UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 08, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal Year Ended December 31, 2006

Commission File number 0-7617

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

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

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

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

Title of Class	**Number of Shares Outstanding at 1/31/07**
Common Stock, $5 par value	13,010,898

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act)

Large accelerated filer o   Accelerated filer þ   Non-accelerated filer o

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

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $306,138,207 as of January 31, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Part I and Part III incorporate information by reference from the proxy statement for the annual meeting of shareholders on April 10, 2007.

UNIVEST CORPORATION OF PENNSYLVANIA

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Univest Corporation of Pennsylvania and Subsidiaries
Consent of Independent Registered Public Accounting Firm
Certification of William S. Aichele
Certification of Wallace H. Bieler
Certification of William S. Aichele Pursuant to 18 U.S.C. Section 1350
Certification of Wallace H. Bieler Pursuant to 18 U.S.C. Section 1350

PART I

The information contained in this report may contain forward-looking statements. When used or incorporated by reference in disclosure documents, the words believe, anticipate, estimate, expect, project, target, goal and expressions are intended to identify forward-looking statements within the meaning of section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including those set forth below:

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

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

Item 1. *Business*

General

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

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

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

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

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

Univest Investments, Inc., Univest Insurance, Inc., Vanguard Leasing, Inc. and Univest Reinsurance Corporation were formed to enhance the traditional banking and trust services provided by the Bank. Univest Investments, Univest Insurance, Vanguard Leasing and Univest Reinsurance do not currently meet the quantitative thresholds for separate disclosure provided under Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. Therefore, the Corporation currently has one reportable segment, Community Banking, and strategically is how the Corporation operates and has positioned itself in the marketplace. The Corporation s activities are interrelated, each activity is dependent, and performance is assessed based on how each of these activities supports the others. Accordingly, significant operating decisions are based upon analysis of the Corporation as one Community Banking operating segment.

Employees

As of December 31, 2006, the Corporation and its subsidiaries employed five hundred twenty-four (524) persons.

Competition

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

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

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

Supervision and Regulation

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

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

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

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX was enacted to address corporate and accounting fraud. SOX adopts new standards of corporate governance and imposes additional requirements on the board of directors and management of public companies. SOX law also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal controls over financial reporting, identify any material weaknesses in its internal controls over financial reporting and assert that such internal controls are effective. The Corporation implemented and completed an exhaustive process to achieve compliance with SOX 404 during 2004 and has continued to be in compliance during 2006. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation s Audit Committee. The process has and will continue to require substantial

resources in both financial costs and human capital.

Credit and Monetary Policies

The Bank is affected by the fiscal and monetary policies of the federal government and its agencies, including the Board. An important function of the policies is to curb inflation and control recessions through control of the supply of money and credit. The Board uses its powers to regulate reserve requirements of member banks, the discount rate on member-bank borrowings, interest rates on time and savings deposits of member banks, and to conduct open-market operations in United States Government securities to exercise control over the supply of money and credit. The policies have a direct effect on the amount of

bank loans and deposits and on the interest rates charged on loans and paid on deposits, with the result that the policies have a material effect on bank earnings. Future policies of the Board and other authorities cannot be predicted, nor can their effect on future bank earnings be predicted.

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

Statistical Disclosure

The Corporation was incorporated under Pennsylvania law in 1973 for the purpose of acquiring the stock of Union National Bank and Trust Company of Souderton and subsequently to engage in other business activities permitted under the Bank Holding Company Act. On September 28, 1973, pursuant to an exchange offer, the Corporation acquired the outstanding stock of Union National Bank and Trust Company of Souderton and on August 1, 1990 acquired the stock of Pennview Savings Bank. On January 18, 2003, Union National Bank and Trust Company of Souderton and Pennview Savings Bank combined to form Univest National Bank and Trust Co. or the Bank, as previously defined. Two subsidiaries were incorporated on September 8, 1998 in the State of Delaware as passive investment companies: Univest Delaware, Inc. and Delview, Inc. Univest Delaware, Inc. is wholly owned by the Corporation; Delview, Inc. is wholly owned by the Bank. Univest Insurance, Inc. and Univest Investments, Inc. are wholly owned by Delview, Inc. Univest Insurance, Inc. acquired Gum Insurance on December 3, 2001, Donald K. Martin & Company on December 13, 2004 and B. G. Balmer and Co. on July 28, 2006. The Bank acquired First County Bank on May 17, 2003 and Suburban Community Bank on October 4, 2003. Both First County Bank and Suburban Community Bank were merged into the Bank. In May 2006, the Bank entered into the small ticket commercial leasing business through its newly formed subsidiary Vanguard Leasing, Inc., which is incorporated under Pennsylvania law.

Securities and Exchange Commission Reports

The Corporation makes available free-of-charge its reports that are electronically filed with the Securities and Exchange Commission (SEC) on its website as a hyperlink to EDGAR. These reports are available as soon as reasonably practicable after the material is electronically filed. The Corporation s website address is www.univest.net. The Corporation will provide at no charge a copy of the SEC Form 10-K annual report for the year 2006 to each shareholder who requests one in writing after March 31, 2007. Requests should be directed to: Wallace H. Bieler, Secretary, Univest Corporation of Pennsylvania, P.O. Box 64197, Souderton, PA 18964.

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

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

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

The Corporation is Subject to Interest Rate Risk

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

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The Corporation is Subject to Lending Risk

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

As of December 31, 2006, approximately 70.9% of our loan and lease portfolio consisted of commercial, industrial, construction, and commercial real estate loans and leases, which are generally perceived as having more risk of default than residential real estate and consumer loans. An increase in non-performing loans and leases could result in a net loss of earnings from these loans and leases, an increase in the provision for possible loan and lease losses, and an increase in loan and lease charge-offs, as described below.

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

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

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

Our policies and procedures require environmental factors be considered during the loan application process. An environmental review is performed before initiating any commercial foreclosure action; these reviews may not be sufficient to detect all potential environmental hazards. Possible remediation costs and liabilities could have a material adverse effect on the Corporation s financial condition.

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

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

The Corporation Operates in a Highly Competitive Industry and Market Area

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

The Corporation is Subject to Extensive Government Regulation and Supervision

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

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The Corporation s Controls and Procedures May Fail or be Circumvented

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

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

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

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

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

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

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

The Corporation s Information Systems May Experience an Interruption or Breach in Security

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

The Corporation Continually Encounters Technological Change

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

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

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

The Long-term Economic Effects of External Events Could Impact the Corporation

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

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The Corporation s Stock Price Can be Volatile

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

An Investment in the Corporation s Common Stock is Not an Insured Deposit

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

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

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

Future Changes in Laws and Regulations

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

Earnings Effect from General Business and Economic Conditions

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

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

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

Consumers May Decide Not to Use Banks to Complete Their Financial Transactions

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

Item 1B. ***Unresolved Staff Comments***

The Corporation has not received any written comments from the Securities and Exchange Commission.

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Item 2. ***Properties***

The Corporation and its subsidiaries occupy thirty-eight properties in Montgomery, Bucks, and Chester counties in Pennsylvania, which are used principally as banking offices. Business locations and hours are available on the Corporation s website at www.univest.net.

The Corporation owns its corporate headquarters building, which is shared with the Bank and Univest Investments, Inc., in Souderton, Montgomery County. Univest Insurance, Inc. occupies an owned location in Montgomery County and one leased location in Chester County. Vanguard Leasing, Inc. leases its location in Bensalem, Bucks County. The Bank serves the area through its twenty-nine traditional offices and five supermarket branches that offer traditional community banking and trust services. Sixteen banking offices are located in Montgomery County, of which eleven are owned, two are leased and three are buildings owned on leased land; eighteen banking offices are located in Bucks County, of which five are owned, twelve are leased and one is a building owned on leased land.

Additionally, the Bank provides banking and trust services for the residents and employees of twelve retirement home communities, offers a payroll check cashing service at one work site office, offers merchants an express banking center located in the Montgomery Mall, and has six off-premise automated teller machines. The work site office and the express banking center are located in Montgomery County. Five off-premise automated teller machines are located in Montgomery County and one is located in Bucks County.

Item 3. ***Legal Proceedings***

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

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

Not applicable.

PART II

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

The Corporation s common stock is listed on NASDAQ: UVSP. The Corporation s shares were approved for NASDAQ listing and began trading on the NASDAQ National Market, effective August 15, 2003. At December 31, 2006, Univest had 3,635 stockholders.

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

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Range of Market Prices

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

Market Price*

	High	Low
2006		
January March	**$ 26.28**	**$ 24.06**
April June	**28.00**	**24.61**
July September	**29.96**	**26.35**
October December	**31.41**	**28.28**
2005		
January March	$ 31.00	$ 26.33
April June	30.72	22.52
July September	31.50	24.81
October December	28.39	24.25

Cash Dividends Paid Per Share*

2006	
January 3	**$ 0.190**
April 1	**0.190**
July 1	**0.190**
October 3	**0.200**
For the year 2006	**$ 0.770**
2005	
January 2	$ 0.167
April 1	0.167
July 1	0.170
October 1	0.190
For the year 2005	$ 0.694

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

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Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation s common stock during the five years ended December 31, 2006, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100.00 was invested on December 31, 2001, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. The Corporation s total cumulative return was 82.1% over the five year period ending December 31, 2006 compared to 79.2% and 27.7% for the NASDAQ Bank Stocks and NASDAQ composite, respectively.

Comparison of Cumulative Total Return on
$100 Investment Made on December 31, 2001

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Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and shares under the equity compensation plans as of December 31, 2006:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders*	470,040	$	23.20	1,236,450
Equity compensation plans not approved by security holders				
Total	470,040		23.20	1,236,450

* Two shareholder approved plans Univest 1993 Long-term Incentive Plan and Univest 2003 Long-term Incentive Plan.

The following table provides information on repurchases by the Corporation of its common stock during the fourth quarter of 2006:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs

Oct. 1, 2006	Oct. 31, 2006	18,459	$ 28.92	18,459	493,255
Nov. 1, 2006	Nov. 30, 2006	12,544	30.42	12,544	500,562
Dec. 1, 2006	Dec. 31, 2006	5,624	30.29	5,624	510,727
Total		36,627		36,627	

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 12/31/2001. The repurchased shares limit is net of normal Treasury activity such as purchases to fund the Dividend Reinvestment Program, Employee Stock Purchase Program and the equity compensation plan.

3. The number of shares approved for repurchase under the Corporation s current stock repurchase program is 526,571.

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

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

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

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

	Years Ended December 31,				
	2006	**2005**	**2004**	**2003***	**2002**
	(In thousands, except per share data and ratios)				
Earnings					
Interest income	**$ 105,166**	$ 85,502	$ 74,789	$ 71,965	$ 73,040
Interest expense	**43,651**	26,264	18,948	21,150	25,814
Net interest income	**61,515**	59,238	55,841	50,815	47,226
Provision for loan and lease losses	**2,215**	2,109	1,622	1,000	1,303
Net interest income after provision for loan and lease losses	**59,300**	57,129	54,219	49,815	45,923
Noninterest income	**25,417**	22,444	22,603	23,480	20,593
Noninterest expense	**49,958**	45,796	44,920	42,023	37,790
Net income before income taxes	**34,759**	33,777	31,902	31,272	28,726
Applicable income taxes	**9,382**	8,910	8,311	8,190	7,620
Net income	**$ 25,377**	$ 24,867	$ 23,591	$ 23,082	$ 21,106
Financial Condition at Year End					
Cash, interest-earning deposits and federal funds sold	**$ 70,355**	$ 59,439	$ 37,745	$ 52,710	$ 45,520
Investment securities	**382,400**	343,259	343,502	423,259	395,079
Net loans and leases	**1,340,398**	1,236,289	1,161,081	1,049,594	814,860
Assets	**1,929,501**	1,769,309	1,666,957	1,657,168	1,326,631
Deposits	**1,488,545**	1,366,715	1,270,884	1,270,268	1,043,106
Long-term obligations	**107,405**	88,449	90,418	87,306	31,075
Shareholders equity	**185,385**	173,080	160,393	145,752	134,219
Per Common Share Data**					
Average shares outstanding	**12,960**	12,867	12,841	12,811	12,938
Income before income taxes	**$ 2.68**	$ 2.63	$ 2.48	$ 2.44	$ 2.22
Applicable income taxes	**0.72**	0.70	0.64	0.64	0.59
Earnings per share basic	**1.96**	1.93	1.84	1.80	1.63
Earnings per share diluted	**1.95**	1.91	1.80	1.78	1.61
Dividends declared per share	**0.780**	0.717	0.667	0.533	0.491
Book value	**14.25**	13.37	12.47	11.37	10.47
Dividend payout ratio	**40.00%**	37.54%	37.06%	29.94%	30.50%

Profitability Ratios					
Return on average assets	**1.38%**	1.46%	1.44%	1.57%	1.65%
Return on average equity	**14.04%**	14.87%	15.46%	16.58%	16.60%
Average equity to average assets	**9.81%**	9.83%	9.33%	9.49%	9.96%

* The Corporation acquired First County Bank on May 17, 2003 and Suburban Community Bank on October 4, 2003.

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

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

(All dollar amounts presented within tables are in thousands, except per share data. Common stock data has been restated to give effect to a three-for-two stock split in the form of a dividend declared on March 23, 2005 to shareholders of record as of April 6, 2005, distributed on April 29, 2005. All share and per share amounts prior to this date have been retroactively adjusted to give effect to the stock split.)

Results of Operations Overview

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

The principal component of earnings for the Corporation is net interest income, which is the difference between the yield on interest-earning assets and the cost on interest-bearing liabilities. The net interest margin, which is the ratio of net interest income to average earning assets, is affected by several factors including market interest rates, economic conditions, loan demand, and deposit activity. The Board of Governors of the Federal Reserve System has increased the Bank Prime Rate four times between December 31, 2005 and December 31, 2006 from 7.25% to 8.25%. The Corporation maintains a relatively low interest rate risk profile and does not anticipate that an increase in interest rates would be materially adverse to its net interest margin. The Corporation seeks to maintain a steady net interest margin and consistent growth of net interest income.

The Corporation s consolidated net income and earnings per share for 2006, 2005 and 2004 were as follows:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Net income	**$ 25,377**	$ 24,867	$ 23,591
Net income per share:			
Basic	**1.96**	1.93	1.84
Diluted	**1.95**	1.91	1.80

2006 versus 2005

The 2006 results compared to 2005 include the following significant pretax components:

Net interest income grew due to volume and rate increases on average interest-earning assets. This growth was offset slightly by volume and rate increases on average interest-bearing liabilities. The net interest margin declined slightly to 3.7%. The net interest margin on a tax-equivalent basis also declined slightly to 3.9%.

Total noninterest income increased by $3.0 million or 13.2% due primarily to increased insurance commission and fee income and net gains on dispositions of fixed assets in 2006 compared to net losses incurred in 2005.

Total noninterest expense increased $4.2 million or 9.1% primarily due to salaries and benefits expense and capital shares tax.

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2005 versus 2004

The 2005 results compared to 2004 include the following significant pretax components:

Net interest income grew due to greater volume and rate increases on average interest-earning assets than volume and rate increases on average interest-bearing liabilities. The net interest margin remained level at 3.8%. The net interest margin on a tax-equivalent basis also remained level at 4.0%.

Total noninterest income decreased by $159 thousand or 0.7% due primarily to fewer gains on the sales of securities and net losses on dispositions of fixed assets in 2005 compared to gains in 2004.

Total noninterest expense increased $876 thousand or 2.0% primarily due to salaries and benefits expense.

Results of Operations 2006 Versus 2005

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. Table 1 presents a summary of the Corporation s average balances, the yields earned on average assets, the cost of average liabilities, and shareholders equity on a tax-equivalent and non-tax-equivalent basis for the years ended December 31, 2006 compared to 2005. Table 2 analyzes the changes in both tax-equivalent and non-tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Asset/Liability Management and Investment Committees work to maintain an adequate and stable net interest margin for the Corporation.

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Table 1 Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential for 2006 versus 2005

	For the Year Ended December 31, 2006					For the Year Ended December 31, 2005			
		Tax-Equivalent		Non-Tax-Equivalent			Tax-Equivalent		Tax-E
	Average Balance	Income/ Expense	Avg. Rate	Income/ Expense	Avg. Rate	Average Balance	Income/ Expense	Avg. Rate	Income/ Expens
g deposits with	$ 621	$ 27	4.3%	$ 27	4.3%	$ 643	$ 17	2.6%	$
ent obligations	148,680	5,349	3.6	5,349	3.6	158,826	5,223	3.3	5,22
states & visions	83,705	5,924	7.1	3,854	4.6	78,994	5,501	7.0	3,57
s	127,418	6,415	5.0	6,415	5.0	103,854	4,515	4.3	4,51
e Bank stock	1,687	101	6.0	101	6.0	1,687	101	6.0	10
sold	5,481	281	5.1	281	5.1	6,369	212	3.3	21
earning tments and old	367,592	18,097	4.9	16,027	4.4	350,373	15,569	4.4	13,64
inancial and ans	392,917	29,267	7.4	29,267	7.4	342,966	21,678	6.3	21,67
mmercial and oans	420,836	31,833	7.6	31,833	7.6	389,890	26,508	6.8	26,50
idential loans	303,041	16,464	5.4	16,464	5.4	297,988	15,257	5.1	15,25
iduals	105,772	7,086	6.7	7,086	6.7	84,049	5,087	6.1	5,08
ns	90,079	5,348	5.9	3,917	4.3	83,481	4,629	5.5	3,27
gs	5,066	572	11.3	572	11.3	507	54	10.7	5
	1,317,711	90,570	6.9	89,139	6.8	1,198,881	73,213	6.1	71,83
earning assets	1,685,303	108,667	6.4	105,166	6.2	1,549,254	88,782	5.7	85,50
from banks	41,409					39,974			
an losses	(13,752)					(13,032)			
equipment, net	22,042					20,827			
	107,825					103,912			
	$ 1,842,827					$ 1,700,935			
ng deposits	$ 135,793	247	0.2	247	0.2	$ 150,024	175	0.1	17
savings	321,025	11,639	3.6	11,639	3.6	274,304	5,868	2.1	5,86

gs	**195,125**	**1,615**	**0.8**	**1,615**	**0.8**	206,876	581	0.3	58
deposit	**522,837**	**20,637**	**3.9**	**20,637**	**3.9**	442,523	13,144	3.0	13,14
club accounts	**26,487**	**1,200**	**4.5**	**1,200**	**4.5**	16,587	448	2.7	44
g deposits	**1,201,267**	**35,338**	**2.9**	**35,338**	**2.9**	1,090,314	20,216	1.9	20,21
purchased	**7,421**	**404**	**5.4**	**404**	**5.4**	6,087	204	3.4	20
under repurchase	**96,624**	**2,116**	**2.2**	**2,116**	**2.2**	98,620	1,423	1.4	1,42
m borrowings	**15,345**	**798**	**5.2**	**798**	**5.2**	1,262	50	4.0	5
t	**59,304**	**2,647**	**4.5**	**2,647**	**4.5**	56,818	2,436	4.3	2,43
notes and es	**30,935**	**2,348**	**7.6**	**2,348**	**7.6**	32,432	1,935	6.0	1,93
ngs	**209,629**	**8,313**	**4.0**	**8,313**	**4.0**	195,219	6,048	3.1	6,04
bearing	**1,410,896**	**43,651**	**3.1**	**43,651**	**3.1**	1,285,533	26,264	2.0	26,26
its, aring	**227,444**					226,523			
ses & other	**23,724**					21,607			
s	**1,662,064**					1,533,663			
Equity:									
k	**74,370**					68,461			
d-in capital	**22,173**					21,762			
ngs and other	**84,220**					77,049			
ders equity	**180,763**					167,272			
s and equity	**$ 1,842,827**					$ 1,700,935			
come		**$ 65,016**		**$ 61,515**			$ 62,518		$ 59,22
read			**3.3**		**3.1**			3.7	
nterest-free es			**0.6**		**0.6**			0.3	
argin			**3.9%**		**3.7%**			4.0%	
ge g assets to g liabilities	**119.4%**					120.5%			

Notes: For rate calculation purposes, average loan categories include unearned discount.
Nonaccrual loans have been included in the average loan balances.
Certain amounts have been reclassified to conform to the current-year presentation.
Included in interest income are loan fees of $1.4 million for 2006 and 2005.
Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35%.

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Table 2 Analysis of Changes in Net Interest Income for 2006 Versus 2005

The rate-volume variance analysis set forth in the table below compares changes in net interest on both a tax-equivalent and non-tax-equivalent basis, for the years ended December 31, 2006 compared to the same period in 2005, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated to change in volume.

	For the Years Ended December 31, 2006 Versus 2005					
	Tax Equivalent			Non-Tax-Equivalent		
	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$ (1)	$ 11	$ 10	$ (1)	$ 11	$ 10
U.S. Government obligations	(350)	476	126	(350)	476	126
Obligations of states & political subdivisions	344	79	423	196	79	275
Other securities	1,173	727	1,900	1,173	727	1,900
Federal Reserve Bank stock						
Federal funds sold	(46)	115	69	(46)	115	69
Interest on deposits, investments and federal funds sold	1,120	1,408	2,528	972	1,408	2,380
Commercial , financial and agricultural loans	3,816	3,773	7,589	3,816	3,773	7,589
Real estate-commercial and construction loans	2,206	3,119	5,325	2,206	3,119	5,325
Real estate-residential loans	313	894	1,207	313	894	1,207
Loans to individuals	1,495	504	1,999	1,495	504	1,999
Municipal loans	385	334	719	312	334	646
Lease financings	515	3	518	515	3	518
Interest and fees on loans	8,730	8,627	17,357	8,657	8,627	17,284
Total interest income	9,850	10,035	19,885	9,629	10,035	19,664
Interest expense:						
Interest checking deposits	(78)	150	72	(78)	150	72
Money market savings	1,656	4,115	5,771	1,656	4,115	5,771
Regular savings		1,034	1,034		1,034	1,034
Certificates of deposit	3,510	3,983	7,493	3,510	3,983	7,493
Time open & club accounts	453	299	752	453	299	752
Interest on deposits	5,541	9,581	15,122	5,541	9,581	15,122
Federal funds purchased	78	122	200	78	122	200

Securities sold under agreement to repurchase	(96)	789	693	(96)	789	693
Other short-term borrowings	733	15	748	733	15	748
Long-term debt	97	114	211	97	114	211
Subordinated notes and capital securities	(106)	519	413	(106)	519	413
Interest on borrowings	706	1,559	2,265	706	1,559	2,265
Total interest expense	6,247	11,140	17,387	6,247	11,140	17,387
Net interest income	$ 3,603	$ (1,105)	$ 2,498	$ 3,382	$ (1,105)	$ 2,277

Notes: For rate calculation purposes, average loan categories include unearned discount.
Nonaccrual loans have been included in the average loan balances.
Certain amounts have been reclassified to conform to the current-year presentation.
Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35%.

Net interest income on a tax-equivalent basis increased $2.5 million in 2006 compared to 2005 primarily due to higher rates and volume on commercial, real estate-commercial and loans to individuals partially offset by higher rates and volume on deposits in money market savings accounts and certificates of deposit. The net interest margin on a tax-equivalent basis, which is tax-equivalent net interest income as

a percentage of average interest-earning assets declined slightly to 3.9% for December 31, 2006 when compared to 4.0% at December 31, 2005. The net interest spread on a tax-equivalent basis, 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 3.3% for December 31, 2006 and 3.7% for December 31, 2005. The effect of net interest free funding sources was 0.6% for December 31, 2006 and 0.3% as of December 31, 2005; and represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

Interest Income

Interest on other securities increased 42.1% for the year ended December 31, 2006 compared to 2005 due to volume growth of 22.7% and a positive 69 basis point rate change. Interest also increased on obligations of states and political subdivisions primarily due to volume growth of 6.0% and a 12 basis point increase in the tax-equivalent rate. Volume decreased in U.S. Government obligations by 6.4%, this decline was offset by a positive 31 basis point increase rate that netted to an overall increase in interest income. Maturities of U.S. Governments agencies were $174.7 and purchases were $153.9 for the year ended December 31, 2006.

Interest on federal funds sold is income received from the daily investment of excess or unused funds. It can be volatile in both rate and volume. Interest on federal funds sold increased $69 thousand in 2006 compared to 2005 due to higher federal funds rates. This increase was offset slightly by a decrease in volume when comparing 2006 to 2005.

Tax-equivalent interest and fees on loans grew 23.7% for the year ended December 31, 2006 compared to 2005 due to volume and average rate increases. Commercial loan volume increased 14.6% and average rate increased 113 basis points. Average balance growth in real estate-commercial and construction loans was 7.9% along with a 76 basis point increase in the average rate. Also contributing to the increase in interest income on loans was a 25.8% growth in the average balance of consumer loans and average rate increase of 65 basis points. The average tax-equivalent interest yield on the loan portfolio grew from 6.1% in 2005 to 6.9% in 2006 as a result of market conditions and a 183 basis point increase in the average prime rate.

Interest Expense

The Corporation s average cost of deposits increased 109 basis points during 2006 compared to 2005. The average rate paid on money market savings increased 149 basis points and volume increased 17.0% when compared to 2005. Interest on certificates of deposit increased 57.0%, due a 98 basis point increase in average rate and 18.1% increase in average volume. Since August 2004, the Bank began purchasing Certificates with the Pennsylvania Local Government Investment Trust (PLGIT) to augment its fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the Federal Home Loan Bank of Pittsburgh (FHLB); therefore, Univest National Bank is not required to provide collateral on these deposits. The average balance of PLGIT certificates increased $42.2 million and the average rate increased 160 basis points comparing the year ended December 31, 2006 over the same period in 2005. The average balance of other certificates of deposit increased $38.1 million and the average rate increased 140 basis points, due to promotions offered to grow deposits. Interest on time open and club accounts grew due to a 183 basis point increase in average rate and growth in average volume of $9.9 million. Interest expense on demand deposits and regular savings deposits increased due to average rate increase of 35 basis points. This increase was offset somewhat by a decrease in volume of $26.0 million when comparing 2006 to 2005.

Interest on short-term borrowings includes interest paid on federal funds purchased, repurchase agreements and short-term FHLB borrowings. In addition, the Bank offers an automated cash management checking account that sweep funds daily into a repurchase agreement account (cash management accounts). Interest grew 97.9% during

2006 compared to 2005 primarily due to increased interest expense associated with cash management accounts and short-term FHLB borrowings. Cash management account volume remained flat in 2006; the associated interest expense grew due to a 75 basis point rate increase. Average volume of short-term FHLB borrowings increased $14.1 million and the average rate increased 124 basis points.

Interest on long-term debt, which consists of long-term FHLB borrowings, increased slightly due to volume growth and a 17 basis point rate increase. Subordinated notes and capital securities include the

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issuance of $15.0 million in Subordinated Capital Notes in 2003, and the issuance of $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities) in 2003. Interest expense on Subordinated Capital Notes and Trust Preferred Securities grew 21.3% due to increases in the Three Month London Interbank Offer Rate (LIBOR) which affect the variable rate paid on the Trust Preferred Securities.

Provision For Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rates or the fair value of the collateral for certain collateral dependent loans as provided for under SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114). Any of the above criteria may cause the reserve to fluctuate. The provision for the years ended December 31, 2006 and 2005 was $2.2 million and $2.1 million, respectively.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit 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 2006 compared to 2005 primarily due to increases in commission and fee income resulting from the acquisition of B. G. Balmer & Company, Inc. (Balmer) during the third quarter of 2006 and net gains on the disposition of fixed assets in 2006 compared to net losses in 2005.

The following table presents noninterest income for the years ended December 31, 2006 and 2005:

	For the Years Ended December 31,			
	2006	**2005**	**$ Change**	**% Change**
Trust fee income	**$ 5,515**	$ 5,225	$ 290	5.6%
Service charges on deposit accounts	**6,771**	6,908	(137)	(2.0)
Investment advisory commission and fee income	**2,284**	1,957	327	16.7
Insurance commission and fee income	**4,765**	3,551	1,214	34.2
Life insurance income	**1,475**	1,301	174	13.4
Other service fee income	**3,348**	3,154	194	6.2
Net gain on sales of securities	**50**	150	(100)	(66.7)
Net gain (loss) on dispositions of fixed assets	**653**	(218)	871	399.5
Other	**556**	416	140	33.7
Total noninterest income	**$ 25,417**	$ 22,444	$ 2,973	13.2%

Trust income continued to grow in 2006 from 2005 primarily due to an increase in the number and market value of assets managed. Service charges on deposit accounts decreased in 2006 compared to 2005 due to a reduction in checking account service charges offset by increased nonsufficient funds fees.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased in 2006 over 2005 due to market activity and volume. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc., continued to grow in 2006 from 2005. Insurance loss ratio based bonuses increased $392 thousand in 2006 compared to 2005. Other insurance commissions grew approximately $785 thousand due to the acquisition of Balmer. The acquisition of Balmer was completed in the third quarter of 2006 and continues the expansion of Univest Insurance, Inc. into the West Chester area of Pennsylvania.

Life insurance income is primarily the change in the cash surrender values of bank-owned life insurance policies. There was more of an increase in the cash surrender values of these policies in 2006 compared to 2005.

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 debt card fees, other merchant fees, mortgage servicing income, sales of loans and leases and mortgage placement income. Other service fee income grew in 2006 compared to 2005 primarily due to increased Mastermoney fees of $189 thousand and increased income of $307 thousand from the sales of loans and leases.

Gains on Sales of Assets

Sales of $1.4 million in mortgage loans during the year ended December 31, 2006 resulted in a gain of $73 thousand as compared to sales of $7.3 million during the year ended December 31, 2005 for a gain of $79 thousand. Sales of $13.9 million of student loans resulted in a gain of $347 thousand for the year ended December 31, 2006. There were no sales of student loans in 2005. Gains on the sale of loans and leases are included in the other category in the above table.

Net gains on the disposition of fixed assets was $653 thousand for the year ended December 31, 2006, compared to net losses of $218 thousand for the year ended December 31, 2005. During 2006, the Corporation sold a former banking office and relocated one supermarket branch. Net losses in 2005 were primarily the result of closing two supermarket banking offices and retired other long-lived assets replaced by the new Kulpsville branch at a net loss of $215 thousand.

During 2006, the Corporation sold two other real estate owned properties resulting in a gain of $139 thousand. There were no sales of other real estate owned during 2005. Gains on the sale of other real estate owned are included in the other category in the above table.

During 2006, approximately $1.4 million in U.S. Government treasuries and $225 thousand in equity securities were sold for a net gain of $50 thousand. Calls of FHLB equity securities totaled $10.8 million as the Bank was not required to hold these securities due to the level of FHLB borrowings. Also in 2006 there were calls of $7.1 million of municipal securities. During 2005, approximately $1.5 million in U.S. Government treasuries, $1.2 million in Municipals, $7.3 million in U.S. Government Agencies and $353 thousand in equity securities were sold for a net gain of $150 thousand. Calls of FHLB equity securities totaled $5.5 million as the Bank was no longer required to hold these securities due to the level of FHLB borrowings.

Noninterest Expense

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

The following table presents noninterest expense for the years ended December 31, 2006 and 2005:

	For the Years Ended December 31,			
	2006	**2005**	**$ Change**	**% Change**
Salaries and benefits	**$ 28,547**	$ 26,795	$ 1,752	6.5%
Net occupancy	**4,362**	4,276	86	2.0
Equipment	**3,274**	2,994	280	9.4

Marketing and advertising	**1,685**	1,669	16	1.0
Other	**12,090**	10,062	2,028	20.2
Total noninterest expense	**$ 49,958**	$ 45,796	$ 4,162	9.1

Salaries and benefits increased in 2006 in comparison to 2005 primarily due to the implementation of SFAS 123R, salary and benefit expenses associated with the formation of Vanguard, the Balmer acquisition and normal escalation of base salary and benefit costs. These increases were offset by a reduction to the bonus accrual for 2006.

Net occupancy expense increased for the year ended December 31, 2006 in comparison to 2005 due to increased rental expense associated with the Balmer acquisition offset by an increase in rental income

associated with the leasing of the Kulpsville building. Equipment expense increased primarily due to software licenses.

Other expenses increased for the year ending December 31, 2006 compared to 2005 primarily due to bank shares tax credits from 2005 not applicable to 2006 and an increase in miscellaneous expenses. These increases were offset by decreases in legal and advisory fees and decreases in other real estate owned expenses.

Provision For Income Taxes

The provision for income taxes was $9.4 million for the year ended December 31, 2006 compared to $8.9 million for the year ended December 31, 2005. The provision for income taxes for 2006 and 2005 was at effective rates of 26.9% and 26.4%, respectively. The effective tax rates reflect the benefits of tax credits generated from investments in low-income housing projects, tax-exempt interest income from investments in municipal securities and loans and non-taxable cash surrender value income on bank-owned life insurance. The increase in the effective tax rate in 2006 compared to 2005 is primarily due to an increase in income, a reduction in low-income housing tax credits and the implementation of FAS 123R.

Results of Operations 2005 Versus 2004

Net Interest Income

Table 3 presents a summary of the Corporation s average balances, the yields earned on average assets, the cost of average liabilities, and shareholders equity on a tax-equivalent and non-tax-equivalent basis for the years ended December 31, 2005 compared to 2004. Table 4 analyzes the changes in both tax-equivalent and non-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.

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Table 3 Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential for 2005 versus 2004

	For the Year Ended December 31,2005					For the Year Ended December 31, 2004			
		Tax-Equivalent		Non-Tax-Equivalent			Tax-Equivalent		No Tax-Equ
	Average Balance	Income/ Expense	Avg. Rate	Income/ Expense	Avg. Rate	Average Balance	Income/ Expense	Avg. Rate	Income/ Expense
ning deposits with	$ 643	$ 17	2.6%	$ 17	2.6%	$ 1,158	$ 6	0.5%	$ 6
nment obligations	158,826	5,223	3.3	5,223	3.3	146,930	4,563	3.1	4,563
of states & bdivisions	78,994	5,501	7.0	3,579	4.5	78,715	5,500	7.0	3,578
ities	103,854	4,515	4.3	4,515	4.3	140,065	6,141	4.4	6,141
serve Bank stock	1,687	101	6.0	101	6.0	1,687	101	6.0	101
ds sold	6,369	212	3.3	212	3.3	2,542	40	1.6	40
st-earning vestments and ds sold	350,373	15,569	4.4	13,647	3.9	371,097	16,351	4.4	14,429
l, financial and loans	342,966	21,678	6.3	21,678	6.3	328,537	16,655	5.1	16,665
commercial and n loans	389,890	26,508	6.8	26,508	6.8	354,716	22,831	6.4	22,831
residential loans	297,988	15,257	5.1	15,257	5.1	299,964	14,475	4.8	14,475
dividuals	84,049	5,087	6.1	5,087	6.1	58,873	3,401	5.8	3,401
oans	83,481	4,629	5.5	3,271	3.9	75,033	4,242	5.7	2,939
cings	507	54	10.7	54	10.7	820	59	7.2	59
	1,198,881	73,213	6.1	71,855	6.0	1,117,943	61,663	5.5	60,360
st-earning assets	1,549,254	88,782	5.7	85,502	5.5	1,489,040	78,014	5.2	74,789
ue from banks	39,974					40,889			
loan losses	(13,032)					(13,240)			
nd equipment, net	20,827					19,821			
s	103,912					99,384			
	$ 1,700,935					$ 1,635,894			
cking deposits	$ 150,024	175	0.1	175	0.1	$ 154,562	190	0.1	190
ket savings	274,304	5,868	2.1	5,868	2.1	248,908	2,172	0.9	2,172

rings	206,876	581	0.3	581	0.3	221,974	646	0.3	646
of deposit	442,523	13,144	3.0	13,144	3.0	388,060	10,819	2.8	10,819
& club accounts	16,587	448	2.7	448	2.7	16,950	221	1.3	221
and ring deposits	1,090,314	20,216	1.9	20,216	1.9	1,030,454	14,048	1.4	14,048
ds purchased	6,087	204	3.4	204	3.4	9,328	148	1.6	148
old under to repurchase	98,620	1,423	1.4	1,423	1.4	98,735	675	0.7	675
-term borrowings	1,262	50	4.0	50	4.0	19,133	249	1.3	249
debt	56,818	2,436	4.3	2,436	4.3	55,277	2,378	4.3	2,378
ed notes and rities	32,432	1,935	6.0	1,935	6.0	33,930	1,450	4.3	1,450
wings	195,219	6,048	3.1	6,048	3.1	216,403	4,900	2.3	4,900
st-bearing	1,285,533	26,264	2.0	26,264	2.0	1,246,857	18,948	1.5	18,948
posits, -bearing	226,523					216,050			
penses & other	21,607					20,424			
ties	1,533,663					1,483,331			
ers Equity:									
ock	68,461					49,580			
paid-in capital	21,762					20,949			
rnings and other	77,049					82,034			
holders equity	167,272					152,563			
ties and s equity	$ 1,700,935					$ 1,635,894			
income		$ 62,518		$ 59,238			$ 59,066		$ 55,841
spread			3.7		3.5			3.7	
t interest-free rces			0.3		0.3			0.3	
margin			4.0%		3.8%			4.0%	
erage ning assets to ring liabilities	120.5%					119.4%			

Notes: For rate calculation purposes, average loan categories include unearned discount.
Nonaccrual loans have been included in the average loan balances.
Certain amounts have been reclassified to conform to the current-year presentation.
Included in interest income are loan fees of $1.4 million for 2005 and $1.3 million for 2004.
Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35%.

Table 4 Analysis of Changes in Net Interest Income for 2005 Versus 2004

The rate-volume variance analysis set forth in the table below compares changes in net interest on both a tax-equivalent and non-tax-equivalent basis, for the years ended December 31, 2005 compared to the same period in 2004, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated to change in volume.

	For the Years Ended December 31, 2005 Versus 2004					
	Tax Equivalent			Non-Tax-Equivalent		
	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$ (13)	$ 24	$ 11	$ (13)	$ 24	$ 11
U.S. Government obligations	366	294	660	366	294	660
Obligations of states & political subdivisions	1		1	1		1
Other securities	(1,486)	(140)	(1,626)	(1,486)	(140)	(1,626)
Federal Reserve Bank stock						
Federal funds sold	129	43	172	129	43	172
Interest on deposits, investments and federal funds sold	(1,003)	221	(782)	(1,003)	221	(782)
Commercial, financial and agricultural loans	1,081	3,942	5,023	1,081	3,942	5,023
Real estate commercial and construction loans	2,258	1,419	3,677	2,258	1,419	3,677
Real estate residential loans	(118)	900	782	(118)	900	782
Loans to individuals	1,509	177	1,686	1,509	177	1,686
Municipal loans	537	(150)	387	332		332
Lease financings	(34)	29	(5)	(34)	29	(5)
Interest and fees on loans	5,233	6,317	11,550	5,028	6,467	11,495
Total interest income	4,230	6,538	10,768	4,025	6,688	10,713
Interest expense:						
Interest checking deposits	(15)		(15)	(15)		(15)
Money market savings	709	2,987	3,696	709	2,987	3,696
Regular savings	(65)		(65)	(65)		(65)
Certificates of deposit	1,549	776	2,325	1,549	776	2,325
Time open & club accounts	(10)	237	227	(10)	237	227
Interest on deposits	2,168	4,000	6,168	2,168	4,000	6,168
Federal funds purchased	(112)	168	56	(112)	168	56

Securities sold under agreement to repurchase	57	691	748	57	691	748
Other short-term borrowings	(716)	517	(199)	(716)	517	(199)
Long-term debt	58		58	58		58
Subordinated notes and capital securities	(92)	577	485	(92)	577	485
Interest on borrowings	(805)	1,953	1,148	(805)	1,953	1,148
Total interest expense	1,363	5,953	7,316	1,363	5,953	7,316
Net interest income	$ 2,867	$ 585	$ 3,452	$ 2,662	$ 735	$ 3,397

Notes: For rate calculation purposes, average loan categories include unearned discount.
Nonaccrual loans have been included in the average loan balances.
Certain amounts have been reclassified to conform to the current-year presentation.
Tax-equivalent amounts have been calculated using the Corporation s federal applicable rate of 35%.

Net interest income on a tax-equivalent basis increased $3.5 million in 2005 compared to 2004 primarily due to higher rates on commercial loans and volume growth in real estate-commercial and construction loans partially offset by higher rates on deposits in money market savings accounts and volume growth in certificates of deposit. The net interest margin on a tax-equivalent basis, which is tax-equivalent net interest income as a percentage of average interest-earning assets remained at 4.0% for December 31, 2005 and 2004. The net interest spread on a tax-equivalent basis, 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 3.7% for December 31, 2005 and 2004. The effect of net interest free funding sources was 0.3% for December 31, 2005 and 2004; and represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity.

Interest Income

Interest on U.S. Government obligations increased 14.5% for the year ended December 31, 2005 compared to 2004 due to volume growth of 8.1% and a positive 18 basis point rate change. This increase more than offset by a 26.5% decrease in interest on other securities, which consists mainly of U.S. Government Agency mortgage-backed securities. This decrease was primarily due to a 25.9% reduction in volume, whereas the rate on these securities remained relatively flat. This volume decrease was the result of the sale of approximately $50.3 million of primarily fixed-rate U.S. Government agency mortgage-backed securities in 2004 and prepayments during 2004 and 2005.

Interest on federal funds sold is income received from the daily investment of excess or unused funds. It can be volatile in both rate and volume. Interest on federal funds sold increased $172 thousand in 2005 compared to 2004 due to volume growth and higher federal funds rates.

Tax-equivalent interest and fees on loans grew 18.7% for the year ended December 31, 2005 compared to 2004 primarily due to a 126 basis point increase in the average rate on commercial loans, and average balance growth of 9.9% along with a 36 basis point increase in the average rate of real estate-commercial and construction loans. Also contributing to the increase in interest income on loans was a 42.8% growth in the average balance of consumer loans, primarily in indirect auto loans. The average tax-equivalent interest yield on the loan portfolio grew from 5.5% in 2004 to 6.1% in 2005 as a result of market conditions and a 185 basis point increase in the average prime rate.

Interest Expense

The Corporation s average cost of deposits increased 49 basis points during 2005 compared to 2004. The average rate paid on money market savings increased 127 basis points due to new products and promotions offered to grow deposits in the Bank s competitive marketplace. Interest on certificates of deposit increased 21.5%, primarily due to volume growth of 14.0% in addition to the 18 basis point increase in average rate. Since August 2004, the Bank began purchasing Certificates with the Pennsylvania Local Government Investment Trust (PLGIT) to augment its fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the Federal Home Loan Bank of Pittsburgh (FHLB); therefore, Univest National Bank is not required to provide collateral on these deposits. The average balance of PLGIT certificates increased $36.8 million and the average rate increased 92 basis points comparing the year ended December 31, 2005 over the same period in 2004. The average balance of other certificates of deposit increased $17.6 million and the average rate increased 30 basis points, due to promotions offered to grow deposits. Interest on time open and club accounts grew due to a 55 basis point increase in average rate. Interest expense on demand deposits and regular savings deposits declined due to volume decreases as rates remained relatively flat during 2005 and 2004.

Interest expense on short-term borrowings includes interest paid on federal funds purchased and repurchase agreements and short-term FHLB borrowings. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account (cash management accounts). Interest expense grew 56.4% during 2005 compared to 2004 primarily due to a 76 basis point increase in average rates paid on cash management accounts. This increase was partially offset by a decrease in interest expense on short-term FHLB borrowings.

Interest on long-term debt, which consists of long-term FHLB borrowings, increased slightly due to volume growth. Subordinated notes and capital securities includes the issuance of $15.0 million in Subordinated Capital Notes in 2003, and the issuance of $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities) in 2003. Interest expense on Subordinated Capital Notes and Trust Preferred Securities grew 33.4% due to increases in the Three Month London Interbank Offer Rate (LIBOR) which effect the variable rate paid on the Trust Preferred

Securities.

Provision For Loan Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Loans and leases are also reviewed for impairment based on

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discounted cash flows using the loans initial effective interest rates or the fair value of the collateral for certain collateral dependent loans as provided for under SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114). Any of the above criteria may cause the provision to fluctuate. The provision for the years ended December 31, 2005 and 2004 was $2.1 million and $1.6 million, respectively. Growing loan volumes in real estate-commercial and construction loans, indirect auto loans and a new credit card portfolio, along with current economic conditions, indicated the need for an increase to the reserve in 2005.

Noninterest Income

Noninterest 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 decreased during 2005 compared to 2004 and primarily due to less gains on the sales of securities in 2005 and a net loss on the disposition of fixed assets in 2005 compared to net gains in 2004.

The following table presents noninterest income for the years ended December 31, 2005 and 2004:

	For the Years Ended December 31,			
	2005	**2004**	**$ Change**	**% Change**
Trust fee income	$ 5,225	$ 5,028	$ 197	3.9%
Service charges on deposit accounts	6,908	6,537	371	5.7
Investment advisory commission and fee income	1,957	1,907	50	2.6
Insurance commission and fee income	3,551	3,068	483	15.7
Life insurance income	1,301	1,469	(168)	(11.4)
Other service fee income	3,154	2,687	467	17.4
Net gain on sales of securities	150	1,066	(916)	(85.9)
Net (loss) gain on dispositions of fixed assets	(218)	226	(444)	(196.5)
Other	416	615	(199)	(32.4)
Total noninterest income	$ 22,444	$ 22,603	$ (159)	(0.7)

Trust income continued to grow in 2005 from 2004 primarily due to a larger number of accounts and an increase in the market value of assets managed. Service charges on deposit accounts grew in 2005 compared to 2004 due to a change in the fee structure on the deposit accounts; monthly charges decreased while nonsufficient funds fees increased.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased slightly in 2005 over 2004. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc., continued to grow in 2005 from 2004. Loss ratio based bonuses increased $9 thousand in 2005 compared to 2004. Other insurance commissions grew approximately $474 thousand due to higher premiums and volume in addition to the acquisition of Donald K. Martin & Company. The acquisition of Donald K. Martin & Company was completed in 2005 and expanded Univest Insurance, Inc. into the West Chester area of Pennsylvania. Donald K. Martin & Company specializes in property and casualty insurance primarily for the non-profit sector, including churches, senior communities and life communities.

Life insurance income is primarily the change in the cash surrender values of bank-owned life insurance policies. There was less of an increase in the cash surrender values of these policies in 2005 compared to 2004.

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 debt card fees, other merchant fees, mortgage servicing income and mortgage placement income. Other service fee income grew in 2005 compared to 2004 due to increases of $196 thousand in Mastermoney fees, $114 thousand in mortgage servicing income, $79 thousand in mortgage placement fee income and $68 thousand in official check fees.

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Other noninterest income decreased in 2005 compared to 2004 primarily due to net losses on investments in low-income housing projects. These low-income housing projects generate tax credits for the Corporation.

Gains on Sales of Assets

Sales of $7.3 million in mortgage loans during the year ended December 31, 2005 resulted in a gain of $79 thousand as compared to sales of $8.1 million during the year ended December 31, 2004 for a gain of $113 thousand. Gains on sales of mortgages are included in other income.

Net losses on the disposition of fixed assets was $218 thousand for the year ended December 31, 2005, compared to net gains of $226 thousand for the year ended December 31, 2004. During 2005, the Corporation closed two supermarket banking offices and retired other long-lived assets replaced by the new Kulpsville branch at a net loss of $215 thousand. Net gains in 2004 were primarily the result of the sale of a branch office which was in close proximity to another more favorable Bank branch location for a gain of $196 thousand.

During 2005, approximately $1.5 million in U.S. Government treasuries, $1.2 million in Municipals, $7.3 million in U.S. Government Agencies and $353 thousand in equity securities were sold for a net gain of $150 thousand. Calls of FHLB equity securities totaled $5.5 million as the Bank was no longer required to hold these securities due to the level of FHLB borrowings. During 2004, available for sale debt and equity securities, primarily fixed-rate U.S. Government Agency mortgage-backed securities, with an amortized cost of approximately $57.1 million were sold for a net gain of $1.1 million. During 2004, mortgage-backed securities were sold to position the portfolio for higher rates by reducing extension risk and price volatility.

Noninterest Expense

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

The following table presents noninterest expense for the years ended December 31, 2005 and 2004:

	For the Years Ended December 31,			
	2005	**2004**	**$ Change**	**% Change**
Salaries and benefits	$ 26,795	$ 25,360	$ 1,435	5.7%
Net occupancy	4,276	4,018	258	6.4
Equipment	2,994	2,854	140	4.9
Marketing and advertising	1,669	1,192	477	40.0
Other	10,062	11,496	(1,434)	(12.5)
Total noninterest expense	$ 45,796	$ 44,920	$ 876	2.0

Salaries and benefits increased in 2005 in comparison to 2004 primarily due to the bonus accrual as the Corporation exceeded its 2005 planned income. Other increases were due to normal escalation of base salary and benefit costs and growth in the number of full-time-equivalent employees, primarily due to expansion. These increases were partially offset by a higher amount of compensation costs capitalized for loan originations.

Net occupancy expense increased for the year ended December 31, 2005 in comparison to 2004 due to higher rents and an operating lease termination penalty of $89 thousand. Equipment expense increased primarily due to software licenses.

Other expenses decreased for the year ending December 31, 2005 compared to 2004 primarily due to bank shares tax credits and reductions in loss contingency reserves. These reductions were partially offset by increases in advertising expense.

Provision For Income Taxes

The provision for income taxes was $8.9 million for the year ended December 31, 2005 compared to $8.3 million for the year ended December 31, 2004. The provision for income taxes for 2005 and 2004 was

at effective rates of 26.4% and 26.1%, respectively. The effective tax rates reflect the benefits of tax credits generated from investments in low-income housing projects, tax-exempt interest income from investments in municipal securities and loans and non-taxable cash surrender value changes on bank-owned life insurance. The increase in the effective tax rate in 2005 compared to 2004 is primarily due to an increase in pre-tax income while tax-exempt income remained relatively unchanged.

Financial Condition

During 2006, total assets increased primarily due to loan and lease growth. Total liabilities increased primarily due to deposits partially offset by a reduction in borrowings as funding for loan growth was supported by deposit growth. Detailed explanations follow.

ASSETS

The following table presents assets at December 31, 2006 and December 31, 2005:

	At December 31,			
	2006	**2005**	**$ Change**	**% Change**
Cash, interest-earning deposits and federal funds sold	**$ 70,355**	$ 59,439	$ 10,916	18.4%
Investment securities	**382,400**	343,259	39,141	11.4
Total loans and leases	**1,353,681**	1,249,652	104,029	8.3
Reserve for loan and lease losses	**(13,283)**	(13,363)	80	(0.6)
Premises and equipment, net	**21,878**	21,635	243	1.1
Goodwill and other intangibles	**47,608**	43,387	4,221	9.7
Cash surrender value of insurance policies	**36,686**	35,211	1,475	4.2
Other assets	**30,176**	30,089	87	0.3
Total assets	**$ 1,929,501**	$ 1,769,309	$ 160,192	9.1

Acquisitions

On July 27, 2006 the Corporation acquired B.G. Balmer & Company, Inc., a full-service insurance agency located in West Chester, Pennsylvania. The acquisition expanded Univest s growing insurance business and provided an additional competitive presence in Chester County. Univest Insurance, Inc. made an initial payment of $4.8 million in July 2006 for the acquisition. Goodwill of $3.1 million and customer list intangible asset of $1.5 were recorded for this acquisition in 2006.

Cash, Interest-earning Deposits and Federal Funds Sold

Cash, interest-earning deposits and federal funds sold grew primarily due to a $10.2 million increase in federal funds sold. Federal funds sold, an immediate liquid resource, is the daily investment of excess or unused funds and balances can fluctuate dramatically during any given day.

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 increased in 2006 compared to 2005 as proceeds from sales and maturities of $224.9 million of securities were used to purchase $262.4 million in securities. During 2006, sales and maturities of primarily U.S. government agency securities were replaced with mortgage-backed securities.

Table 5 Investment Securities

The following table shows the carrying amount of investment securities as of the dates indicated. Held-to-maturity and available-for-sale portfolios are combined.

	At December 31,		
	2006	**2005**	**2004**
U.S. Treasury, government corporations and agencies	**$ 130,099**	$ 156,748	$ 154,907
State and political subdivisions	**83,142**	84,789	78,178
Mortgage-backed securities	**141,783**	74,733	86,640
Other	**27,376**	26,989	23,777
Total investment securities	**$ 382,400**	$ 343,259	$ 343,502

Table 6 Investment Securities (Yields)

The following table shows the maturity distribution and weighted average yields of the investment securities for the periods indicated. The weighted average yield is calculated by dividing income, which has not been tax equated on tax-exempt obligations, within each maturity range by the outstanding amount of the related investment. Held-to-maturity and available-for-sale portfolios are combined.

	At December 31,					
	2006 Amount	**2006 Yield**	**2005 Amount**	**2005 Yield**	**2004 Amount**	**2004 Yield**
1 Year or less	**$ 94,119**	**4.39%**	$ 78,735	2.94%	$ 33,692	2.07%
1 Year-5 Years	**108,743**	**4.64**	98,232	3.88	133,810	3.23
5 Years-10 Years	**31,754**	**5.03**	27,110	5.07	20,985	4.82
After 10 Years	**147,784**	**5.08**	139,182	4.57	155,015	4.52
Total	**$ 382,400**	**4.78**	$ 343,259	4.04	$ 343,502	3.80

Loans and Leases

Total loans and leases grew comparing December 31, 2006 to December 31, 2005 due to increases of $29.8 million commercial leases, from the formation of Vanguard Leasing, Inc., $58.4 million in commercial, financial and agricultural loans, $26.3 million in real estate-construction loans and real estate-residential loans, which are loans secured by one- to four-family properties, increased $1.3 million. These increases were offset by a decrease of $12.9 million in loans to individuals primarily due to the sale of student loans in the amount of $13.9 million.

At December 31, 2006 there were no concentrations of loans exceeding 10% of total loans other than disclosed in Table 7.

Table 7 Loan and Lease Portfolio

The following table presents the composition of the loan and lease portfolio as of the dates indicated:

	At December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Commercial, financial and agricultural	**$ 442,182**	$ 383,792	$ 367,902	$ 325,068	$ 282,367
Real estate commercial	**352,596**	349,384	337,080	313,207	203,927
Real estate construction	**136,331**	110,032	101,963	69,586	36,588
Real estate residential	**305,306**	303,994	300,397	298,564	243,642
Loans to individuals	**89,217**	102,095	66,169	55,024	58,859
Leases financings	**30,186**	415	783	1,086	
Total gross loans	**1,355,818**	1,249,712	1,174,294	1,062,535	825,383
Unearned income	**(2,137)**	(60)	(114)	(153)	(5)
Total loans and leases	**$ 1,353,681**	$ 1,249,652	$ 1,174,180	$ 1,062,382	$ 825,378

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Table 8 Loan and Lease Maturities and Sensitivity to Changes in Interest Rates

The following table presents the maturity and interest rate sensitivity of the loan portfolio at December 31, 2006:

	Total	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years
Commercial, financial and agricultural	$ 442,182	$ 234,902	$ 160,421	$ 46,859
Real estate commercial	352,596	127,428	176,077	49,091
Real estate construction	136,331	90,884	33,640	11,807
Real estate residential	305,306	68,752	71,288	165,266
Loans to individuals	89,217	7,972	58,793	22,452
Leases financings	28,049	7,201	20,777	71
Total loans and leases	$ 1,353,681	$ 537,139	$ 520,996	$ 295,546
Loans with fixed predetermined interest rates	$ 760,773	$ 102,890	$ 396,011	$ 261,872
Loans with variable or floating interest rates	592,908	434,249	124,985	33,674
Total loans and leases	$ 1,353,681	$ 537,139	$ 520,996	$ 295,546

The commercial mortgages and Industrial Development Authority mortgages that are presently being written at both fixed and floating rates of interest include loans written for a three- or five-year term with a monthly payment based on a fifteen-year amortization schedule. At each three-year or five-year anniversary date of the mortgages, the interest rate is renegotiated and the term of the loan is extended for an additional three or five years. At each three-year or five-year anniversary date of the mortgages, the Bank also has the right to require payment in full. These are included in the Due in One to Five Years category on issue. The borrower has the right to prepay the loan at any time.

Asset Quality

Performance of the entire loan 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, including a loan impaired under SFAS 114, is classified as nonaccrual, the accrual of interest on such a loan is discontinued. A loan is classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans is either applied against principal or reported as interest income, according to management s judgment as to the collectibility of principal.

Loans 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.

Total cash basis, restructured and nonaccrual loans totaled $8.4 million at December 31, 2006, $3.3 million at December 31, 2005 and $10.1 million at December 31, 2004, and consist mainly of commercial loans and real estate-commercial loans. For the years ended December 31, 2006, 2005 and 2004, nonaccrual loans resulted in lost interest income of $541 thousand, $521 thousand and $582 thousand, respectively. The Corporation s ratio of nonperforming assets to total loans and other real estate owned was 0.68% as of December 31, 2006, 0.34% as of December 31, 2005, and 0.99% as of December 31, 2004.

At December 31, 2006, the recorded investment in loans that are considered to be impaired under SFAS 114 was $8.4 million, all of which were on a nonaccrual basis. The related reserve for loan losses for those loans was $1.6 million. Nonaccruing loans increased during 2006 primarily due to $13.7 million of loans that were put on nonaccrual, these additions were offset by paydowns of $6.5 million and charge-offs

of $1.6 million. Specific reserves of $1.6 million have been established for these loans based on current facts and management s judgments about the ultimate outcome of these credits. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. The Corporation sold two other real estate owned properties during 2006, there were no other real estate owned properties as of December 31, 2006. At December 31, 2006, nonaccruing loans consisted of: $1.8 million in real estate-commercial loans, $4.0 million in commercial loans, $2.2 million in real estate-construction loans and $499 thousand in other loans. At December 31, 2005, the recorded investment in loans that are considered to be impaired under SFAS 114 was $3.3 million, all of which were on a nonaccrual basis. The related reserve for loan losses for those loans was $1.1 million. At December 31, 2005 nonaccruing loans consisted of $2.0 million in real estate-commercial loans and $1.2 million in commercial loans.

At December 31, 2006 there were no concentrations of loans exceeding 10% of total loans other than disclosed in Table 7.

Table 9 Nonaccrual, Past Due and Restructured Loans and Leases

The following table details the aggregate principal balance of loans and leases classified as nonaccrual, past due and restructured:

	At December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Nonaccruing loans and leases	**$ 8,443**	$ 3,263	$ 10,090	$ 8,586	$ 2,639
Accruing loans 90 days or more past due:					
Real estate loans:					
Secured by 1-4 family dwellings	**$ 227**	$ 114	$ 543	$ 661	$ 132
Commercial and industrial loans	**48**	146	31	3	520
Loans to individuals	**485**	350	353	217	228
Total accruing loans, 90 days or more past due	**$ 760**	$ 610	$ 927	$ 881	$ 880
Restructured loans, not included above	**$**	$	$	$	$
Other real estate owned	**$**	$ 344	$ 607	$	$

Reserve For Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is adequate to absorb 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 losses is determined through a monthly evaluation of reserve adequacy. Quarterly, this analysis takes into consideration the growth of the loan portfolio, the status of past-due loans, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Nonaccrual loans are evaluated individually. All other loans 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 categories to develop the general or allocated portion of the reserve. Loans are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rate or the fair value

of the collateral for certain collateral-dependent loans as provided under SFAS 114. Management also reviews the activity within the allowance to determine what actions, if any, should be taken to address differences between estimated and actual losses. Any of the above factors may cause the reserve to fluctuate.

The reserve for loan losses is based on management s evaluation of the loan portfolio under current economic conditions and such other factors, which, in management s opinion, deserve recognition in estimating loan 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 reserve for loan losses charged to operations or from the recovery of amounts previously charged off. Loan charge-offs reduce the reserve. Loans are charged off when there has been permanent impairment or when in the opinion of management the full

amount of the loan, in the case of non-collateral dependent borrowings, will not be realized. Certain impaired loans are reported at the present value of expected future cash flows using the loan s initial effective interest rate, or at the loan s observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

The reserve for loan losses consists of an allocated reserve and other reserve category. The allocated reserve is comprised of reserves established on specific loans, and class reserves based on historical loan 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 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 pool classification.

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

Table 10 Allocated, Other Loan Loss Reserves

The reserve for loan losses is made up of the allocated reserve and the unallocated portion. The following table summarizes the two categories for the periods indicated.

	At December 31,		
	2006	**2005**	**2004**
Allocated	**$ 12,405**	$ 12,385	$ 12,181
Unallocated	**878**	978	918
Total	**$ 13,283**	$ 13,363	$ 13,099

There was a slight increase in the allocated portion of the reserve of $20 thousand for the year ended December 31, 2006. At December 31, 2006, the real estate loan pool reserve decreased by $1.1 million when compared to December 31, 2005. This was attributed to a favorable reduction in the reserve factor for acceptable credit risks for this pool of loans. This reduction was offset by increased reserves for commercial loan pools and homogeneous loan pools of $172 thousand and $283 thousand respectively when comparing December 31, 2005 to December 31, 2006. There also was an increase in reserves for impaired loans of $500 thousand; this was due to an increase of impaired loans from $3.3 million at December 31, 2005 to $8.4 million at December 31, 2006. The $204 thousand increase in the allocated portion of the reserve for the year ended December 31, 2005 was due to a $952 thousand increase in reserves on commercial real estate and construction loans as balances increased and the credit quality of certain loans decreased and a $648 thousand increase in homogeneous loans pool reserves as indirect auto loans grew from $36.4 million at December 31, 2004 to $73.3 million at December 31, 2005 and the addition of credit cards being offered in 2005. This increase was partially offset by a reduction in specific reserves of $1.6 million as the balance of impaired loans decreased from $10.1 million at December 31, 2004 to $3.3 million at December 31, 2005.

Management believes that both the allocated and other portions of the reserve are maintained at a level that is adequate to absorb losses in the loan portfolio.

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Table 11 Summary of Loan Loss Experience

The following table presents average loans and summarizes loan loss experience for the years ended December 31, 2006, 2005, 2004, 2003 and 2002:

	For the Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Average amount of loans outstanding	**$ 1,317,711**	$ 1,198,881	$ 1,117,943	$ 937,265	$ 807,248
Loan loss reserve at beginning of period	**$ 13,363**	$ 13,099	$ 12,788	$ 10,518	$ 10,294
Charge-offs:					
Real estate loans		911	382		54
Commercial and industrial loans	**1,860**	1,329	894	965	1,185
Loans to individuals	**1,133**	1,019	468	374	535
Total charge-offs	**2,993**	3,259	1,744	1,339	1,774
Recoveries:					
Real estate loans	**168**	368	86	45	367
Commercial and industrial loans	**139**	625	146	326	182
Loans to individuals	**391**	421	201	155	146
Total recoveries	**698**	1,414	433	526	695
Net charge-offs	**2,295**	1,845	1,311	813	1,079
Additions to loan loss reserve	**2,215**	2,109	1,622	1,000	1,303
Additions to loan loss reserve as a result of acquisitions				2,083	
Loan loss reserve at end of period	**$ 13,283**	$ 13,363	$ 13,099	$ 12,788	$ 10,518
Ratio of net charge-off to average loans	**.17%**	.15%	.12%	.09%	.13%

The decrease in charge-offs during 2006 compared to 2005 was primarily due to the reduction of charge-off activity for real estate loans. There was an increase of charge-offs of $531 thousand in commercial and industrial loans, this increase was primarily due to one large customer charge-off of $1.4 million. Loans that are charged-off are considered to be permanently impaired. Recoveries decreased during 2006 compared to 2005, this was due primarily to the effect of a 2005 sale of a commercial mortgage to a third party investor and payments made on a commercial credit as the borrowers were able to sell personal and business assets not used as collateral for the loan.

The following table summarizes the allocation of the allowance for loan losses and the percentage of loans in each major loan category to total loans at December 31, 2006, 2005, 2004, 2003 and 2002:

	At December 31,									
	2006		2005		2004		2003		2002	
estate loans	**$ 4,266**	**58.7%**	$ 5,431	61.1%	$ 4,887	63.0%	$ 3,970	64.1%	$ 3,777	58.
nmercial and strial loans	**6,963**	**32.6**	6,005	30.7	6,945	31.4	7,258	30.7	4,344	34.
ns to viduals	**1,005**	**6.6**	949	8.2	349	5.6	859	5.2	1,125	7.
e financings	**171**	**2.1**								
llocated	**878**		978		918		701		1,272	
1	**$ 13,283**	**100.0%**	$ 13,363	100.0%	$ 13,099	100.0%	$ 12,788	100.0%	$ 10,518	100.

The ratio of the reserve for loan losses to total loans was 0.98% at December 31, 2006 and 1.1% at December 31, 2005.

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Goodwill and Other Intangible Assets

On January 1, 2002, the Corporation adopted Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). In accordance with the reserves of SFAS 142, the Corporation has completed the annual impairment tests and no impairment was noted. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

The Corporation has intangible assets due to bank and branch acquisitions, core deposit intangibles, covenants not to compete (in favor of the Corporation), customer lists and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life. The amortization for these intangible assets was $689 thousand for the year ended December 31, 2006, $532 thousand for the year ended December 31, 2005, and $616 thousand for the year ended December 31, 2004. The Corporation also has goodwill of $47.2 million ($44.3 million net of accumulated amortization prior to January 1, 2002), which is deemed to be an indefinite intangible asset and will not be amortized.

LIABILITIES

The following table presents liabilities at December 31, 2006 and December 31, 2005:

	At December 31,			
	2006	**2005**	**$ Change**	**% Change**
Deposits	**$ 1,488,545**	$ 1,366,715	$ 121,830	8.9%
Borrowings	**225,066**	196,761	28,305	14.4
Other liabilities	**30,505**	32,753	(2,248)	(6.9)
Total liabilities	**$ 1,744,116**	$ 1,596,229	$ 147,887	9.3

Deposits

Total deposits grew during 2006 due to a $39.4 million increase in certificates of deposits and other time deposits, a $74.7 million increase in money market savings and $16.7 million increase in non-interest bearing demand deposits. These increases were offset by decreases in other interest-bearing demand deposits of $11.9 million. Certificates of deposits and money market savings grew during 2006 primarily as a result of promotions offered to grow deposits in the Bank s competitive marketplace. The Bank purchased $35.0 million in PLGIT certificates of deposit during 2006 to offset the $50.0 million of matured PLGIT certificates and to augment its fixed funding sources. Average deposit growth for the years ended December 31, 2006 compared to 2005 was due to money market savings and certificates of deposits as discussed above. Average deposit growth for the years ended December 31, 2005 compared to 2004 was also due to the growth of certificates of deposits and money market savings.

Table 12 Deposits

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

For the Years Ended December 31,

	2006	2005	2004
Noninterest-bearing demand deposits	**$ 227,444**	$ 226,523	$ 216,050
Interest checking deposits	**135,793**	150,024	154,562
Money market savings	**321,025**	274,304	248,908
Regular savings	**195,125**	206,876	221,974
Time deposits	**549,324**	459,110	405,010
Total average deposits	**$ 1,428,711**	$ 1,316,837	$ 1,246,504

The following table summarizes the maturities of time deposits with balances of $100 thousand or more at December 31, 2006:

	Due Three Months or Less	Due Three to Six Months	Due Six to Twelve Months	Due Over Twelve Months
Time deposits	$ 75,055	$ 18,620	$ 29,138	$ 9,784

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Borrowings

Long-term debt increased $20.5 million during 2006 primarily due to $30.0 million of additional advances from the Federal Home Loan Bank. Short-term borrowings increased $9.3 million during 2006 primarily due to increases in Federal funds purchased. In May 2003, the Corporation issued $15.0 million in Subordinated Capital Notes, payments of $1.5 million were made on these notes in 2006; the subordinated capital notes qualify for Tier 2 capital status. In August 2003, the Corporation issued $20.0 million of Trust Preferred Securities that qualify for Tier 1 capital status. The proceeds from these transactions were used to support the future growth of the Corporation and its banking subsidiary and for general corporate purposes. The Corporation deconsolidated its Capital Trust in the first quarter of 2004, as a consequence of the adoption of FIN 46. The result was an increase in the junior debt of $619 thousand.

Table 13 Short Term Borrowings

The following table details key information pertaining to securities sold under agreement to repurchase on an overnight basis for the periods indicated:

	2006	2005	2004
Balance at December 31	**$ 99,761**	$ 108,312	$ 104,442
Weighted average interest rate at year end	**2.2%**	2.1%	0.7%
Maximum amount outstanding at any month s end	**$ 104,581**	$ 111,624	$ 117,664
Average amount outstanding during the year	**$ 96,624**	$ 98,620	$ 98,735
Weighted average interest rate during the year	**2.2%**	1.4%	0.7%

Shareholders Equity

The following table presents the shareholders equity at December 31, 2006 and 2005:

	At December 31,			
	2006	2005	$ Change	% Change
Common stock	**$ 74,370**	$ 74,370	$	%
Additional paid-in capital	**22,459**	22,051	408	1.9
Retained earnings	**128,242**	114,346	13,896	12.2
Accumulated other comprehensive loss	**(4,463)**	(1,050)	(3,413)	(325.0)
Treasury stock	**(35,223)**	(36,637)	1,414	(3.9)
Total shareholders equity	**$ 185,385**	$ 173,080	$ 12,305	7.1

On March 23, 2005 the Corporation declared a three-for-two split in the form of a 50 percent stock dividend which was distributed on April 29, 2005. The declaration of this split was recorded in March 2005, which increased common stock by $24.8 million and decreased retained earnings by $24.8 million; this amount equates to the par value of the common stock the Corporation distributed on April 29, 2005. Retained earnings were favorably impacted by net income of $25.4 million partially offset by cash dividends of $10.1 million declared during 2006. Treasury stock decreased primarily because treasury shares were issued for option exercises. There is a buyback program in place that as of December 31, 2006 allows the Corporation to purchase an additional 510,727 shares of its outstanding common

stock in the open market or in negotiated transactions.

Accumulated other comprehensive loss related to debt securities of $175 thousand, net of taxes, is included in shareholders equity at December 31, 2006. Accumulated other comprehensive income related to debt securities of $989 thousand, net of taxes, has been included in shareholders equity at December 31, 2005. Accumulated other comprehensive income (loss) related to debt securities is the unrealized gain (loss), or difference between the book value and market value, on the available-for-sale investment portfolio, net of taxes. The period-to-period recovery in accumulated other comprehensive income (loss) was a result of increases in the market values of non-mortgage-backed government agency debt securities this increase is offset by a decline in the market value of municipal securities. The increase in market value of the of the non-mortgage-backed government agency debt securities is attributable to the replacement of lower yielding securities at maturity with higher yielding securities. This increase is also

attributed to an increase in the 2-year treasury yield of 27 basis points, an increase in the 3-year treasury yield of 23 basis points, an increase in the 5-year treasury yield of 14 basis points and an increase in the 7-year treasury yield of 13 basis points from December 31, 2005 to December 31, 2006.

Capital Adequacy

Capital guidelines which banking regulators have adopted assign minimum capital requirements for categories of assets depending on their assigned risks. The components of risk-based capital for the Corporation are Tier 1 and Tier 2. Minimum required total risk-based capital is 8.0%. At December 31, 2006, the Corporation had a Tier 1 capital ratio of 10.7% and total risked-based capital ratio of 11.9%. The Corporation had a Tier 1 capital ratio of 11.0% and total risk-based capital ratio of 12.5% at December 31, 2005. The Corporation continues to be in the well-capitalized category under regulatory standards. Details on the capital ratios can be found in Note 17 Regulatory Matters of this Form 10-K along with a discussion on dividend and other restrictions.

In April 2003, the Corporation secured $15.0 million in subordinated capital notes of which $9.8 million remains outstanding at December 31, 2006, that qualify for Tier 2 capital status. In August 2003, the Corporation, through an unconsolidated affiliate, issued $20.0 million of trust preferred securities that qualify for Tier 1 capital status.

Critical Accounting Policies

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

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

Intangible assets have been recorded on the books of the Corporation in connection with its acquisitions of First County Bank, Pennview Savings Bank, Suburban Community Bank, Univest Investments, Inc. and Univest Insurance, Inc. These assets, both identifiable and unidentifiable, are subject to tests for impairment. Changes in the useful life or economic value of acquired assets may require a reduction in the asset value carried on the financial statements of the Corporation and a related charge in the statement of operations. Such changes in asset value could result from a change in market demand for the products or services offered by an acquired business or by reductions in the expected profit margins that can be obtained through the future delivery of the acquired product or service line. SFAS 142, which took effect January 1, 2002, defines the methods that are acceptable for determining whether intangible asset values are sustainable.

The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). Each of these designations affords different treatment in the statement of operations and statement of financial condition for market

value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management s intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that either statement of financial position or statement of operations adjustments may be required.

The Corporation accounts for mortgage servicing rights for mortgages it originated but subsequently sold in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and

Extinguishments of Liabilities a replacement of FAS No. 125. As such, the value of the rights is booked as income when the corresponding mortgages are sold. The income booked at sale is the estimated present value of the cash flows that will be received from servicing the loans over the entire future term. The term of a servicing right can be reasonably estimated using prepayment assumptions of comparable assets priced in the secondary market. As mortgage rates being offered to the public decrease, the life of loan servicing rights tends to shorten, as borrowers have increased incentive to refinance. Shortened loan servicing lives require a change in the value of the servicing rights that have already been recorded to be marked down in the statement of operations of the servicing company. This may cause a material change in reported operations for the Corporation depending on the size of the servicing portfolio and the degree of change in the prepayment speed of the type and coupon of loans being serviced.

The Corporation recognizes deferred tax assets and liabilities under the liability method of FAS 109. Enacted tax rates are applied to cumulative temporary differences based on expected taxable income in the periods in which the deferred tax asset or liability is anticipated to be realized. Future tax rate changes could occur that would require the recognition of income or expense in the statement of operations in the period in which they are enacted. Deferred tax assets must be reduced by a valuation allowance if in management s judgment it is more likely than not that some portion of the asset will not be realized. Management may need to modify their judgments in this regard from one period to another should a material change occur in, the business environment, tax legislation, or in any other business factor that could impair the Corporation s ability to benefit from the asset in the future.

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

During the first quarter of 2006, the Corporation adopted SFAS 123R, Accounting for Stock-based Compensation, and added stock-based compensation to its list of critical accounting policies. The Corporation uses the Black-Scholes Model to estimate the fair value of each option on the date of grant. The Black-Scholes Model estimates the fair value of employee stock options using a pricing model which takes into consideration the exercise price of the option, the expected life of the options, the current market price and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Corporation s estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. The Corporation recognized stock-based compensation expense of $548 thousand for 2006.

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

Asset/Liability Management

The primary functions of Asset/ Liability Management are to assure adequate earnings, capital and liquidity while maintaining an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet cash flow requirements of customers and corporate needs. Interest-rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of net interest income through periods of changing rates.

The Corporation uses both an interest-sensitivity gap analysis and a simulation model to quantify its exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year horizon. The simulation uses existing portfolio rate and repricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayments on residential mortgages, and the discretionary pricing of non-maturity assets and liabilities.

The Corporation had used an interest-rate swap agreement that converts a portion of its floating rate commercial loans to a fixed rate basis. In this swap, the Corporation agreed to exchange, at specified intervals, the difference between the fixed and floating interest rates calculated on a agreed upon notional principal amount. Interest-rate swaps in which the Corporation pays a floating rate and receives a fixed rate are used to reduce the impact of changes in interest rates on the Corporation s net income. The impact of the interest-rate swap on interest income for the year ended December 31, 2006 was a negative $146 thousand compared to positive $21 thousand for the year ended December 31, 2005. At December 31, 2006 the Corporation had no swaps outstanding.

Credit Risk

Extending credit exposes the Corporation to credit risk, which is the risk that the principal balance of a loan and any related interest will not be collected due to the inability of the borrower to repay the loan. The Corporation manages credit risk in the loan portfolio through adherence to consistent standards, guidelines and limitations established by the Board of Directors. Written loan policies establish underwriting standards, lending limits and other standards or limits as deemed necessary and prudent.

The loan review department conducts ongoing, independent reviews of the lending process to ensure adherence to established policies and procedures, monitors compliance with applicable laws and regulations, provides objective measurement of the risk inherent in the loan portfolio, and ensures that proper documentation exists.

The Corporation focuses on both assessing the borrower s capacity and willingness to repay and on obtaining sufficient collateral. Commercial and industrial loans are generally secured by the borrower s assets and by personal guarantees. Commercial real estate loans are originated primarily within the Eastern Pennsylvania market area and are secured by developed real estate at conservative loan-to-value ratios and often by a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that significant credit concentrations by borrower or industry do not exist.

Credit risk in the direct consumer loan portfolio, card portfolio and indirect auto loan portfolio is controlled by strict adherence to conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. In the home equity loan portfolio, combined loan-to-value ratios are generally limited to 80%. Other credit considerations may warrant higher combined loan-to-value ratios for approved loans.

The Corporation originates fixed-rate and adjustable-rate residential mortgage loans that are secured by the underlying 1- to 4-family residential properties. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

The Corporation closely monitors delinquencies as another means of maintaining high asset quality. Collection efforts begin after a loan payment is missed, by attempting to contact all borrowers. If collection attempts fail, the Corporation will proceed to gain control of any and all collateral in a timely manner in order to minimize losses. While liquidation and recovery efforts continue, officers continue to work with the borrowers, if appropriate, to recover all monies owed to the Corporation. The Corporation monitors delinquency trends and past due reports are submitted to the Board of Directors.

Liquidity

The Corporation, in its role as a financial intermediary, is exposed to certain liquidity risks. Liquidity refers to the Corporation s ability to ensure that sufficient cash flow and liquid assets are available to satisfy demand for loans and deposit withdrawals. The Corporation manages its liquidity risk by measuring and monitoring its liquidity sources and estimated funding needs. The Corporation has a contingency funding plan in place to address liquidity needs in the event of an institution-specific or a systemic financial crisis.

Sources of Funds

Core deposits and cash management repurchase agreements (Repos) have historically been the most significant funding sources for the Corporation. These deposits and Repos are generated from a

base of consumer, business and public customers primarily located in Bucks and Montgomery counties, Pennsylvania. The Corporation faces increased competition for these deposits from a large array of financial market participants, including banks, thrifts, mutual funds, security dealers and others.

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

Since August 2004, the Bank began purchasing Certificates from PLGIT to augment its short-term fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the FHLB; therefore, Univest National Bank is not required to provide collateral on these deposits. At December 31, 2006, the Bank had $35.0 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 $352.2 million. At December 31, 2006, outstanding borrowings under the FHLB credit facilities totaled $75.5 million. The maximum borrowing capacity changes as a function of qualifying collateral assets and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Corporation maintains federal fund lines with several correspondent banks totaling $112.0 million. At December 31, 2006, there were $17.9 million of outstanding borrowings under these lines. Future availability under these lines is subject to the policies of the granting banks and may be withdrawn.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At December 31, 2006, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements including various financial obligations, including contractual obligations and commitments that require cash payments. The following contractual obligations and commitments table presents, as of December 31, 2006, significant fixed and determinable contractual obligations to third parties. The most significant obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Securities sold under agreement to repurchase constitute the next largest payment obligation and 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.

The table also shows the amounts and expected maturities of significant commitments as of December 31, 2006. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods.

Contractual Obligations and Commitments

The Corporation enters into contractual obligations in the normal course of business as a source of funds for its asset growth and its asset/liability management, to fund acquisitions and to meet required capital needs. These obligations require the Corporation to make cash payments over time as detailed in the table below.

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to manage the Corporation s exposure to fluctuation in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters of credit and forward contracts. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of these financial instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit

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policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Corporation does not require and is not required to pledge collateral or other security to support financial instruments with credit risk. These commitments expire over time as detailed in Table 14.

Forward contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are not traded on organized exchanges and their contractual terms are not standardized. The Corporation s forward contracts are commitments to sell loans secured by 1-to-4 family residential properties whose predominant risk characteristic is interest rate risk. At December 31, 2006, the Corporation had $256 thousand of obligations under forward contracts.

For further information regarding the Corporation s commitments, refer to Footnote 14 of the Consolidated Financial Statements, herein.

Table 14 Contractual Obligations

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows, including interest payable, as of December 31, 2006:

	Payments Due by Period				
	Total	Due in One Year or Less	Due in One to Three Years	Due in Four to Five Years	Due in Over Five Years
Long-term debt(a)	$ 87,933	$ 4,975	$ 39,133	$ 38,632	$ 5,193
Subordinated capital notes(b)	12,138	2,112	3,978	3,588	2,460
Trust preferred securities(c)	67,035	1,734	3,468	3,468	58,365
Securities sold under agreement to repurchase(d)	99,766	99,766			
Other short-term borrowings	17,903	17,903			
Time deposits(e)	550,949	462,499	56,143	31,080	1,227
Operating leases	8,145	1,547	2,307	1,622	2,669
Forward contracts	256	256			
Standby and commercial letters of credit	71,440	62,821	8,619		
Commitments to extend credit(f)	481,098	141,197	75,218	15,298	249,385
PLGIT deposits	36,929	36,929			
Total contractual obligations	$ 1,433,592	$ 831,739	$ 188,866	$ 93,688	$ 319,299

Notes:

(a) Interest expense is projected based upon the weighted average interest rate of long-term debt.

(b)

Includes interest on both fixed and variable rate obligations. The interest expense associated with the variable rate obligations is based upon interest rates in effect at December 31, 2006. The contractual amounts to be paid on variable rate obligations are effected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

(c) Includes interest on variable rate obligations. The interest expense is based upon interest rates in effect at December 31, 2006. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid. The trust preferred securities mature in 2033 and interest is calculated to this maturity date. The first non-penalized call date is in 2008, the Corporation may choose to call these securities as a result of interest rate fluctuations and capital needs.

(d) Includes interest on variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. The contractual amounts to be paid on variable rate obligations are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

(e) Includes interest on both fixed and variable rate obligations. The interest expense is based upon the fourth quarter average interest rate. The contractual amounts to be paid on variable rate obligations

are affected by changes in the market interest rates. Future changes in the market interest rates could materially affect the contractual amounts to be paid.

(f) Includes both revolving and straight lines of credit. Revolving lines, including unused credit card lines, are reported in the Due in One Year or Less category.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155). SFAS 155 amends SFAS Nos. 133 and 140. SFAS 155 resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS 155: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of SFAS 155. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Reserves of SFAS 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. The Corporation has not completed its assessment of SFAS 155 and the impact, if any, on the consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS 156). SFAS 156 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156: 1) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a) a transfer of the servicer s financial assets that meets the requirements for sale accounting; b) a transfer of the servicer s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115); or, c) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities: a) amortization method amortize servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date; or, b) fair value measurement method measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or servicing liabilities that a

servicer elects to subsequently measure at fair value; and, 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS 156 as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of SFAS 156 is the date an entity adopts the

requirements of this Statement. The Corporation has not completed its assessment of SFAS 156 and the impact, if any, on the consolidated financial statements.

In June 2006 the FASB issued 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation does not expect to have a significant impact on its consolidated financial statements upon the adoption of FIN 48.

In September 2006, the 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 has not completed its assessment of SFAS 157 and the impact, if any, on the consolidated 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 advances 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 first 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 has not completed its assessment of SFAS 159 or its potential impact on the consolidated financial statements.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of loss from adverse changes in market prices and rates. In the course of its lending and deposit taking activities, the Corporation is subject to changes in the economic value and/or earnings potential of these assets and liabilities due to changes in interest rates. The Corporation s Asset/Liability Management Committee (ALMC) manages interest rate risk in a manner so as to provide adequate and reliable earnings. This is accomplished through the establishment of policy limits on maximum risk exposures, as well as the regular and timely monitoring of reports designed to quantify risk and return levels.

The Corporation uses both an interest-rate sensitivity gap analysis and a simulation model to quantify its exposure to interest rate risk. The Corporation uses the gap analysis to identify and monitor long-term rate exposure and uses a simulation model to measure the short-term rate exposures. The Corporation runs various earnings simulation scenarios to quantify the effect of declining or rising interest rates on the net interest margin over a one-year horizon. The simulation uses existing portfolio rates and repricing information, combined with assumptions regarding future loan and deposit growth, future spreads, prepayments on residential mortgages, and the discretionary pricing of non-maturity assets and liabilities. The Corporation is permitted to use interest-rate swaps and interest-rate caps/floors with indices that correlate to on-balance sheet instruments, to modify its indicated net interest sensitivity to levels deemed to be appropriate based on the Corporation s current economic outlook.

At December 31, 2006, the simulation, based upon forward-looking assumptions, projects that the Corporation s greatest interest margin exposure to interest-rate risk would occur if interest rates increased from present levels. Given the assumptions, a 200 basis point parallel shift in the yield curve applied on a ramp-up basis would cause the Corporation s net interest margin, over a 1-year horizon, to be approximately 2.5% less than it would be if market rates would remain unchanged. At December 31, 2005, the simulation, based upon forward-looking assumptions, projects that the Corporation s greatest interest margin exposure to interest-rate risk would occur if interest rates decline from present levels. Given the assumptions, a 200 basis point parallel shift in the yield curve applied on a ramp-down basis would cause the Corporation s net interest margin, over a 1-year horizon, to be approximately 0.4% less than it would be if market rates would remain unchanged. Policy limits have been established which allow a tolerance for no more than approximately a 5.0% negative impact to the interest margin resulting from a 200 basis point parallel yield curve shift over a forward looking 12-month period. See Management s Discussion and Analysis of Financial Condition and Results of Operations Net Interest Income and Asset/Liability Management, Liquidity and Table 15.

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Table 15 Interest Sensitivity Analysis

Interest Sensitivity Analysis at December 31, 2006:

	Within Three Months	Three to Twelve Months	One to Five Years	Over Five Years	Non-Rate Sensitive	Total
Assets:						
Cash and due from banks	$	$	$	$	$ 46,956	$ 46,956
Interest-earning deposits with other banks	582					582
Federal funds sold	22,817					22,817
Investment securities	19,931	30,534	131,818	200,117		382,400
Loans, net	474,928	201,276	559,374	118,103	(13,283)	1,340,398
Other assets					136,348	136,348
Total assets	518,258	231,810	691,192	318,220	170,021	$ 1,929,501
Liabilities and shareholders equity:						
Noninterest-bearing deposits					263,417	$ 263,417
Interest-bearing demand deposits	345,051	25,749	137,340			508,140
Savings deposits	50,296	22,869	121,961			195,126
Time deposits	156,135	288,326	76,409	992		521,862
Borrowed funds	52,814	15,916	150,586	5,750		225,066
Other liabilities					30,505	30,505
Shareholders equity					185,385	185,385
Total liabilities and shareholders equity	604,296	352,860	486,296	6,742	479,307	$ 1,929,501
Incremental gap	$ (86,038)	$ (121,050)	$ 204,896	$ 311,478	$ (309,286)	
Cumulative gap	$ (86,038)	$ (207,088)	$ (2,192)	$ 309,286		
Cumulative gap as a percentage of interest-earning assets	(4.89)%	(11.77)%	(0.12)%	17.58%		

Item 8. ***Financial Statements and Supplementary Data***

The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

	Page
Report of Independent Registered Public Accounting Firm	43
Consolidated Balance Sheets	44
Consolidated Statements of Income	45
Consolidated Statements of Changes in Shareholders Equity	46
Consolidated Statements of Cash Flows	47
Notes to Consolidated Financial Statements	48

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Univest Corporation of Pennsylvania:

We have audited the accompanying consolidated balance sheets of Univest Corporation of Pennsylvania and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders equity, and cash flows, for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123R, Share Based Payment, effective January 1, 2006, and as discussed in note 9 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

Philadelphia, Pennsylvania
March 6, 2007

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

	At December 31, 2006	2005
	(In thousands, except share data)	
ASSETS		
Cash and due from banks	**$ 46,956**	$ 46,226
Interest-earning deposits with other banks	**582**	563
Federal funds sold	**22,817**	12,650
Investment securities held-to-maturity (market value $2,685 and $14,686 at December 31, 2006 and 2005, respectively)	**2,619**	14,808
Investment securities available-for-sale	**379,781**	328,451
Loans and leases	**1,353,681**	1,249,652
Less: Reserve for loan and lease losses	**(13,283)**	(13,363)
Net loans and leases	**1,340,398**	1,236,289
Premises and equipment, net	**21,878**	21,635
Goodwill, net of accumulated amortization of $2,942 at December 31, 2006 and 2005	**44,273**	40,998
Other intangibles, net of accumulated amortization and fair value adjustments of $5,113 and $4,424 at December 31, 2006 and 2005, respectively	**3,335**	2,389
Cash surrender value of insurance policies	**36,686**	35,211
Accrued interest and other assets	**30,176**	30,089
Total assets	**$ 1,929,501**	$ 1,769,309
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 263,417**	$ 246,736
Demand deposits, interest-bearing	**508,140**	445,395
Savings deposits	**195,126**	192,154
Time deposits	**521,862**	482,430
Total deposits	**1,488,545**	1,366,715
Securities sold under agreements to repurchase	**99,761**	108,312
Other short-term borrowings	**17,900**	
Accrued expenses and other liabilities	**30,505**	32,753
Long-term debt	**77,036**	56,580
Subordinated notes	**9,750**	11,250
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities)	**20,619**	20,619

Total liabilities	**1,744,116**	1,596,229
SHAREHOLDERS EQUITY		
Common stock, \$5 par value; 24,000,000 shares authorized at December 31, 2006 and 2005; 14,873,904 shares issued at December 31, 2006 and 2005; and 13,005,329 and 12,947,001 shares outstanding at December 31, 2006 and 2005, respectively	**74,370**	74,370
Additional paid-in capital	**22,459**	22,051
Retained earnings	**128,242**	114,346
Accumulated other comprehensive loss, net of tax benefit	**(4,463)**	(1,050)
Treasury stock, at cost; 1,868,575 shares and 1,926,903 shares at December 31, 2006 and 2005, respectively	**(35,223)**	(36,637)
Total shareholders equity	**185,385**	173,080
Total liabilities and shareholders equity	**\$ 1,929,501**	\$ 1,769,309

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2006	**2005**	**2004**
	(In thousands, except per share data)		
Interest income			
Interest and fees on loans and leases:			
Taxable	**$ 85,222**	$ 68,584	$ 57,421
Exempt from federal income taxes	**3,917**	3,271	2,939
Total interest and fees on loans and leases	**89,139**	71,855	60,360
Interest and dividends on investment securities:			
Taxable	**11,865**	9,839	10,805
Exempt from federal income taxes	**3,854**	3,579	3,578
Interest on time deposits with other banks	**27**	17	6
Interest on federal funds sold and term federal funds	**281**	212	40
Total interest income	**105,166**	85,502	74,789
Interest expense			
Interest on demand deposits	**11,886**	6,043	2,362
Interest on savings deposits	**1,615**	581	646
Interest on time deposits	**21,837**	13,592	11,040
Interest on long-term borrowings	**4,995**	4,371	3,828
Interest on short-term debt	**3,318**	1,677	1,072
Total interest expense	**43,651**	26,264	18,948
Net interest income	**61,515**	59,238	55,841
Provision for loan and lease losses	**2,215**	2,109	1,622
Net interest income after provision for loan and lease losses	**59,300**	57,129	54,219
Noninterest income			
Trust fee income	**5,515**	5,225	5,028
Service charges on deposit accounts	**6,771**	6,908	6,537
Investment advisory commission and fee income	**2,284**	1,957	1,907
Insurance commission and fee income	**4,765**	3,551	3,068
Life insurance income	**1,475**	1,301	1,469
Other service fee income	**3,348**	3,154	2,687
Net gains on sales of securities	**50**	150	1,066
Net gain (loss) of dispositions of fixed assets	**653**	(218)	226
Other	**556**	416	615

Total noninterest income	**25,417**	22,444	22,603
Noninterest expense			
Salaries and benefits	**28,547**	26,795	25,360
Net occupancy	**4,362**	4,276	4,018
Equipment	**3,274**	2,994	2,854
Marketing and advertising	**1,685**	1,669	1,192
Other	**12,090**	10,062	11,496
Total noninterest expense	**49,958**	45,796	44,920
Income before income taxes	**34,759**	33,777	31,902
Applicable income taxes	**9,382**	8,910	8,311
Net income	**$ 25,377**	$ 24,867	$ 23,591
Net income per share:*			
Basic	**$ 1.96**	$ 1.93	$ 1.84
Diluted	**$ 1.95**	$ 1.91	$ 1.80

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

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Shares Outstanding	Accumulated Other Comprehensive Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
			(In thousands, except share data)				
Balance at December 31, 2003	8,546,418	$ 3,497	$ 49,580	$ 20,912	$ 111,657	$ (39,894)	$ 145,752
Comprehensive Income:							
Net Income for 2004					23,591		23,591
Other comprehensive loss, net of income tax benefit of $(700):							
Unrealized losses on investment securities available-for-sale		(1,307)					(1,307)
Unrealized losses on swaps		(3)					(3)
Total comprehensive income							22,281
Cash dividends declared ($0.667 per share)*					(8,560)		(8,560)
Stock issued under dividend reinvestment and employee stock purchase plans	44,112				(24)	1,991	1,967
Exercise of stock options, including tax benefits of $720	45,416			720	(892)	1,865	1,693
Acquisition of treasury stock	(60,328)					(2,740)	(2,740)
Balance at December 31, 2004	8,575,618	2,187	49,580	21,632	125,772	(38,778)	160,393
Comprehensive Income:							
Net Income for 2005					24,867		24,867
Other comprehensive loss, net of income tax benefit of $(1,742):							
Unrealized losses on investment securities available-for-sale		(3,176)					(3,176)

Unrealized losses on swaps		(61)					(61)
Total comprehensive income							21,630
Cash paid in lieu of fractional shares					(6)		(6)
Three-for-two stock split	4,294,143		24,790		(24,790)		
Cash dividends declared ($0.717 per share)*					(9,260)		(9,260)
Stock issued under dividend reinvestment and employee stock purchase plans	59,450				(27)	2,020	1,993
Exercise of stock options, including tax benefits of $419	174,898			419	(2,210)	4,805	3,014
Acquisition of treasury stock	(157,108)					(4,684)	(4,684)
Balance at December 31, 2005	**12,947,001**	**(1,050)**	**74,370**	**22,051**	**114,346**	**(36,637)**	**173,080**
Comprehensive Income:							
Net Income for 2006					**25,377**		**25,377**
Other comprehensive income, net of income tax of $471:							
Unrealized gain on investment securities available-for-sale		**814**					**814**
Unrealized losses on swaps		**61**					**61**
Total comprehensive income							**26,252**
Cash dividends declared ($0.780 per share)					**(10,114)**		**(10,114)**
Stock issued under dividend reinvestment and employee stock purchase plans	**77,749**					**2,051**	**2,051**
Exercise of stock options, including tax benefits of $408	**146,384**			**408**	**(1,367)**	**3,845**	**2,886**
Acquisition of treasury stock	**(165,805)**					**(4,482)**	**(4,482)**
Adjustment to initially adopt SFAS Statement 158, net of		**(4,288)**					**(4,288)**

income taxes of $2,309							
Balance at December 31, 2006	**13,005,329**	**$ (4,463)**	**$ 74,370**	**$ 22,459**	**$ 128,242**	**(35,223)**	**$ 185,385**

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

See accompanying notes to consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2006	2005	2004
	(In thousands)		
Cash flows from operating activities:			
Net income	**$ 25,377**	$ 24,867	$ 23,591
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**2,215**	2,109	1,622
Depreciation of premises and equipment	**2,187**	2,013	1,995
(Discount accretion) premium amortization on investment securities	**(298)**	(170)	174
Amortization and fair market adjustments on intangibles	**689**	409	579
Premium accretion on deposits and long-term debt	**(708)**	(879)	(1,170)
Increase in cash surrender values of insurance policies	**(1,475)**	(1,301)	(1,469)
Deferred tax expense	**538**	3	286
Realized gains on investment securities	**(50)**	(150)	(1,066)
Realized (gains) losses on sales of fixed assets	**(653)**	218	(226)
Realized gains on sales of loans and leases	**(386)**	(79)	(113)
Net (increase) decrease in deferred loan fees and amortization of premiums on loans	**(198)**	1	281
Deconsolidation of capital trust			619
(Increase) decrease in interest receivable and other assets	**(2,596)**	(1,364)	8,186
(Decrease) increase in accrued expenses and other liabilities	**(5,691)**	9,081	(910)
Net cash provided by operating activities	**18,951**	34,758	32,379
Cash flows from investing activities:			
Net cash paid due to acquisitions, net of cash acquired	**(4,336)**	(200)	
Proceeds from maturing securities held-to-maturity	**11,039**	75,207	75,027
Proceeds from maturing securities available-for-sale	**185,312**	56,761	91,166
Proceeds from sales and calls of securities available-for-sale	**28,532**	16,053	58,125
Purchases of investment securities held-to-maturity		(49,885)	(79,914)
Purchases of investment securities available-for-sale	**(262,424)**	(102,458)	(65,765)
(Increase) decrease in interest-earning deposits	**(19)**	148	590
Net (increase) decrease in federal funds sold	**(10,167)**	(11,492)	1,370
Proceeds from sales of loans and leases	**15,753**	7,329	8,255
Purchases of lease financings	**(20,943)**		
Net increase in loans and leases	**(100,565)**	(84,322)	(121,532)
Capital expenditures	**(1,719)**	(4,038)	(2,089)
Net cash used in investing activities	**(159,537)**	(96,897)	(34,767)
Cash flows from financing activities:			
Net increase in deposits	**122,069**	96,241	1,279

Net increase (decrease) in short-term borrowings	**9,349**	(13,630)	(7,688)
Issuance of long-term debt	**30,000**		7,500
Repayment of long-term debt	**(9,075)**		(3,000)
Repayment of subordinated debt	**(1,500)**	(1,500)	(1,500)
Purchases of treasury stock	**(4,482)**	(4,684)	(2,740)
Stock issued under dividend reinvestment and employee stock purchase plans	**2,051**	1,993	1,967
Proceeds from exercise of stock options, including tax benefits	**2,886**	3,014	1,693
Cash dividends paid	**(9,982)**	(8,945)	(8,128)
Net cash provided by (used in) financing activities	**141,316**	72,489	(10,617)
Net increase (decrease) in cash and due from banks	**730**	10,350	(13,005)
Cash and due from banks at beginning of year	**46,226**	35,876	48,881
Cash and due from banks at end of year	**$ 46,956**	$ 46,226	$ 35,876
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ 40,426**	$ 24,032	$ 22,459
Income taxes, net of refunds received	**8,043**	8,231	7,150
Assets acquired through acquisition	**599**		
Goodwill and other intangibles due to acquisitions	**4,895**	200	
Liabilities acquired through acquisitions	**(1,158)**		

See accompanying notes to consolidated financial statements.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements
(All dollar amounts presented in tables are in thousands, except per share data)

Note 1. Summary of Significant Accounting Policies

Organization

Univest Corporation of Pennsylvania (the Corporation) through its wholly owned subsidiary, Univest National Bank and Trust Co. (the Bank), is engaged in domestic commercial and retail banking services and provides a full range of community banking and trust services to its customers. The Bank wholly owns Vanguard Leasing, Inc., which provides lease financing, and Delview, Inc., who through its subsidiaries, Univest Investments, Inc. and Univest Insurance, Inc., provides financial planning, investment management, insurance products and brokerage services. Univest Investments, Univest Insurance, Vanguard Leasing and Univest Reinsurance Corporation, a wholly owned subsidiary of the Corporation, were formed to enhance the traditional banking and trust services provided by the Bank. Univest Investments, Univest Insurance, Vanguard Leasing and Univest Reinsurance do not currently meet the quantitative thresholds for separate disclosure provided under Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. Therefore, the Corporation currently has one reportable segment, Community Banking, and strategically is how the Corporation operates and has positioned itself in the marketplace. The Corporation s activities are interrelated, each activity is dependent, and performance is assessed based on how each of these activities supports the others. Accordingly, significant operating decisions are based upon analysis of the Corporation as one Community Banking operating segment. The Bank serves Montgomery and Bucks counties of Pennsylvania through 34 banking offices and provides banking and trust services to the residents and employees of 12 retirement communities, a work site office which performs a payroll check cashing service and an express banking center located in the Montgomery Mall.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank, Univest Realty Corporation, Univest Delaware, Inc. and Univest Reinsurance Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Misstatements

On September 13, 2006 the Securities and Exchange Commission (SEC) Staff issued Statement of Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, (SAB 108). SAB 108 addresses how errors, built up over time in the balance sheet, should be considered from a materiality perspective and corrected. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC Staff believes that companies should quantify errors using both a balance sheet and an income statement approach and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 also describes the circumstances

where it would be appropriate for a registrant to record a one-time cumulative effect adjustment to correct errors existing in prior years that previously had been considered immaterial as well as the required disclosures to investors. During 2006, the Corporation has not identified a situation for which it must apply SAB 108 for 2006, 2005 or 2004.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Interest-earning Deposits with Other Banks

Interest-earning deposits with other banks consist of deposit accounts with other financial institutions generally having maturities of three months or less.

Investment Securities

Securities are classified as investment securities held-to-maturity and carried at amortized cost if management has the positive intent and ability to hold the securities to maturity. Securities purchased with the intention of recognizing short-term profits are placed in the trading account and are carried at market value. Securities not classified as held-to-maturity or trading are designated securities available-for-sale and carried at fair value with unrealized gains and losses reflected in accumulated other comprehensive income, net of estimated income taxes.

Loans and Leases

Loans and leases are stated at the principal amount less net deferred fees and unearned discount. Interest income on commercial, consumer, and mortgage loans is recorded on the outstanding balance method, using actual interest rates applied to daily principal balances. Accrual of interest income on loans and leases ceases when collectibility of interest and/or principal is questionable. If it is determined that the collection of interest previously accrued is uncertain, such accrual is reversed and charged to current earnings. Thereafter, income is only recognized as payments are received for loans and leases on which there is no uncertainty as to the collectibility of principal. Loans and leases are considered past due based upon failure to comply with contractual terms.

When a loan or lease, including a loan or lease impaired under SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114), is classified as nonaccrual, the accrual of interest on such a loan or lease is discontinued. A loan or lease is classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectibility of principal or interest, even though the loan or lease is currently performing. A loan or lease may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on nonaccrual status, unpaid interest credited to income 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.

Loan and Lease Fees

Fees collected upon loan or lease origination and certain direct costs of originating loans and leases are deferred and recognized over the contractual lives of the related loans as yield adjustments. Upon prepayment or other disposition of the underlying loans and leases before their contractual maturities, any associated unamortized or unearned fees or unamortized costs are recognized.

Derivative Financial Instruments

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), requires us to recognize all derivative financial instruments on our Statements of Condition at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is recognized in earnings immediately. To determine fair value, we use pricing models that incorporate assumptions about market conditions and risks that are current as of the reporting date.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

The Corporation may use interest-rate swap agreements to manage the interest-rate risk of its floating-rate loan portfolio. The Corporation accounts for its interest-rate swap contracts in cash flow hedging relationships in compliance with SFAS 133 by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows of certain prime-rate-based loans held by the Bank. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified portfolio of loans. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in market value of the ineffective part of the instrument would need to be charged to the statement of operations, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods. There were no outstanding swaps as of December 31, 2006.

Reserve for Loan and Lease Losses

The reserve for loan and lease losses is based on management s evaluation of the loan and lease portfolio under current economic conditions and such other factors, which deserve recognition in estimating loan and lease losses. This evaluation is inherently subjective, as it requires estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Additions to the reserve arise from the provision for loan and lease losses charged to operations or from the recovery of amounts previously charged off. Loan and lease charge-offs reduce the reserve. Loans and leases are charged off when there has been permanent impairment or when in the opinion of management the full amount of the loan or lease, in the case of non-collateral dependent borrowings, will not be realized. Certain impaired loans and leases are reported at the present value of expected future cash flows using the loan s or lease s initial effective interest rate, or at the loan s or lease s observable market price or the fair value of the collateral if the loan or lease is collateral dependent.

The reserve for loan and lease losses consists of an allocated reserve and an unallocated reserve. The allocated reserve is comprised of reserves established on specific loans and leases, and class reserves based on historical loan and lease loss experience, current trends, and management assessments. The unallocated reserve is based on both general economic conditions and other risk factors in the Corporation s individual markets and portfolios, and is to account for a level of imprecision in management s estimation process.

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

The class reserve element is determined by an internal loan and lease grading process in conjunction with associated allowance factors. The Corporation revises the class allowance factors whenever necessary in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.

The Corporation maintains an unallocated reserve to recognize the existence of credit exposures that are within the loan and lease portfolio although currently are undetected. There are many factors considered such as the inherent delay in obtaining information regarding a customer s financial condition or changes in their business condition, the judgmental nature of loan and lease evaluations, the delay in the interpretation of economic trends and the judgmental nature of collateral assessments.

Premises and Equipment

Land is stated at cost, and bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method and charged to operating expenses over the estimated useful lives of the assets. The estimated useful life for new buildings constructed on land owned is forty years, and for new buildings constructed on leased land, is the lesser of forty years or the lease term including anticipated renewable terms. The useful life of purchased existing buildings is the estimated remaining useful life at the time of the purchase. Land improvements are considered to have estimated useful lives of fifteen years or the lease term including anticipated renewable terms. Furniture, fixtures and equipment have estimated useful lives ranging from three to ten years.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Other Real Estate Owned

Other real estate owned represents properties acquired through customers loan defaults and is included in accrued interest and other assets. The real estate is stated at an amount equal to the loan balance prior to foreclosure, plus costs incurred for improvements to the property, but no more than the fair market value of the property, less estimated costs to sell.

Stock Options

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

As permitted under SFAS No. 123 (before revision), Accounting for Stock-Based-Compensation (SFAS 123), the Corporation applied the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options and other awards granted to employees. Under APB 25, no compensation expense is recognized because the exercise price of the Corporation s employee stock options equals the market price of the underlying stock on the date of grant; therefore, the Corporation did not recognize any compensation cost during 2005 and 2004. Under the modified prospective method of transition under SFAS 123R, the Corporation is not required to restate its prior period financial statements to reflect expensing of share-based compensation under SFAS 123R. Therefore, the results for the years ended December 31, 2005 and 2004 are not directly comparable to the same period in 2006.

The following pro forma information is presented for comparative purposes and illustrates the effect on net income, basic earnings per share and fully-diluted earnings per share, assuming the estimated fair value based method of the options granted prior to January 1, 2006 was amortized to expense over the option-vesting period:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Net Income as reported	**$ 25,377**	$ 24,867	$ 23,591
Add: Stock-based compensation expense included in reported net income, net of tax	**501**		
Deduct: Stock-based compensation expense determined under the fair value based method for all awards, net of tax	**501**	306	578

Pro forma net income	**$ 25,377**	$ 24,561	$ 23,013
Basic earnings per share:			
As reported	**$ 1.96**	$ 1.93	$ 1.84
Pro forma	**$ 1.96**	$ 1.91	$ 1.79
Diluted earnings per share:			
As reported	**$ 1.95**	$ 1.91	$ 1.80
Pro forma	**$ 1.95**	$ 1.89	$ 1.76

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Dividend Reinvestment and Employee Stock Purchase Plans

The Univest Dividend Reinvestment Plan (the Reinvestment Plan) provided 1,968,750 shares of common stock. During 2006 and 2005, 67,897 and 61,803 shares, respectively, were issued under the Reinvestment Plan, with 1,320,858 shares available for future purchase as of December 31, 2006.

The 1996 Employee Stock Purchase Plan (the Purchase Plan) provided 984,375 shares of common stock available for issuance. Employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% nor more than 10% of such employee s total compensation. These contributions are then used to purchase stock during an offering period determined by the Corporation s Administrative Committee. The purchase price of the stock is based solely on the market price of the shares at the date of purchase. Under SFAS 123R compensation expense must be recognized if the discount is greater than 5% of the fair value. During 2006 and 2005, 9,722 and 9,392 shares, respectively, were issued under the Purchase Plan, with 880,188 shares available for future purchase as of December 31, 2006.

Income Taxes

Deferred income taxes are provided for temporary differences between amounts reported for financial statement and tax purposes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are computed using the asset and liability method, such that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial reporting amounts and the tax basis of existing assets and liabilities based on currently enacted tax laws and tax rates in effect for the periods in which the differences are expected to reverse. Income tax expense is the tax payable for the period plus the change during the period in deferred income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Penalties are recorded in non-interest expense in the year they are assessed and paid and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and paid and is treated as a deductible expense for tax purposes.

Intangible Assets

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Accounting for Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), which changed the initial measurement and subsequent recording of goodwill and intangible assets. The Corporation acquired intangible assets in connection with the acquisitions of Pennview Savings Bank, First County Bank and Suburban Community Bank, and acquisitions through Univest Investments, Inc. and Univest Insurance, Inc., that include goodwill, covenants not to compete, customer-related and core deposit intangibles. In accordance with the adoption of SFAS 142, goodwill is no longer amortized. In accordance with the provisions of SFAS 142, the Corporation completes annual impairment tests. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. Core deposit and customer-related intangibles are being amortized over their average estimated useful lives of eight to twelve years. The covenants not to compete are being amortized over their three- to five-year contractual lives.

Mortgage servicing rights are recognized as separate assets when mortgage loans are sold and the rights are retained. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing period of the underlying mortgage loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is based

upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the unamortized capitalized amount.

Retirement Plan, Supplemental Plans and Other Postretirement Benefit Plans

Substantially all employees are covered by a noncontributory retirement plan. The plan provides benefits based on a formula of each participant s final average pay. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

plans by federal tax law. These plans are non-qualified benefit plans. The Corporation provides certain postretirement healthcare and life insurance benefits for retired employees. During 2004, 2005 and 2006, the Corporation recognized the costs associated with providing these benefits during the active service periods of employees in accordance with SFAS 106, Employer Accounting for Postretirement Benefits Other Than Pensions (SFAS 106). At December 31, 2006, the Corporation adopted SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an employer to recognize on their balance sheet the funded status of its defined pension plans and other post-retirement plans as of December 31, 2006. An under-funded position would create a liability and an over-funded position would create an asset, with a correlating deferred tax asset or liability. The net impact would be an adjustment to equity as accumulated other comprehensive income (loss.) Employers must also recognize as a component of other comprehensive income (loss), net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

The Corporation sponsors a 401(k) deferred salary savings plan, which is a qualified defined contribution plan, and which covers all employees of the Corporation and its subsidiaries, and provides that the Corporation make matching contributions as defined by the plan.

Statement of Cash Flows

The Corporation has defined those items included in the caption Cash and due from banks as cash and cash equivalents.

Trust Assets

Assets held by the Corporation in a fiduciary or agency capacity for its customers are not included in the consolidated financial statements since such items are not assets of the Corporation.

Stock Split

On March 23, 2005, the Corporation s board of directors declared a three-for-two stock split in the form of a dividend distributed on April 29, 2005 to all shareholders of record as of April 6, 2005. All share and per share amounts prior to this date have been retroactively adjusted to give effect to the stock split.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if option common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method.

Comprehensive Income

Unrealized gains or losses on the Corporation s available-for-sale securities and cash flow hedges are included in comprehensive income. The following shows the accumulated comprehensive income, net of income taxes, for the periods presented:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Net income	**$ 25,377**	$ 24,867	$ 23,591
Unrealized gain/(loss) on interest-rate swaps	**61**	(61)	(3)
Unrealized gain/(loss) on available-for-sale investment securities	**846**	(3,078)	(614)
Less: reclassification adjustment for gains realized in net income	**32**	98	693
Total comprehensive income	**$ 26,252**	$ 21,630	$ 22,281

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155). SFAS 155 amends SFAS Nos. 133 and 140. SFAS 155 resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS 155: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of SFAS 155. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. Provisions of SFAS 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. The Corporation has not completed its assessment of SFAS 155 and the impact, if any, on the consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS 156). SFAS 156 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156: 1) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a) a transfer of the servicer s financial assets that meets the requirements for sale accounting; b) a transfer of the servicer s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115); or, c) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities: a) amortization method amortize servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date; or, b) fair value measurement method measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and, 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional

disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS 156 as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of SFAS 156 is the date an entity adopts the

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

requirements of this Statement. The Corporation has not completed its assessment of SFAS 156 and the impact, if any, on the consolidated financial statements.

In June 2006 the FASB issued 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation does not expect to have a significant impact on its consolidated financial statements upon the adoption of FIN 48.

In September 2006, the 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 has not completed its assessment of SFAS 157 and the impact, if any, on the consolidated 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 advances 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 first 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 has not completed its assessment of SFAS 159 or its potential impact on the consolidated financial statements.

UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

Note 2. Restrictions on Cash and Due from Bank Accounts

The Bank maintains reserve balances under Federal Reserve Bank requirements. The reserve requirement at December 31, 2006 was $5.5 million and was satisfied by vault cash held at the Bank s branches. No additional reserves were required to be maintained at the Federal Reserve Bank of Philadelphia in excess of the required $25 thousand clearing balance requirement. The average balances at the Federal Reserve Bank of Philadelphia were $558 thousand and $729 thousand for the years ended December 31, 2006 and 2005, respectively.

Note 3. Investment Securities

The following table shows the amortized cost and the approximate market value of the held-to-maturity securities and available-for-sale securities at December 31, 2006 and 2005, by maturity within each type:

	December 31, 2006				December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Held-to-Maturity Securities								
U.S. Treasury, government corporations and agencies:								
Within 1 year	**$**	**$**	**$**	**$**	$ 10,000	$	$ (262)	$ 9,738
					10,000		(262)	9,738
State and political subdivisions:								
Over 10 years					1,154	15		1,169
					1,154	15		1,169
Mortgage-backed securities:								
Within 1 year					31			31
1 to 5 years	**764**	**7**		**771**	230	5		235
5 to 10 years	**131**	**3**		**134**	1,226	27		1,253
Over 10 years	**1,711**	**56**		**1,767**	2,155	93		2,248
	2,606	**66**		**2,672**	3,642	125		3,767
Other:								
1 to 5 years	**13**			**13**				

5 to 10 years					12			12
	13			**13**	12			12
Total	**$ 2,619**	**$ 66**	**$**	**$ 2,685**	$ 14,808	$ 140	$ (262)	$ 14,686
Securities Available-for-Sale								
U.S. Treasury, government corporations and agencies:								
Within 1 year	**$ 39,814**	**$ 1**	**$ (246)**	**$ 39,569**	$ 62,075	$	$ (694)	$ 61,381
1 to 5 years	**91,417**	**59**	**(946)**	**90,530**	86,936		(1,569)	85,367
	131,231	**60**	**(1,192)**	**130,099**	149,011		(2,263)	146,748
State and political subdivisions:								
1 to 5 years	**460**		**(1)**	**459**				
5 to 10 years	**25,925**	**1,160**	**(15)**	**27,070**	19,370	1,203		20,573
Over 10 years	**55,331**	**448**	**(166)**	**55,613**	62,361	1,004	(303)	63,062
	81,716	**1,608**	**(182)**	**83,142**	81,731	2,207	(303)	83,635
Mortgage-backed securities:								
Within 1 year	**52,296**	**96**	**(470)**	**51,922**	75			75
1 to 5 years	**5,153**	**5**	**(72)**	**5,086**	6,740	18	(98)	6,660
5 to 10 years	**2,605**	**12**	**(43)**	**2,574**	368	10		378
Over 10 years	**79,695**	**375**	**(475)**	**79,595**	64,931	110	(1,063)	63,978
	139,749	**488**	**(1,060)**	**139,177**	72,114	138	(1,161)	71,091

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Notes to Consolidated Financial Statements (Continued)

	December 31, 2006				**December 31, 2005**			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
Other:								
Within 1 year	**2,628**			**2,628**	7,248			7,248
1 to 5 years	**11,983**	**22**	**(114)**	**11,891**	5,994		(19)	5,975
5 to 10 years	**2,000**		**(21)**	**1,979**	4,999		(78)	4,921
Over 10 years or no stated maturity	**10,742**	**190**	**(67)**	**10,865**	8,875	64	(106)	8,833
	27,353	**212**	**(202)**	**27,363**	27,116	64	(203)	26,977
Total	**$ 380,049**	**$ 2,368**	**$ (2,636)**	**$ 379,781**	$ 329,972	$ 2,409	$ (3,930)	$ 328,451

Expected maturities will differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties.

Securities with a market value of $280.5 million and $241.2 million at December 31, 2006 and 2005, respectively, were pledged to secure public deposits and for other purposes as required by law.

During the year ended December 31, 2006, available-for-sale securities with a fair value at the date of sale of $1.7 million were sold; $11.4 million were sold in 2005; and $58.1 million were sold in 2004. Gross realized gains on such sales totaled $53 thousand during 2006, $151 thousand in 2005 and $1.3 million in 2004. The gross realized losses totaled $3 thousand in 2006, $1 thousand in 2005 and $204 thousand in 2004. Tax expense related to net realized gains from the sales of investment securities for the years ended December 31, 2006, 2005 and 2004 were $18 thousand, $53 thousand, and $373 thousand, respectively. Accumulated other comprehensive loss related to securities of $175 thousand, net of taxes, is included in shareholders equity at December 31, 2006. Accumulated other comprehensive income related to securities of $989 thousand, net of taxes, has been included in shareholders equity at December 31, 2005. Unrealized losses in investment securities at December 31, 2006 and 2005 do not represent permanent impairments.

At December 31, 2006 and 2005, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the amount of securities that were in an unrealized loss position at December 31, 2006:

	Less than Twelve Months	**Twelve Months or Longer**	**Total**

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury, government corporations and agencies	$ 22,908	$ (107)	$ 82,867	$ (1,085)	$ 105,775	$ (1,192)
State and political subdivisions	11,294	(104)	5,733	(78)	17,027	(182)
Mortgage-backed securities	31,491	(104)	48,835	(956)	80,326	(1,060)
Other	1,973	(24)	8,888	(111)	10,861	(135)
Subtotal, Debt Securities	67,666	(339)	146,323	(2,230)	213,989	(2,569)
Common Stock	1,165	(50)	201	(17)	1,366	(67)
Total temporarily impaired securities	$ 68,831	$ (389)	$ 146,524	$ (2,247)	$ 215,355	$ (2,636)

As of December 31, 2006, the amount of unrealized losses, for less than twelve months, in debt and equity securities classified as either available-for-sale or held-to-maturity was $389 thousand and had a fair value of $68.8 million. The amount of unrealized losses, for twelve months or longer, in debt and equity securities classified as either available-for-sale or held-to-maturity was $2.2 million and had a fair value of $146.5 million. The Corporation believes that the unrealized losses listed in the twelve months or longer category are not other-than temporary because the securities have, subsequent to December 31, 2006, traded at book cost. As of December 31, 2006, the Corporation has concluded that the unrealized losses

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Notes to Consolidated Financial Statements (Continued)

are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. None of the investments are believed to be other-than-temporarily impaired. The Corporation has the ability and intent to hold the securities until maturity or until it can recover the entire value.

Note 4. Loans and Leases

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

	At December 31,	
	2006	**2005**
Commercial, financial and agricultural	**$ 442,182**	$ 383,792
Real estate-commercial	**352,596**	349,384
Real estate-construction	**136,331**	110,032
Real estate-mortgage	**305,306**	303,994
Loans to individuals	**89,217**	102,095
Lease financings	**30,186**	415
Total gross loans and leases	**1,355,818**	1,249,712
Less: Unearned income	**(2,137)**	(60)
Total loans and leases	**$ 1,353,681**	$ 1,249,652

Net unamortized deferred loan and lease origination fees for the years ended December 31, 2006 and 2005 were $920 thousand and $1.5 million, respectively.

The Corporation is a lessor of primarily small-ticket equipment under agreements expiring at various dates through the Year 2012. At December 31, 2006, the schedule of minimum lease payments is as follows:

2007	$ 8,071
2008	8,050
2009	6,785
2010	4,591
2011	2,617
Thereafter	72
Total future minimum lease payments receivable	30,186
Less: Unearned income	(2,137)
Total lease financing receivables, net of unearned income	$ 28,049

Note 5. Reserve for Loan and Lease Losses

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

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Balance at beginning of year	**$ 13,363**	$ 13,099	$ 12,788
Provision charged to operating expenses	**2,215**	2,109	1,622
Recoveries	**698**	1,414	433
Loans and leases charged off	**(2,993)**	(3,259)	(1,744)
Balance at end of year	**$ 13,283**	$ 13,363	$ 13,099

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Notes to Consolidated Financial Statements (Continued)

Information with respect to loans and leases that are considered to be impaired under SFAS 114 is as follows:

	December 31,			
	2006		2005	
	Loan Balance	Specific Reserve	Loan Balance	Specific Reserve
Average recorded investment in impaired loans and leases	**$ 5,635**		$ 7,717	
Recorded investment in impaired loans at year-end subject to a specific reserve for loan losses and corresponding specific reserve	**$ 5,606**	**$ 1,576**	$ 3,263	$ 1,076
Recorded investment in impaired loans and leases at year-end requiring no specific reserve for loan and lease losses	**2,837**			
Recorded investment in impaired loans and leases at year-end	**$ 8,443**		$ 3,263	
Recorded investment in nonaccrual and restructured loans and leases	**$ 8,443**		$ 3,263	

Loans and leases greater than 90 days past due and still accruing interest were $760 thousand and $610 thousand at December 31, 2006 and 2005 respectively. Any income accrued on one- to four-family residential properties after the loan becomes 90 days past due is held in a reserve for uncollected interest. The reserve for uncollected interest was $6 thousand and $7 thousand at December 31, 2006 and 2005, respectively. There was no other real estate owned at December 31, 2006. Total other real estate owned in 2005 was $344 thousand.

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

	December 31,		
	2006	2005	2004
Nonaccrual and restructured loans and leases	**$ 8,443**	$ 3,263	$ 10,090
Interest income that would have been recognized under original terms	**541**	521	582

No interest income was recognized on these loans and leases for the years ended December 31, 2006, 2005 and 2004.

Note 6. Premises and Equipment

The following table reflects the components of premises and equipment:

	At December 31,	
	2006	**2005**
Land and land improvements	**$ 4,947**	$ 5,060
Premises and improvements	**25,137**	23,929
Furniture and equipment	**21,787**	21,879
Total cost	**51,871**	50,868
Less: accumulated depreciation	**(29,993)**	(29,233)
Net book value	**$ 21,878**	$ 21,635

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Notes to Consolidated Financial Statements (Continued)

Note 7. Intangible Assets

In accordance with the provisions of SFAS 142, the Corporation has completed the annual impairment tests and no impairment was noted. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

The Corporation has covenants not to compete, intangible assets due to branch acquisitions, core deposit intangibles, customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life. The amortization for these intangible assets was: $683 thousand for the year ended December 31, 2006; $532 thousand for the year ended December 31, 2005; and $616 thousand for the year ended December 31, 2004. The Corporation also has goodwill with a net carrying amount of $47.2 million, which is deemed to be an indefinite intangible asset and will not be amortized. On July 27, 2006, the Corporation completed the acquisition of B. G. Balmer & Company, Inc., a full-service insurance agency, located in West Chester, Pa. In connection with this acquisition, $3.1 million was recorded to goodwill, $1.5 million was recorded to a customer-related intangible and $100 thousand was recorded for a covenant not to compete. The Corporation recorded additional goodwill of $152 thousand in 2006 related to its 2004 acquisition of Donald K. Martin & Company.

The following table reflects the components of intangible assets:

	At December 31, 2006			At December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount
Non-amortized intangible assets:						
Goodwill	**$ 47,215**	**$ 2,942**	**$ 44,273**	$ 43,940	$ 2,942	$ 40,998
Amortized intangible assets:						
Covenants not to compete	**$ 320**	**$ 222**	**$ 98**	$ 220	$ 170	$ 50
Branch acquisitions	**2,951**	**2,810**	**141**	2,951	2,642	309
Core deposit intangibles	**2,201**	**1,046**	**1,155**	2,201	799	1,402
Customer related intangibles	**1,520**	**119**	**1,401**			
Mortgage servicing rights, net	**1,456**	**916**	**540**	1,441	813	628
Total amortized intangible assets	**$ 8,448**	**$ 5,113**	**$ 3,335**	$ 6,813	$ 4,424	$ 2,389

The estimated aggregate amortization expense for each of the five succeeding fiscal years is:

Year	**Amount**
2007	$ 748
2008	582
2009	537
2010	462
2011	334

The following table reflects the components of mortgage servicing rights as of the periods indicated:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Mortgage servicing rights beginning balance	**$ 628**	$ 532	$ 569
Mortgage servicing rights capitalized	**15**	78	87
Mortgage servicing rights amortized	**(97)**	(44)	(62)
Fair market value adjustments	**(6)**	62	(62)
Mortgage servicing rights ending balance	**$ 540**	$ 628	$ 532
Mortgage loans serviced for others	**$ 61,239**	$ 66,654	$ 69,345

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Notes to Consolidated Financial Statements (Continued)

The balance of capitalized mortgage servicing rights, net of valuation allowances and accumulated amortization, included in other intangible assets at December 31, 2006 was $540 thousand and at December 31, 2005 was $628 thousand. The aggregate fair value of these rights was $540 thousand and $628 thousand at December 31, 2006 and 2005, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 5.1% to 7.5%. Amortization of mortgage servicing rights of approximately $97 thousand was recorded during 2006, $44 thousand during 2005, and $62 thousand during 2004. The valuation allowance was $33 thousand at December 31, 2006 and $27 thousand at December 31, 2005.

Note 8. Income Taxes

The provision for federal and state income taxes included in the accompanying consolidated statements of income consists of the following:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Current:			
Federal	**$ 8,606**	$ 8,797	$ 7,932
State	**238**	110	93
Deferred:			
Federal	**538**	3	286
	$ 9,382	$ 8,910	$ 8,311

The provision for income taxes differs from the expected statutory provision as follows:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Expected provision at statutory rate	**35.0%**	35.0%	35.0%
Difference resulting from:			
Tax exempt interest income	**(7.4)**	(6.8)	(6.9)
Increase in the cash surrender value of life insurance policies	**(1.5)**	(1.3)	(1.6)
Other, including state income taxes	**0.8**	(0.5)	(0.4)
	26.9%	26.4%	26.1%

During the twelve months ended December 31, 2006 and 2005, the Corporation recorded tax benefits resulting from the exercise of employee stock options of $408 thousand and $419 thousand, respectively, to additional paid-in capital.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. No valuation allowance was recognized for the deferred tax assets at December 31, 2006 and 2005, as management believes it is more likely than not that such deferred tax assets will be realized.

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UNIVEST CORPORATION OF PENNSYLVANIA

Notes to Consolidated Financial Statements (Continued)

The assets and liabilities giving rise to the Corporation s deferred tax assets and liabilities are as follows:

	At December 31, 2006	2005
Deferred tax assets:		
Loan and lease loss	**$ 4,649**	$ 4,677
Deferred compensation	**1,840**	1,844
Postretirement benefits	**435**	421
Adjustments to initially adopt SFAS 158*	**2,309**	
Vacation accrual	**370**	357
Deferred fees and expense	**165**	278
Intangible assets	**204**	404
Mark-to-market adjustment*	**94**	565
Other	**419**	186
Total deferred tax assets	**10,485**	8,732
Deferred tax liabilities:		
Market discount	**397**	375
Retirement plans	**1,444**	1,078
Depreciation	**68**	261
Prepaid expenses	**368**	282
Other	**309**	137
Total deferred tax liabilities	**2,586**	2,133
Net deferred tax assets	**$ 7,899**	$ 6,599

* Represents the amount of deferred taxes recorded in accumulated other comprehensive income (loss).

Note 9. Retirement Plan and Supplemental Retirement Plans

Substantially all employees are covered by a noncontributory retirement plan. The plan provides benefits based on a formula of each participant s final average pay.

The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. The Corporation also provides certain postretirement healthcare and life insurance benefits for retired employees.

The Corporation sponsors a 401(k) deferred salary savings plan, which is a qualified defined contribution plan, and which covers all employees of the Corporation and its subsidiaries, and provides that the Corporation makes matching contributions as defined by the plan. Expense recorded by the Corporation for the 401(k) deferred salary savings plan for the years ended December 31, 2006, 2005 and 2004 was $440 thousand, $456 thousand and $452 thousand, respectively.

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Notes to Consolidated Financial Statements (Continued)

Information with respect to the Retirement and Supplemental Retirement Plans and Other Postretirement Benefits follows:

	Retirement Plans		Other Postretirement Benefits	
	2006	**2005**	**2006**	**2005**
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 28,002**	$ 25,724	**$ 1,265**	$ 1,184
Service cost	**1,197**	1,235	**58**	52
Interest cost	**1,634**	1,553	**78**	71
Actuarial loss	**447**	1,067		47
Benefits paid	**(1,611)**	(1,577)	**(88)**	(89)
Benefit obligation at end of year	**$ 29,669**	$ 28,002	**$ 1,313**	$ 1,265
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 19,586**	$ 18,768	**$**	$
Actual return on plan assets	**1,538**	895		
Benefits paid	**(1,611)**	(1,577)	**(88)**	(89)
Employer contribution and non-qualified benefit payments	**2,512**	1,500	**88**	89
Fair value of plan assets at end of year	**22,025**	19,586		
Funded status	**(7,644)**	(8,416)	**(1,313)**	(1,265)
Unrecognized net actuarial gain	**6,465**	6,348	**219**	218
Unrecognized prior service costs	**(54)**	(128)	**(149)**	(170)
Net amount recognized	**$ (1,233)**	$ (2,196)	**$ (1,243)**	$ (1,217)
Prepaid benefit cost/over-funded pension asset	**$**	$ 3,362	**$**	$
Accrued benefit cost/under-funded pension liability	**(7,756)**	(5,558)	**(1,315)**	(1,217)
Accumulated other comprehensive (income) loss	**6,523**		**72**	
Net amount recognized	**$ (1,233)**	$ (2,196)	**$ (1,243)**	$ (1,217)

Information for the pension plans with an accumulated benefit obligation in excess of plan assets:

	At December 31,	
	2006	**2005**

Projected benefit obligation	**$ 23,773**	$ 22,203
Accumulated benefit obligation	**20,810**	19,250
Fair value of plan assets	**22,025**	19,586

The retirement benefit cost includes the following components:

	Retirement Plans			Other Postretirement Benefits		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Service cost	**$ 1,197**	$ 1,235	$ 1,162	**$ 58**	$ 52	$ 48
Interest cost	**1,634**	1,553	1,449	**78**	71	65
Expected return on plan assets	**(1,565)**	(1,505)	(1,413)			
Amortization of net (gain) loss	**354**	224	221	**11**	7	6
Amortization of prior service cost	**(73)**	(73)	(74)	**(20)**	(20)	(20)
Net periodic benefit cost	**$ 1,547**	$ 1,434	$ 1,345	**$ 127**	$ 110	$ 99

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Notes to Consolidated Financial Statements (Continued)

The following benefit payments, which reflect an expected future service, as appropriate, are expected to be paid:

For the Fiscal Year Ending:	Retirement Plans	Other Postretirement Benefits
2007	$ 1,679	$ 92
2008	1,724	97
2009	1,739	102
2010	1,887	107
2011	2,209	113
Years 2012-2016	12,281	600

Expected 2007 amortization of prior service cost for retirement plans is $73 thousand and for other postretirement benefits is $20 thousand.

Weighted-average assumptions used to determine benefit obligations at December 31, 2006 and 2005 were as follows:

	Retirement Plans		Other Postretirement Benefits	
	2006	**2005**	**2006**	**2005**
Assumed discount rate for obligation	**5.9%**	6.0%	**5.9%**	6.0%
Assumed salary increase rate	**5.1%**	5.1%		

Weighted-average assumptions used to determine net periodic costs for the years ended December 31, 2006 and 2005 were as follows:

	Retirement Plans		Other Postretirement Benefits	
	2006	**2005**	**2006**	**2005**
Assumed discount rate for obligation	**6.0%**	6.2%	**6.0%**	6.2%
Assumed long-term rate of investment return	**8.0**	8.0		
Assumed salary increase rate	**5.1**	5.1		

Historical investment returns is the basis used to determine the overall expected long-term rate of return on assets.

Assumed Health Care Cost Trend Rates	**2006**	**2005**	**2004**
Health care cost trend rate assumed for next year	**6.5%**	6.5%	6.5%
Rate to which the cost trend rate is assumed to decline	**5.0**	5.0	5.0
Year that the rate reaches the ultimate rate	**2008**	2007	2006

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	One Percentage Point	
	Increase	**Decrease**
Effect on total of service and interest cost components	$ 4	$ (4)
Effect on postretirement benefit obligation	45	(41)

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Notes to Consolidated Financial Statements (Continued)

The Corporation s pension plan asset allocation at December 31, 2006 and 2005, by asset category was as follows:

Asset Category:	Percentage of Plan Assets at December 31, 2006	2005
Equity securities	**49%**	51%
Debt securities	**41**	43
Other	**10**	6
Total	**100%**	100%

Plan assets include marketable equity securities, corporate and government debt securities, and certificates of deposit. The investment strategy is to keep a 50% equity to 50% fixed income mix to achieve the overall expected long-term rate of return of 8.0%. Equity securities do not include any common stock of the Corporation.

At December 31, 2006, the Corporation adopted SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS 158 requires an employer to recognize on its balance sheet the funded status of its defined pension plans and other post-retirement plans as of December 31, 2006. An under-funded position would create a liability and an over-funded position would create an asset, with a correlating deferred tax asset or liability. The net impact would be an adjustment to equity as accumulated other comprehensive income (loss.) Employers must also recognize as a component of other comprehensive income (loss), net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The following table shows the incremental effect of applying SFAS No. 158 on individual line items in the Consolidated Balance Sheet at December 31, 2006:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Prepaid pension cost	$ 4,444	$ (4,444)	$
Deferred income tax assets	5,590	2,309	7,899
Total assets	1,931,636	(2,135)	1,929,501
Liability for postretirement benefits	6,918	2,153	9,071
Total liabilities	1,741,963	2,153	1,744,116
Accumulated other comprehensive loss, net of tax	(175)	(4,288)	(4,463)
Total shareholders equity	189,673	(4,288)	185,385
Total liabilities and shareholders equity	1,931,636	(2,135)	1,929,501

Note 10. Long-Term Incentive Plan

The Corporation adopted the shareholder-approved 2003 Long-Term Incentive Plan to replace the 1993 Long-Term Incentive Plan at its expiration. The 385,546 unissued common shares remaining under the 1993 plan expired and are no longer available for future options. There were 219,936 options to purchase common shares outstanding at December 31, 2006 under the 1993 plan. The Corporation may grant options to employees to purchase up to 1,500,000 shares of common stock under the 2003 plan. The plan provides for the issuance of options to purchase common shares at prices not less than 100 percent of the fair market value at the date of option grant. For the majority of options issued, after two years, 33 percent of the optioned shares become exercisable in each of the next three years and remain exercisable for a period not exceeding ten years from the date of grant. There were 1,236,450 common shares available for future grants and 250,104 options to purchase common shares outstanding at December 31, 2006 under the 2003 plan.

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Activity under the 1993 and 2003 Long-term Incentive Plans was as follows:

	Shares Under Option	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value at December 31, 2006
	($ in thousand except per share data)			
Outstanding at December 31, 2005	589,223	$ 21.57		
Granted	37,500	25.01		
Expired	(2,100)	28.27		
Forfeited	(8,199)	25.63		
Exercised	(146,384)	16.89		
Outstanding at December 31, 2006	**470,040**	**23.20**	**5.0**	**$ 3,422**
Exercisable at December 31, 2006	**292,095**	**21.97**	**2.7**	**2,487**

During the years ended December 31, 2006 and 2005, proceeds from the exercise of stock options were $2.5 million and $2.6 million, respectively; the tax benefit recognized and recorded to additional paid in capital was $408 thousand and $419 thousand, respectively; and the intrinsic value of the options exercised was $1.7 million and $2.4 million, respectively.

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

Using the modified prospective method, compensation expense is recognized beginning with the effective date of adoption of SFAS 123R for all shares granted after the effective date of adoption and for those shares granted prior to the effective date of adoption that remained unvested on the date of adoption. There were no options granted in 2004. Options granted during Fiscal Years 2002, 2003 and 2005 which remained unvested on the date of adoption and options granted during 2006 will be expensed in 2006 and in future periods under the following assumptions:

	For the Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Expected option life in years	**8.9**	8.7		8.0	5.0
Risk free interest rate	**5.15%**	4.35%		3.04%	2.75%
Expected dividend yield	**3.04%**	3.11%		2.11%	2.26%
Expected volatility	**.309**	.336		.142	.219
Fair value of options	**$ 7.96**	$ 7.69		$ 4.57	$ 3.93

During the year ended December 31, 2006, the Corporation recognized stock-based compensation expense of $522 thousand on stock options and $26 thousand on the Employee Stock Purchase Plan and recognized a tax benefit on nonqualified stock option expense of $47 thousand. At December 31, 2006, accrued stock-based compensation expense amounted to $516 thousand for stock options that the Corporation anticipates will vest over a weighted average period of 11 days. At December 31, 2006, there was $959 thousand of unrecognized expense related to stock options which is expected to be recognized over a weighted-average period of 2.8 years.

During the year ended December 31, 2006, the Corporation accelerated the vesting of 4,437 options for employees as permitted under the 1993 and 2003 Long-Term Incentive Plans upon retirement. As a result of these modifications, additional compensation expense of $15 thousand was recognized.

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Notes to Consolidated Financial Statements (Continued)

The following table provides information about the change in nonvested options during the year-ended December 31, 2006:

	Nonvested Shares	Weighted Average Grant Date Fair Value
Nonvested options at December 31, 2005	227,080	$ 6.01
Granted	37,500	7.96
Vested	(78,436)	4.25
Forfeited	(8,199)	6.58
Nonvested options at December 31, 2006	177,945	7.17

Note 11. Time Deposits

The aggregate amount of time deposits in denominations of $100 thousand or more was $132.6 million at December 31, 2006 and $141.4 million at December 31, 2005, with interest expense of $8.5 million for 2006 and $4.1 million for 2005.

At December 31, 2006, the scheduled maturities of time deposits in denominations of $100 thousand or more are as follows:

Due in 2007	$ 122,815
Due in 2008	3,195
Due in 2009	2,212
Due in 2010	3,169
Due in 2011	848
Thereafter	358
Total	**$ 132,597**

Note 12. Borrowings

At December 31, 2006 and 2005 long-term borrowings consisted of the following:

	Balance		Interest Rate		
	2006	**2005**	**2006**	**2005**	**Maturity**

Federal Home Loan Bank Advances*	**$ 75,500**	$ 54,575	**5.32%**	5.30%	March 2007 - January 2013
Subordinated Term Loan Note	**3,250**	3,750	**5.50%**	5.50%	April 2013
Subordinated Term Loan Note	**6,500**	7,500	**6.72%**	5.79%	May 2013
Trust Preferred Securities	**20,619**	20,619	**8.41%**	7.60%	October 2033
	$ 105,869	$ 87,944			

* Federal Home Loan Bank Advances are calculated at a weighted average rate and do not include the unamortized fair value adjustment of $1.5 million and $2.0 million at December 31, 2006 and 2005, respectively, recorded on debt assumed through the 2003 acquisitions.

The contractual maturities of long-term borrowings as of December 31, 2006 are as follows:

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Notes to Consolidated Financial Statements (Continued)

Due in 2007	$ 2,500
Due in 2008	11,500
Due in 2009	24,000
Due in 2010	38,500
Due in 2011	1,500
Thereafter	27,869
	$ 105,869

Advances from the Federal Home Loan Bank of Pittsburgh (FHLB) are collateralized by Federal Home Loan Bank stock and substantially all first mortgage loans of the Bank. As a result of the acquisitions of First County Bank and Suburban Community Bank, $18.0 million in FHLB advances were assumed. The net carrying value of the fair market value adjustment of the assumed advances was $1.5 million at December 31, 2006. The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $352.2 million. At December 31, 2006, the Bank s outstanding borrowings under the FHLB credit facilities totaled $75.5 million. The maximum borrowing capacity changes as a function of the Bank s qualifying collateral assets and the amount of funds received may be reduced by additional required purchases of FHLB stock. Included in the $75.5 million of outstanding FHLB borrowings are $45.5 million of convertible advances whereby the FHLB has the option at a pre-determined time to convert the fixed interest rate to an adjustable rate tied to three-month LIBOR. The Bank has the option to prepay these advances without penalty if the rate on these borrowings is converted and on each quarterly reset date thereafter. Management does not believe that conversion is likely unless short-term interest rates increase several hundred basis points.

The Corporation secured two subordinated term loan notes during the second quarter of 2003. The first note was issued for $5.0 million at the fixed rate of 5.5% per annum. This note converts to a floating rate in second quarter 2008 based upon the one-month LIBOR plus 1.40% per annum. Quarterly principal and interest payments are made on this note. The second note was issued for $10.0 million at a floating rate based upon the one-month LIBOR plus 1.40% per annum. Quarterly principal and interest payments are made on this note. Both of these notes mature in second quarter 2013. At December 31, 2006, the outstanding balance of these notes was $9.8 million.

On August 27, 2003, the Corporation issued $20.0 million of Capital Securities of Univest Capital Trust I, a Delaware statutory trust formed by the Corporation. This issuance constitutes Trust Preferred Securities, which were completed through a placement in Junior Subordinated Debentures of the Corporation. The 30-year term securities were issued on a variable rate based upon the published Libor rate plus 3.05% per annum. The initial interest rate of the securities was 4.19% and is callable by Univest at par in whole or in part after five years. Quarterly interest payments are made on this note. In December 2003, the Financial Accounting Standards Board (FASB) revised Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 (the Interpretation). The Interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Previously, entities were generally consolidated by an enterprise when it had a controlling financial interest through ownership of a majority voting interest in the entity. Application of this Interpretation is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special purpose entities for periods

ending after December 15, 2003. Application by public entities for all other types of entities is required in financial statements for periods ending after March 15, 2004. As a result of the adoption of FIN 46, the Corporation deconsolidated Univest Capital Trust I, which maintains the Trust Preferred Securities, in the first quarter of 2004. The result was an increase in the junior debt of $619 thousand on the balance sheet. At December 31, 2006, the $20.6 million in capital securities qualified as Tier 1 capital under capital guidelines of the Federal Reserve. The proceeds from the Trust Preferred Securities were used to support the future growth of the Corporation and its banking subsidiary, the Bank.

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Notes to Consolidated Financial Statements (Continued)

The Bank maintains federal fund credit lines with several correspondent banks totaling $112.0 million. At December 31, 2006, there were $17.9 million of outstanding borrowings under these lines. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At December 31, 2006, the Corporation had no outstanding borrowings from this line.

The following table details key information pertaining to securities sold under agreement to repurchase on an overnight basis for the periods indicated:

	2006	2005	2004
Balance at December 31	**$ 99,761**	$ 108,312	$ 104,442
Weighted average interest rate at year end	**2.2%**	2.1%	0.7%
Maximum amount outstanding at any month s end	**$ 104,581**	$ 111,624	$ 117,664
Average amount outstanding during the year	**$ 96,624**	$ 98,620	$ 98,735
Weighted average interest rate during the year	**2.2%**	1.4%	0.7%

Note 13. Earnings per Share

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

	For the Years Ended December 31,		
	2006	2005	2004
Numerator:			
Numerator for basic and diluted earnings per share income available to common shareholders	**$ 25,377**	$ 24,867	$ 23,591
Denominator:			
Denominator for basic earnings per share weighted-average shares outstanding	**12,960**	12,867	12,841
Effect of dilutive securities:			
Employee stock options	**51**	141	246
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**13,011**	13,008	13,087
Basic earnings per share	**$ 1.96**	$ 1.93	$ 1.84

Diluted earnings per share	**$ 1.95**	$ 1.91	$ 1.80

Note 14. Commitments and Contingencies

Loan commitments are made to accommodate the financial needs of the Bank s customers. The Bank offers commercial, mortgage, and consumer credit products to their customers in the normal course of business, which are detailed in Note 4. These products represent a diversified credit portfolio and are generally issued to borrowers within the Bank s branch office systems in eastern Pennsylvania. The ability of the customers to repay their credit is, to some extent, dependent upon the economy in the Bank s market areas. Collateral is obtained based on management s credit assessment of the customer.

Standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. They primarily are issued to support commercial paper, medium and long-term notes and debentures, including industrial revenue obligations. The approximate term is usually one year but some can be up to five years. Historically, substantially all standby letters of credit expire unfunded. If funded the majority of the letters of credit carry current market interest rates if converted to loans. Because letters of credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The carrying amount is recorded as unamortized deferred fees.

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Notes to Consolidated Financial Statements (Continued)

The maximum potential amount of future payments under the guarantee is $71.4 million. The current carrying amount of the contingent obligation is $201 thousand.

This arrangement has credit risk essentially the same as that involved in extending loans to customers and is subject to the Bank s normal credit policies. Collateral is obtained based on management s credit assessment of the customer.

The Bank also controls their credit risk by limiting the amount of credit to any business, institution, or individual. As of December 31, 2006, the Bank has identified the due from banks balance of $30.9 million as a significant concentration of credit risk because it contains a balance due from a single depository institution that is unsecured. Management evaluates the creditworthiness of the institution on at least a quarterly basis in an effort to monitor its credit risk associated with this concentration.

The Bank maintains a reserve in other liabilities for off-balance sheet credit exposures that currently are unfunded. At December 31, 2006 the reserve for off-balance sheet credits was $105 thousand.

The following schedule summarizes the Corporation s off-balance sheet financial instruments:

	Contract/Notional Amount	
Financial instruments representing credit risk:		
Commitments to extend credit	**$**	**481,098**
Letters of credit		**71,440**

As of December 31, 2006, the Corporation and its subsidiaries were obligated under noncancelable leases for various premises and equipment. A summary of the future minimum rental commitments under noncancelable operating leases net of related sublease revenue is as follows:

Year	**Amount**	
2007	$	1,547
2008		1,326
2009		981
2010		834
2011		788
Thereafter		2,669
Total	$	8,145

Rental expense charged to operations was $1.6 million, $1.5 million, and $1.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Note 15. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements that convert a portion of its floating rate commercial loan portfolio to a fixed rate basis. In these swaps, the Corporation agrees to exchange, at specified intervals, the difference between fixed and floating-interest rates calculated on an agreed upon notional principal amount. Interest-rate swaps in which the Corporation pays a floating rate and receives a fixed rate are used to reduce the impact of interest rate changes on the Corporation s net interest income.

At December 31, 2005, the total notional amount of the Pay Floating, Receive Fixed swap outstanding was $20.0 million. The $20.0 million in notional amount of this interest-rate swap expired on November 2, 2006. There were no outstanding swaps at December 31, 2006.

The Corporation s credit exposure on swaps is limited to the value of interest-rate swaps that have become favorable to the Corporation. Credit risk also exists when the counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in equity until the underlying cash flows occur, at which time the deferred gains and losses are included in the initial measurement of the associated asset or liability or are recognized in income.

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Notes to Consolidated Financial Statements (Continued)

Following is an analysis of the changes in the net gain (loss) on cash flow hedges recognized in equity:

	2006	2005	2004
Balance at beginning of year	**$ (61)**	$	$ 3
Net gain (loss) for the year	**61**	(61)	(3)
Balance at end of year	**$**	$ (61)	$

Note 16. Fair Values of Financial Instruments

Statement of Financial Accounting Standard No. 107, Disclosures about Fair Value of Financial Instruments (SFAS 107), requires all entities to disclose the estimated fair value of its financial instruments whether or not recognized in the balance sheet. For the Corporation, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined in SFAS 107. Many of the Corporation s financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. It is also the Corporation s general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities other than residential mortgage loans held-for-sale and those investment securities classified as available-for-sale. Significant estimations and present value calculations, which are affected by the assumptions used, including the discount rate and estimate of future cash flows, were used for purposes of this disclosure.

The Corporation utilizes a third-party vendor to determine the estimated fair values for those financial instruments that lack an available trading market, which include: loans, deposit liabilities, short-term borrowings, long-term debt, commitments to extend credit and letters of credit. Various methodologies are described in the accompanying notes.

SFAS 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value to the Corporation.

Management is concerned that reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of readily available active secondary market valuations for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values. Certain estimated fair values cannot be substantiated by comparison to independent valuation sources and, in many cases, might not be realized in immediate settlement of the instrument.

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The following table represents the estimates of fair value of financial instruments:

	December 31, 2006		December 31, 2005	
	Carrying, Notional or Contract Amount	Fair Value	Carrying, Notional or Contract Amount	Fair Value
Assets:				
Cash and short-term assets	**$ 70,355**	**$ 70,355**	$ 59,439	$ 59,439
Investment securities	**382,400**	**382,466**	343,259	343,137
Net loans	**1,340,398**	**1,345,050**	1,236,289	1,235,483
Liabilities:				
Deposits	**1,488,545**	**1,486,760**	1,366,715	1,361,122
Short-term borrowings	**117,661**	**118,665**	108,312	108,387
Long-term debt	**107,405**	**106,853**	88,449	87,929
Off-Balance-Sheet:				
Commitments to extend credit	**481,098**	**(1,747)**	448,333	(1,539)
Letters of credit	**71,440**	**(1,092)**	60,731	(911)
Forward contracts	**256**	**3**		
Interest-rate swap			20,000	(61)

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

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

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

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

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

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

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

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

Note 17. Regulatory Matters

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,

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Notes to Consolidated Financial Statements (Continued)

liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

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

	Actual		**For Capital Adequacy Purposes**		**To Be Well-Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	**$ 181,419**	**11.90%**	**$ 121,984**	**8.00%**	**$ 152,480**	**10.00%**
Univest National Bank	**169,954**	**11.27**	**120,631**	**8.00**	**150,788**	**10.00**
Tier 1 Capital (to Risk-Weighted Assets):						
Consolidated	**162,725**	**10.67**	**60,992**	**4.00**	**91,488**	**6.00**
Univest National Bank	**156,567**	**10.38**	**60,315**	**4.00**	**90,473**	**6.00**
Tier 1 Capital (to Average Assets):						
Consolidated	**162,725**	**8.76**	**55,735**	**3.00**	**74,314**	**4.00**
Univest National Bank	**156,567**	**8.50**	**55,239**	**3.00**	**73,653**	**4.00**
As of December 31, 2005:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$ 171,484	12.48%	$ 109,922	8.00%	$ 137,403	10.00%
Univest National Bank	166,620	12.30	108,352	8.00	135,440	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Consolidated	151,266	11.01	54,961	4.00	82,442	6.00
Univest National Bank	153,152	11.31	54,176	4.00	81,264	6.00
Tier 1 Capital (to Average Assets):						
Consolidated	151,266	8.88	51,104	3.00	68,139	4.00
Univest National Bank	153,152	9.06	50,697	3.00	67,596	4.00

As of December 31, 2006 and December 31, 2005, 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, 2006, 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.

Dividend and Other Restrictions

The primary source of the Corporation s dividends paid to its shareholders is from the earnings of its subsidiaries paid to the Corporation in the form of dividends.

The approval of the Office of Comptroller of the Currency is required for a national bank to pay dividends if the total of all dividends declared in any calendar year exceeds the Bank s net profits (as

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Notes to Consolidated Financial Statements (Continued)

defined) for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank can declare dividends in 2007 without approval of the Office of Comptroller of the Currency of approximately $23.2 million plus an additional amount equal to the Bank s net profits for 2007 up to the date of any such dividend declaration.

The Federal Reserve Act requires that extension of credit by the Bank to certain affiliates, including Univest Corporation (parent), be secured by readily marketable securities, that extension of credit to any one affiliate be limited to 10% of the Bank s capital and surplus (as defined), and that extensions of credit to all such affiliates be limited to 20% of the Bank s capital and surplus.

Note 18. Related Party Transactions

At December 31, 2006, loans to directors and executive officers of the Corporation and companies in which directors have an interest (Related Parties) aggregated $43.6 million. These loans have been made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with customers and did not involve more than the normal risk of collectibility or present other unfavorable terms.

The summary of activity for the past year is as follows:

Balance at January 1, 2006	Additions	Amounts Collected	Balance at December 31, 2006
$36,495	**$42,252**	**$(35,125)**	**$43,622**

The Corporation paid $764 thousand and $2.0 million during 2006 and 2005, respectively, to H. Mininger & Son, Inc. for building expansion projects which were in the normal course of business on substantially the same terms as available for others. H. Ray Mininger, a director of the Corporation, is president of H. Mininger & Son, Inc.

Deposits received from Related Parties as of December 31, 2006 were $10.4 million.

At December 31, 2006, the Bank had commitment to extend credit to Related Parties of $16.5 million and standby and commercial letters of credit for Related Parties of $604 thousand. These commitments have been made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with customers and did not involve more than the normal risk of collectibility or present other unfavorable terms.

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Notes to Consolidated Financial Statements (Continued)

Note 19. Parent Company Financial Information

Condensed financial statements of Univest, parent company only, follow:

Balance Sheets	At December 31, 2006	2005
Assets:		
Deposits with bank subsidiary	**$ 44**	$ 90
Investments in securities	**7,520**	3,603
Investments in subsidiaries, at equity in net assets:		
Bank	**188,433**	179,951
Non-banks	**21,104**	20,336
Other assets	**11,325**	11,023
Total assets	**$ 228,426**	$ 215,003
Liabilities:		
Dividends payable	**$ 2,599**	$ 2,463
Subordinated capital notes	**9,750**	11,250
Junior subordinated debentures	**20,619**	20,619
Other liabilities	**10,073**	7,591
Total liabilities	**43,041**	41,923
Shareholders equity	**185,385**	173,080
Total liabilities and shareholders equity	**$ 228,426**	$ 215,003

Statements of Income	For the Years Ended December 31, 2006	2005	2004
Dividends from bank	**$ 16,019**	$ 11,183	$ 10,141
Dividends from non-banks	**1,190**	1,200	1,190
Other income	**13,989**	12,357	12,451
Total operating income	**31,198**	24,740	23,782
Operating expenses	**14,227**	13,448	12,506
	16,971	11,292	11,276

Income before income tax benefit and equity in undistributed income of subsidiaries			
Applicable income tax expense (benefit)	**77**	(350)	(54)
Income before equity in undistributed income of subsidiaries	**16,894**	11,642	11,330
Equity in undistributed income of subsidiaries:			
Bank	**7,714**	13,130	12,228
Non-banks	**769**	95	33
Net income	**$ 25,377**	$ 24,867	$ 23,591

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Statements of Cash Flows	**For the Years Ended December 31, 2006**	**2005**	**2004**
Cash flows from operating activities:			
Net income	**$ 25,377**	$ 24,867	$ 23,591
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income/loss of subsidiaries	**(8,483)**	(13,225)	(12,261)
Deconsolidation of capital trust			619
Realized gains on investment securities	**(3)**	(64)	(65)
Increase in other assets	**(2,801)**	(1,230)	(3,638)
Depreciation of premises and equipment	**365**	371	368
Increase (decrease) in other liabilities	**273**	330	(378)
Net cash provided by operating activities	**14,728**	11,049	8,236
Cash flows from investing activities:			
Investments in subsidiaries			
Proceeds from sales of securities	**1,648**	1,909	2,903
Purchases of investment securities	**(5,395)**	(2,790)	(2,633)
Net cash (used in) provided by investing activities	**(3,747)**	(881)	270
Cash flows from financing activities:			
Proceeds from issuance of long-term debt			
Repayment of long-term debt	**(1,500)**	(1,500)	(1,500)
Purchases of treasury stock	**(4,482)**	(4,684)	(2,740)
Stock issued under dividend reinvestment and employee stock purchase plans	**2,051**	1,993	1,967
Proceeds from exercise of stock options	**2,886**	3,014	1,698
Cash dividends paid	**(9,982)**	(8,945)	(8,128)
Net cash used in financing activities	**(11,027)**	(10,122)	(8,703)
Net (decrease) increase in deposits with bank subsidiary	**(46)**	46	(197)
Deposits with bank subsidiary at beginning of year	**90**	44	241
Deposits with bank subsidiary at end of year	**$ 44**	$ 90	$ 44
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	**$ 2,289**	$ 1,807	$ 1,399
Income tax, net of refunds received	**$ 7,827**	$ 8,253	$ 7,150

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Notes to Consolidated Financial Statements (Continued)

Note 20. Quarterly Data (Unaudited)

The unaudited results of operations for the quarters for the years ended December 31, 2006 and 2005 were as follows:

2006 Quarterly Financial Data:	Fourth	Third	Second	First
Interest income	$ 28,161	$ 27,724	$ 25,729	$ 23,552
Interest expense	12,840	12,077	10,174	8,560
Net interest income	15,321	15,647	15,555	14,992
Provision for loan and lease losses	621	568	515	511
Net interest income after provision for loan and lease losses	14,700	15,079	15,040	14,481
Net gains on sales of securities		3	47	
Noninterest income	7,063	6,231	5,628	6,445
Noninterest expense	12,631	12,332	12,506	12,489
Income before income taxes	9,132	8,981	8,209	8,437
Applicable income taxes	2,521	2,444	2,194	2,223
Net income	$ 6,611	$ 6,537	$ 6,015	$ 6,214
Per share data:				
Net income:				
Basic	$ 0.509	$ 0.504	$ 0.465	$ 0.480
Diluted	$ 0.506	$ 0.502	$ 0.462	$ 0.477
Dividends per share	$ 0.200	$ 0.200	$ 0.190	$ 0.190

2005 Quarterly Financial Data:	Fourth	Third	Second	First
Interest income	$ 23,122	$ 22,165	$ 20,667	$ 19,548
Interest expense	7,932	6,964	6,007	5,361
Net interest income	15,190	15,201	14,660	14,187
Provision for loan and lease losses	700	509	450	450
Net interest income after provision for loan and lease losses	14,490	14,692	14,210	13,737
Net gains on sales of securities		63	87	
Noninterest income	5,789	5,493	5,295	5,717

Noninterest expense	11,623	11,071	11,447	11,655
Income before income taxes	8,656	9,177	8,145	7,799
Applicable income taxes	2,262	2,475	2,145	2,028
Net income	$ 6,394	$ 6,702	$ 6,000	$ 5,771
Per share data:				
Net income:				
Basic	$ 0.500	$ 0.519	$ 0.466	$ 0.448
Diluted	$ 0.496	$ 0.514	$ 0.461	$ 0.442
Dividends per share	$ 0.190	$ 0.190	$ 0.170	$ 0.167

Item 9. ***Change in and Disagreements with Accountants on Accounting and Financial Disclosures***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of the Corporation. 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.

Management s Report on Internal Control over Financial Reporting

Internal controls over financial reporting are the responsibility of the Management of the Corporation. Based on their assessment, Management believes the internal control process is effective as of December 31, 2006, although no evaluation of controls can provide absolute assurance that control weaknesses or fraud activity does not exist at the Corporation.

Management is required to base its assessment of the effectiveness of internal control over financial reporting on a suitable, recognized control framework. Our assessment was based on the Internal Control-Integrated Framework, which was developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Corporation s financial information as shown in the Annual Report Form 10-K for the Years 2006, 2005 and 2004 has been audited by KPMG LLP, independent registered public accounting firm. KPMG LLP presented the Corporation with unqualified opinions for these years.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Univest Corporation of Pennsylvania:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Univest Corporation of Pennsylvania and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Univest Corporation of Pennsylvania s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Univest Corporation of Pennsylvania maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Univest Corporation of Pennsylvania maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Univest Corporation of Pennsylvania as of December 31, 2006 and 2005,

and the related consolidated statements of income, changes in shareholders equity and cash flows, for each of the years in the three-year period ended December 31, 2006, and our report dated March 6, 2007 expressed an unqualified opinion on those consolidated financial statements.

Philadelphia, Pennsylvania
March 6, 2007

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Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5), of Regulation S-K is incorporated herein by reference from the Registrant s definitive proxy statement on Schedule 14A for the annual meeting of shareholders on April 10, 2007 (2007 Proxy), under the headings: Election of Directors and Alternate Directors, Compliance with Section 16(a) of the Securities Exchange Act of 1934, The Board, the Board s Committees and Their Functions, Audit Committee, Board Compensation Committee, Corporate Governance Disclosure and Nominating and Governance Committee.

The Corporation has adopted a Code of Conduct for Directors and a Code of Conduct for all officers and employees, which includes the CEO and senior financial officers. The waiver reporting requirement process was established in 2003 and there have been no waivers. The codes of conduct are available on the Corporation s website at www.univest.net and are also available to any person without charge by sending a request to the Corporate Secretary at Univest Corporation, P. O. Box 64197, Souderton, PA 18964.

Item 11. ***Executive Compensation***

Information required by Item 402 and paragraphs (e)(4) and (e)(5) of item 407 of Regulation S-K is incorporated herein by reference from the Registrant s 2007 Proxy under the headings: The Board, the Board s Committees and Their Functions, Executive and Director Compensation, Compensation Committee Interlocks and Insider Participation, and Compensation Committee Report.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matter***

Information required by Items 201(d) and 403 of Regulation S-K is Incorporated herein by reference from the Registrant s 2007 Proxy under the heading, Beneficial Ownership of Directors and Officers.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference from the Registrant s 2007 Proxy under the headings, The Board, the Board s Committees and Their Functions and Related Party Transactions.

Item 14. ***Principal Accountant Fees and Services***

Information required by Item 9(e) of Schedule 14A is incorporated herein by reference from the Registrant s 2007 Proxy under the headings: Audit Committee and Independent Registered Public Accounting Firm Fees.

Part IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. & 2. Financial Statements and Schedules

The financial statements listed in the accompanying index to financial statements are filed as part of this annual report.

3. Listing of Exhibits

The exhibits listed on the accompanying index to exhibits are filed as part of this annual report.

(b) Exhibits The response to this portion of item 15 is submitted as a separate section.

(c) Financial Statement Schedules none.

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

[Item 15(a) 1. & 2.]

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Consolidated statements of changes in shareholders equity for each of the three years in the period ended December 31, 2006	46
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Financial statement schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

INDEX TO EXHIBITS

[Item 15(a) 3. and 15(b)]

	Description
(3.1)	Articles of Incorporation as Amended through April 12, 1994 are incorporated by reference to Exhibit 4(b) of Form S-8, File No. 333-24987, filed with the Securities and Exchange Commission (the SEC) on November 4, 1997.
(3.2)	Amended By-Laws dated November 23, 2005 are incorporated by reference to Exhibit 3.2 of Form 8-K, filed with the SEC on November 29, 2005.
(10.1)	Univest 2003 Long-term Incentive Plan is incorporated by reference to Exhibit 4 of Form S-8, File No. 333-123189, filed with the SEC on March 8, 2005.
(10.2)	Non-Qualified Pension Plan, including Split-dollar Agreement, for certain executive officers, incorporated by reference to Exhibit 10.2 of Form 10-K, filed with the SEC March 7, 2005.
(10.3)	Supplemental Retirement Plan incorporated by reference to Exhibit 10.3 of Form 10-K, filed with the SEC March 7, 2005.
(10.4)	Univest 1993 Long-term Incentive Plan is incorporated by reference to Form S-8, File No. 333-24987, filed with the SEC on April 11, 1997.
(11)	Statement Re Computation of Per Share Earnings is incorporated by reference from Footnote 13 in Item (8) of this Form 10-K.
(14)	Code of Ethics is incorporated by reference from Item (10) of this Form 10-K.
(21)	Subsidiaries of the Registrant
(23.1)	KPMG LLP Consent of Independent Registered Public Accounting Firm
(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.
(31.2)	Certification of Wallace H. Bieler, Senior Executive Vice President, Chief Operation Officer, Chief Financial Officer and Corporate Secretary 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.
(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.
(32.2)*	Certification of Wallace H. Bieler, 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.

* A certification furnished pursuant to this item will not be deemed filed for purposes of Section 18 of the Exchange Act (15 S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVEST CORPORATION OF PENNSYLVANIA
Registrant

By: /s/ Wallace H. Bieler
Wallace H. Bieler
Senior Executive Vice President,
Chief Operation Officer and Chief Financial Officer
February 28, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ William S. Aichele William S. Aichele	Chairman, President, CEO and Director	February 28, 2007
/s/ Marvin A. Anders Marvin A. Anders	Retired Chairman, Director	February 28, 2007
Charles H. Hoeflich	Chairman Emeritus	February 28, 2007
/s/ James L. Bergey James L. Bergey	Director	February 28, 2007
/s/ R. Lee Delp R. Lee Delp	Director	February 28, 2007
/s/ Norman L. Keller Norman L. Keller	Director	February 28, 2007
/s/ Thomas K. Leidy Thomas K. Leidy	Director	February 28, 2007

	Director	February 28, 2007
H. Ray Mininger		
/s/ Merrill S. Moyer	Director	February 28, 2007
Merrill S. Moyer		
/s/ Paul G. Shelly	Director	February 28, 2007
Paul G. Shelly		
/s/ John U. Young	Director	February 28, 2007
John U. Young		
/s/ K. Leon Moyer	Senior Executive Vice President	February 28, 2007
K. Leon Moyer		