,702**	1,671	31	1.9
Investment advisory commission and fee income	**686**	607	79	13.0
Insurance commission and fee income	**1,316**	924	392	42.4
Life insurance income	**412**	235	177	75.3
Other service fee income	**930**	790	140	17.7
Net gain on sales of securities	**51**	47	4	8.5
Net loss on dispositions of fixed assets	**(64)**	(64)	-	-
Other	**50**	17	33	194.1
Total noninterest income	$ **6,564**	$ 5,675	$ 889	15.7

Trust fee income for the three months ended June 30, 2007 increased slightly over 2006 primarily due to an increase in the number and market value of managed accounts. Service charges on deposit accounts grew slightly in 2007 compared to 2006. This was a result of an increase in nonsufficient-funds fees and money manager fees. These increases were offset by reductions in regular checking service fee charges resulting from free-checking products introduced during 2006.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased in 2007 over 2006 due to market activity and volume. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc., grew approximately $392 thousand primarily due to the acquisition of B.G. Balmer and Co. in the third quarter of 2006.

Life insurance income is primarily the change in the cash surrender values of bank owned life insurance policies, which is primarily affected by the market value of the underlying assets. There was a $177 thousand increase in the value of these policies when compared to the same period in 2006.

Net gains on the sales of securities increased slightly and the net loss recognized on dispositions of fixed asset remained stable when compared to the same period in 2006. The details of these items are discussed below.

Other service fee income consists primarily 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 increased for the second quarter of 2007 over 2006 primarily due to increases in Mastermoney fees, merchant fees and mortgage servicing fees.

Other non-interest income includes loss 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 prior year primarily due to the $76 thousand decline of losses recognized on investments in partnerships.

Gains on Sale of Assets

Sales of $1.3 million in loans and leases during three months ended June 30, 2007 resulted in gains of $37 thousand compared to sales of $738 thousand for gains of $7 thousand for the three months ended June 30, 2006.

During the three months ended June 30, 2007, approximately $3.6 million in available-for-sale securities were sold, resulting in a gain of $51 thousand. During the three months ended June 30, 2006, approximately $31 thousand of securities were sold recognizing gains of $1 thousand; the Corporation also received $46 thousand resulting from the mandatory sale of shares created through conversion of one of its vendor relationships from a membership association to a private share corporation.

During the second quarter of 2007, the Corporation relocated a Bucks County banking office within one of the supermarket branch locations to a traditional office, recognizing a loss of $64 thousand. During the three months ended June 30, 2006, the Corporation relocated a Montgomery County banking office within one of its supermarket locations and recognized a loss of $65 thousand; this was slightly reduced by gains on sales of other fixed assets.

There were no sales of other real estate owned during the three months ended June 30, 2007 and 2006.

Noninterest Expense

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

The following table presents noninterest expense for the periods indicated:

($ in thousands)	For the Three Months Ended June 30, 2007	2006	Change Amount	Change Percent
Salaries and benefits	**$ 7,840**	$ 7,198	$ 642	8.9%
Net occupancy	**1,186**	1,059	127	12.0
Equipment	**828**	805	23	2.9
Marketing and advertising	**243**	446	(203)	(45.5)

Other	**3,234**	2,998	236	7.9
Total noninterest expense	**$ 13,331**	$ 12,506	$ 825	6.6%

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Salary and benefits increased due to normal annual increases, the acquisition of B.G. Balmer and Co. in the third quarter of 2006, and increased benefit costs for the six months ended June 30, 2007 when compared to June 30, 2006. Net occupancy expense increased primarily due to increased rental obligations for the B.G. Balmer and Co. and the Vernfield office rents. Marketing and advertising expenses decreased primarily due to a reduction in radio and newspaper advertising costs. Other expenses increased primarily due an increase in the bank shares tax, audit and examination fees and amortization costs associated with customer lists. These increases were partially offset by decreases in consultant fees and sales training expenses.

Tax Provision

The provision for income taxes was $2.1 million for the three months ended June 30, 2007 compared to $2.2 million in 2006, at effective rates of 26.06% and 26.73%, 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 growth in amount the cash surrender value of bank-owned life insurance policies increased partially offset by a decrease in tax credits generated from investments in low-income housing projects.

Results of Operations – Six Months Ended June 30, 2007 Versus 2006

The Corporation’s consolidated net income and earnings per share for the six months ended June 30, 2007 and 2006 were as follows:

($ in thousands, except per share data)	For the Six Months Ended June 30,		Change	
	2007	**2006**	**Amount**	**Percent**
Net income	**$ 12,322**	$ 12,229	$ 93	0.8%
Net income per share:				
Basic	**$ 0.95**	$ 0.95	-	-
Diluted	**0.95**	0.94	0.01	1.1

Return on average shareholders' equity was 13.08% and return on average assets was 1.29% for the six months ended June 30, 2007 compared to 13.88% and 1.37%, respectively, for the same period in 2006.

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 six months ended June 30, 2007 and 2006. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Asset/Liability Management and Investment committees work to maintain an adequate and reliable net interest margin for the Corporation.

Net interest income increased $536 thousand for the six months ended June 30, 2007 compared to 2006 primarily due to increased volume and rates on commercial loans and commercial real estate and construction loans and the volume of lease financings, partially offset by increased volume and rates on money market savings deposits and increased rates on certificates of deposit. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.74% for the six-month period ended June 30, 2007 and 3.98% for the same period in 2006. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.17% for the six months ended June 30, 2007 compared to 3.52% for the same period in 2006. The effect of net interest free funding sources increased to 0.57% for the six months ended June 30, 2007 compared to 0.46% for the same period in 2006; 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 Stockholders' Equity; Interest Rates and Interest Differential
($ in thousands)

	For the Six Months Ended June 30,					
	2007			**2006**		
	Average Balance	**Income/ Expense**	**Avg. Rate**	**Average Balance**	**Income/ Expense**	**Avg. Rate**
Assets:						
Interest-earning deposits with other banks	**$ 603**	**$ 15**	**5.02%**	$ 639	$ 12	3.79%
U.S. Government obligations	**122,287**	**2,717**	**4.48**	151,670	2,611	3.47
Obligations of states & political subdivisions	**83,776**	**2,951**	**7.10**	84,537	2,993	7.14
Other securities	**175,726**	**4,631**	**5.31**	106,815	2,584	