UNIVEST CORP OF PENNSYLVANIA
Form 10-K
March 06, 2008

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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, 2007

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 1/31/08**
Common Stock, $5 par value	12,843,507

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The approximate aggregate market value of voting stock held by non-affiliates of the registrant is $277,524,055 as of January 31, 2008.

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 8, 2008.

UNIVEST CORPORATION OF PENNSYLVANIA

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Subsidiaries of the Registrant
KPMG LLP - Consent of independent registered public accounting firm
Certification of William S Aichele, Chairman, President, CEO - Section 302
Certification of Jeffrey M Schweitzer, Executive VP and CFO, Section 302
Certification of William S Aichele, CEO - Section 906
Certification of Jeffrey M Schweitzer, CFO - 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. Univest Capital, Inc., formerly 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, Inc. 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 Delaware, Inc. is a passive investment holding company located in Delaware.

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

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

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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, 2007, the Corporation and its subsidiaries employed five hundred and nineteen (519) 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, leasing companies and mutual funds, compete with certain lending and deposit gathering services offered by the Bank and its subsidiaries, Univest Investments, Inc. , Univest Insurance, Inc. and Univest Capital, Inc.

Supervision and Regulation

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

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

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

The Corporation is subject to the Sarbanes-Oxley Act of 2002 (SOX). SOX was enacted to address corporate and accounting fraud. SOX adopts new standards of corporate governance and imposes additional requirements on the board of directors and management of public companies. SOX law also requires that the chief executive officer and chief financial officer certify the accuracy of periodic reports filed with the Securities and Exchange Commission (SEC). Pursuant to Section 404 of SOX (SOX 404), the Corporation is required to furnish a report by its management on internal controls over financial reporting, identify any material weaknesses in its internal controls over financial reporting and assert that such internal controls are effective. The Corporation implemented and completed an exhaustive process to achieve compliance with SOX 404 during 2004 and has continued to be in compliance during 2007. The Corporation must maintain effective internal controls which require an on-going commitment by management and the Corporation s Audit Committee. The process has and will continue to require substantial resources in both financial costs and human capital.

Credit and Monetary Policies

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

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

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. In February 2008, Vanguard Leasing, Inc. changed its name to Univest Capital, Inc.

Securities and Exchange Commission Reports

The Corporation makes available free-of-charge its reports that are electronically filed with the Securities and Exchange Commission (SEC) 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 2007 to each shareholder who requests one in writing after March 31, 2008. Requests should be directed to: Karen E. Tejkl, Corporate Secretary, Univest Corporation of Pennsylvania, P.O. Box 64197, Souderton, PA 18964.

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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.

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, 2007, approximately 71.7% 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 and lease losses, a reserve established through a provision for possible loan and lease losses charged to expense, represents management s best estimate of probable losses within the existing portfolio of loans and leases. The level of the allowance reflects management s continuing evaluation of industry concentrations, specific credit risks, loan and lease loss experience, current loan and lease portfolio quality, unidentified losses inherent in the current loan and lease portfolio, and present economic, political and regulatory conditions. Although we evaluate every loan and lease we make against our underwriting criteria, we may experience losses due to factors beyond our control, which may result in our allowance for loan and lease losses being insufficient to absorb actual loan and lease losses.

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

Our policies and procedures require environmental factors to be considered during the loan application process. An environmental review is performed before initiating any commercial foreclosure action; 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.

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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.

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.

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 has historically been less than that of 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.

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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*

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

Item 2. *Properties*

The Corporation and its subsidiaries occupy thirty-six 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 two locations which are owned by the Bank; one in Lansdale, Montgomery County and one in West Chester, Chester County. The Bank serves the area through its thirty traditional offices and three 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. The Bank provides banking services nationwide through the internet via its website www.univestdirect.com.

Item 3. *Legal Proceedings*

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

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

Not applicable.

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, 2007, Univest had 3,603 stockholders.

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

Range of Market Prices

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

Market Price

	High	Low
2007		
January March	**$ 31.24**	**$ 22.32**
April June	**25.74**	**21.94**
July September	**25.95**	**18.00**
October December	**25.45**	**18.84**
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

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Cash Dividends Paid Per Share

2007	
January 3	**$ 0.200**
April 1	**0.200**
July 1	**0.200**
October 3	**0.200**
For the year 2007	**$ 0.800**
2006	
January 3	$ 0.190
April 1	0.190
July 1	0.190
October 3	0.200
For the year 2006	$ 0.770

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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, 2007, 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, 2002, 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 11.22% over the five year period ending December 31, 2007 compared to 34.7% and 104.8% for the NASDAQ Bank Stocks and NASDAQ composite, respectively.

Comparison of Cumulative Total Return on
$100 Investment Made on December 31, 2002

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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, 2007:

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*	539,220	$ 23.31	1,031,350
Equity compensation plans not approved by security holders			
Total	539,220	23.31	1,031,350

* 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 2007:

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, 2007	Oct. 31, 2007	17,685	$ 24.50	17,685	643,782
Nov. 1, 2007	Nov. 30, 2007				643,782
Dec. 1, 2007	Dec. 31, 2007				643,782
Total		17,685		17,685	

1. Transactions are reported as of settlement dates.

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

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

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

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

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

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

	Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003***
	(In thousands, except per share date and ratios)				
Earnings					
Interest income	**$ 116,533**	$ 105,166	$ 85,502	$ 74,789	$ 71,965
Interest expense	**54,127**	43,651	26,264	18,948	21,150
Net interest income	**62,406**	61,515	59,238	55,841	50,815
Provision for loan and lease losses	**2,166**	2,215	2,109	1,622	1,000
Net interest income after provision for loan and lease losses	**60,240**	59,300	57,129	54,219	49,815
Noninterest income	**26,879**	25,417	22,444	22,603	23,480
Noninterest expense	**52,211**	49,958	45,796	44,920	42,023
Net income before income taxes	**34,908**	34,759	33,777	31,902	31,272
Applicable income taxes	**9,351**	9,382	8,910	8,311	8,190
Net income	**$ 25,557**	$ 25,377	$ 24,867	$ 23,591	$ 23,082
Financial Condition at Year End					
Cash, interest-earning deposits and federal funds sold	**$ 59,385**	$ 70,355	$ 59,439	$ 37,745	$ 52,710
Investment securities	**423,448**	382,400	343,259	343,502	423,259
Net loans and leases	**1,342,356**	1,340,398	1,236,289	1,161,081	1,049,594
Assets	**1,972,505**	1,929,501	1,769,309	1,666,957	1,657,168
Deposits	**1,532,603**	1,488,545	1,366,715	1,270,884	1,270,268
Long-term obligations	**114,453**	107,405	88,449	90,418	87,306
Shareholders equity	**198,726**	185,385	173,080	160,393	145,752
Per Common Share Data**					
Average shares outstanding	**12,885**	12,960	12,867	12,841	12,811
Earnings per share basic	**$ 1.98**	$ 1.96	$ 1.93	$ 1.84	$ 1.80
Earnings per share diluted	**1.98**	1.95	1.91	1.80	1.78
Dividends declared per share	**0.800**	0.780	0.717	0.667	0.533
Book value	**15.49**	14.25	13.37	12.47	11.37
Dividend payout ratio	**40.40%**	40.00%	37.54%	37.06%	29.94%
Profitability Ratios					
Return on average assets	**1.32%**	1.38%	1.46%	1.44%	1.57%
Return on average equity	**13.44%**	14.04%	14.87%	15.46%	16.58%

Average equity to average assets	**9.84%**	9.81%	9.83%	9.33%	9.49%

* 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.

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

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

Results of Operations Overview

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

The principal component of earnings for the Corporation is net interest income, which is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The net interest margin, which is the ratio of net interest income to average earning assets, is affected by several factors including market interest rates, economic conditions, loan and lease demand, and deposit activity. The Board of Governors of the Federal Reserve System has lowered the Bank Prime Loan Rate three times between December 31, 2006 and December 31, 2007 from 8.25% to 7.25%. The Corporation maintains a relatively neutral interest rate risk profile and does not anticipate that the decrease in interest rates would be materially adverse to its net interest margin. The Corporation seeks to maintain a steady net interest margin and consistent growth of net interest income.

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

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Net income	**$ 25,557**	$ 25,377	$ 24,867
Net income per share:			
Basic	**1.98**	1.96	1.93
Diluted	**1.98**	1.95	1.91

2007 versus 2006

The 2007 results compared to 2006 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 by volume and rate increases on average interest-bearing liabilities. The net interest margin on a tax-equivalent basis declined slightly to 3.72% from 3.86%.

Total noninterest income increased by $1.5 million or 5.8% due primarily to increased insurance commission and fee income and trust fee income.

Total noninterest expense increased $2.3 million or 4.5% primarily due to salaries and benefits expense offset by decreases in marketing and advertising expense.

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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 on a tax-equivalent basis also declined slightly to 3.86%.

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.

Results of Operations 2007 Versus 2006

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. Table 1 presents a summary of the Corporation s average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the years ended December 31, 2007 compared to 2006. Table 2 analyzes the changes in the tax-equivalent net interest income for the periods broken down by their rate and volume components. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Asset/Liability Management and Investment Committees work to maintain an adequate and stable net interest margin for the Corporation.

Table 1 Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential for 2007 versus 2006

	For the Year Ended December 31, 2007			2006		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 1,892**	**$ 95**	**5.02%**	$ 621	$ 27	4.35%
U.S. Government obligations	**117,768**	**5,371**	**4.56**	148,680	5,349	3.60
Obligations of states and political subdivisions	**84,587**	**5,937**	**7.02**	83,705	5,924	7.08
Other debt and equity securities	**187,698**	**9,986**	**5.32**	127,418	6,415	5.03
Federal Reserve Bank stock	**1,687**	**101**	**5.99**	1,687	101	5.99
Federal funds sold	**9,303**	**454**	**4.88**	5,481	281	5.13
Total interest-earning deposits, investments and federal funds sold	**402,935**	**21,944**	**5.45**	367,592	18,097	4.92
Commercial, financial and agricultural loans	**394,667**	**31,138**	**7.89**	392,917	29,267	7.45
Real estate commercial and construction loans	**445,954**	**34,884**	**7.82**	420,836	31,833	7.56
Real estate residential loans	**307,042**	**16,665**	**5.43**	303,041	16,464	5.43
Loans to individuals	**81,157**	**5,675**	**6.99**	105,772	7,086	6.70
Municipal loans and leases	**90,421**	**5,341**	**5.91**	90,079	5,348	5.94
Lease financings	**47,776**	**4,244**	**8.88**	5,066	572	11.29
Gross loans and leases	**1,367,017**	**97,947**	**7.17**	1,317,711	90,570	6.87
Total interest-earning assets	**1,769,952**	**119,891**	**6.77**	1,685,303	108,667	6.45
Cash and due from banks	**39,782**			41,409		
Reserve for loan and lease losses	**(13,645)**			(13,752)		
Premises and equipment, net	**23,223**			22,042		
Other assets	**112,952**			107,825		
Total assets	**$ 1,932,264**			$ 1,842,827		
Liabilities:						
Interest-bearing checking deposits	**$ 137,699**	**463**	**0.34**	$ 135,793	247	0.18
Money market savings	**387,315**	**15,826**	**4.09**	321,025	11,639	3.63

Regular savings	**212,977**	**3,833**	**1.80**	195,125	1,615	0.83
Certificates of deposit	**516,555**	**23,911**	**4.63**	522,837	20,637	3.95
Time open and club accounts	**22,493**	**1,089**	**4.84**	26,487	1,200	4.53
Total time and interest-bearing deposits	**1,277,039**	**45,122**	**3.53**	1,201,267	35,338	2.94
Federal funds purchased	**8,911**	**477**	**5.35**	7,421	404	5.44
Securities sold under agreements to repurchase	**86,641**	**1,994**	**2.30**	96,624	2,116	2.19
Other short-term borrowings	**5,521**	**301**	**5.45**	15,345	798	5.20
Long-term debt	**82,855**	**3,919**	**4.73**	59,304	2,647	4.46
Subordinated notes and capital securities	**29,431**	**2,314**	**7.86**	30,935	2,348	7.59
Total borrowings	**213,359**	**9,005**	**4.22**	209,629	8,313	3.97
Total interest-bearing liabilities	**1,490,398**	**54,127**	**3.63**	1,410,896	43,651	3.09
Demand deposits, non-interest bearing	**221,738**			227,444		
Accrued expenses and other liabilities	**29,913**			23,724		
Total liabilities	**1,742,049**			1,662,064		
Shareholders Equity:						
Common stock	**74,370**			74,370		
Additional paid-in capital	**22,517**			22,173		
Retained earnings and other equity	**93,328**			84,220		
Total shareholders equity	**190,215**			180,763		
Total liabilities and shareholders equity	**$ 1,932,264**			$ 1,842,827		
Net interest income		**$ 65,764**			$ 65,016	
Net interest spread			**3.14**			3.36
Effect of net interest-free funding sources			**0.58**			0.50
Net interest margin			**3.72%**			3.86%
Ratio of average interest-earning assets to average interest-bearing liabilities	**118.76%**			119.45%		

Notes: For rate calculation purposes, average loan and lease categories include unearned discount.
Nonaccrual loans and leases have been included in the average loan and lease balances.
Certain amounts have been reclassified to conform to the current-year presentation.
Included in interest income are loan and lease fees of $1.0 million for 2007 and $1.4 million for 2006.
Tax-equivalent amounts for both periods 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 2007 Versus 2006

The rate-volume variance analysis set forth in the table below compares changes in tax-equivalent net interest for the years ended December 31, 2007 and December 31, 2006, indicated by their rate and volume components. The change in interest income/expense due to both volume and rate has been allocated to change in volume.

	The Years Ended December 31, 2007 Versus 2006		
	Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	$ 64	$ 4	$ 68
U.S. Government obligations	(1,405)	1,427	22
Obligations of states and political subdivisions	63	(50)	13
Other debt and equity securities	3,201	370	3,571
Federal Reserve Bank stock			
Federal funds sold	187	(14)	173
Interest on deposits, investments and federal funds sold	2,110	1,737	3,847
Commercial, financial and agricultural loans and leases	142	1,729	1,871
Real estate-commercial and construction loans	1,957	1,094	3,051
Real estate-residential loans	201		201
Loans to individuals	(1,718)	307	(1,411)
Municipal loans	20	(27)	(7)
Lease financings	3,794	(122)	3,672
Interest and fees on loans and leases	4,396	2,981	7,377
Total interest income	6,506	4,718	11,224
Interest expense:			
Interest checking deposits	(1)	217	216
Money market savings	2,710	1,477	4,187
Regular savings	325	1,893	2,218
Certificates of deposit	(281)	3,555	3,274
Time open and club accounts	(193)	82	(111)
Interest on deposits	2,560	7,224	9,784
Federal funds purchased	80	(7)	73
Securities sold under agreement to repurchase	(228)	106	(122)
Other short-term borrowings	(535)	38	(497)
Long-term debt	1,112	160	1,272
Subordinated notes and capital securities	(118)	84	(34)

Interest on borrowings	311	381	692
Total interest expense	2,871	7,605	10,476
Net interest income	$ 3,635	$ (2,887)	$ 748

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

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Net interest income on a tax-equivalent basis increased $748 thousand in 2007 compared to 2006 primarily due to higher rates and volume in commercial and real estate-commercial loans, increased volume of lease financings and rate and volume increases on other securities partially offset by increased volume and rates on money market savings and regular savings deposits as well as increased rates on certificates of deposits. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets declined slightly to 3.72% for the year ended December 31, 2007 when compared to 3.86% for the year ended December 31, 2006. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.14% at December 31, 2007 and 3.36% at December 31, 2006. The effect of net interest free funding sources increased to 0.58% for December 31, 2007 when compared to 0.50% as of December 31, 2006; this 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 55.7% for the year ended December 31, 2007 compared to 2006 due to volume growth of 47.3% and a positive 29 basis point rate change. This growth was attributable to rate and volume increases on mortgage-backed securities.

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 $173 thousand in 2007 compared to 2006 due to increased volume. This increase was offset slightly by a decrease in rates when comparing 2007 to 2006.

Tax-equivalent interest and fees on loans and leases grew 8.2% for the year ended December 31, 2007 compared to 2006 due to average volume and average rate increases. Commercial loan volume increased 0.4% and average rate increased 44 basis points. Average balance growth in real estate-commercial and construction loans was 6.0% along with a 26 basis point increase in the average rate. Also contributing to the increase in interest income on loans and leases was average growth of $42.7 million in lease financings. These increases were partially offset by a 23.3% average balance decrease in loans to individuals. The average tax-equivalent interest yield on the loan and lease portfolio grew from 6.87% in 2006 to 7.17% in 2007.

Interest Expense

The Corporation s average cost of deposits increased 59 basis points during 2007 compared to 2006. Average rates paid increased in each deposit category over the prior year due to aggressive pricing of deposits by competitors within the markets we operate. The average rate paid on money market savings increased 46 basis points and volume increased 20.6% when compared to 2006. Interest on regular savings increased 137.3%, due to a 97 basis point increase in average rate and 9.1% increase in average volume. Interest on certificates of deposits increased 15.9%, due to a 68 basis point increase in average rate; this increase was offset slightly by a decline in average volume of 1.2%. 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 decreased $35.8 million and the average rate increased 54 basis points comparing the year ended December 31, 2007 over the same period in 2006. The average balance of non-wholesale certificates of deposit increased $29.5 million and the average rate increased 76 basis points, due to promotions offered to grow deposits. Interest on demand deposits increased due to average rate increase of 16 basis points and average volume increase of $1.9 million. Interest on time open and club accounts declined due to a decrease in average volume of 15.1%; this decline was offset slightly by a 31 basis point increase in average rate.

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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 sweeps funds daily into a repurchase agreement account (cash management accounts). Interest on short-term borrowings decreased 16.5% during 2007 compared to 2006 primarily due to decreased volume associated with cash management accounts and short-term FHLB borrowings.

Interest on long-term debt, which consists of long-term FHLB borrowings, increased due to average volume growth of $23.6 million and a 27 basis point increase in the average rate paid. Subordinated notes and capital securities include the issuance of $15.0 million in Subordinated Capital Notes in 2003, and the issuance of $20.0 million in Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Junior Subordinated Debentures of the Corporation (Trust Preferred Securities) in 2003. Interest expense on Subordinated Capital Notes and Trust Preferred Securities decreased 1.4% primarily due to pay-downs on the Subordinated Capital Notes.

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, 2007 and 2006 was $2.2 million.

Noninterest Income

Noninterest income consists of trust department fee income, service charges on deposit accounts, 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 net cash surrender values of bank-owned life insurance. Total noninterest income increased during 2007 compared to 2006 primarily due to increases in commission and fee income resulting from the acquisition of B. G. Balmer & Company, Inc. (Balmer), an insurance agency, during the third quarter of 2006, increased trust fee income, other service fee income and gains on the sales of securities.

The following table presents noninterest income as of the dates indicated:

	For the Years Ended December 31,			
	2007	**2006**	**$ Change**	**% Change**
Trust fee income	**$ 5,921**	$ 5,515	$ 406	7.4%
Service charges on deposit accounts	**6,822**	6,771	51	0.8
Investment advisory commission and fee income	**2,538**	2,284	254	11.1
Insurance commission and fee income	**5,730**	4,765	965	20.3
Life insurance income	**1,503**	1,475	28	1.9
Other service fee income	**3,662**	3,348	314	9.4
Net gain on sales of securities	**435**	50	385	N/M
Net (loss) gain on dispositions of fixed assets	**(112)**	653	(765)	N/M
Other	**380**	556	(176)	(31.7)

Total noninterest income	**$ 26,879**	$ 25,417	$ 1,462	5.8%

Trust income continued to grow in 2007 from 2006 primarily due to an increase in the number and market value of assets managed. Service charges on deposit accounts increased slightly in 2007

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compared to 2006 due to increased nonsufficient funds fees, cash management service fees and ATM fees. These increases were offset slightly by decreases in interest checking service charges and account analysis fees.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc., increased in 2007 over 2006 due to market activity and volume. Insurance commissions and fee income, the primary source of income for Univest Insurance, Inc., continued to grow in 2007 from 2006. Insurance commissions grew approximately $965 thousand primarily 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 net cash surrender values of bank-owned life insurance policies. Increased income was recognized as a result of additional purchases in 2007. This increase was offset by reduced gains in net cash surrender values of the existing policies in 2007 when compared to 2006.

Other service fee income primarily consists of fees from credit card companies for a portion of merchant charges paid to the credit card companies for the Bank s customer debit card usage (Mastermoney fees), non-customer debit card fees, other merchant fees, mortgage servicing income, sales of loans and leases and mortgage placement income. Other service fee income grew in 2007 compared to 2006 primarily due to increased Mastermoney fees of $132 thousand and increased income of $82 thousand from other merchant fees.

Gains on Sales of Assets

During 2007, approximately $4.2 million in U.S. Government treasuries, $1.2 million in Municipals and $227 thousand in equity securities were sold for a net gain of $435 thousand. There were calls of $22.1 million of U.S. Government agency securities, $12.4 million in municipal securities and $5.4 million in equity securities. 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. In 2006, 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; there were also calls of $7.1 million on municipal securities.

Net losses on the disposition of fixed assets was $112 thousand for the year ended December 31, 2007, compared to net gains of $653 thousand for the year ended December 31, 2006. Net losses in 2007 were primarily the result of relocating a banking office within one of its supermarket locations to a traditional office, recognizing a loss of $64 thousand. In addition, the consolidation and upgrade of the corporate phone system resulted in a loss on disposal of $36 thousand. During 2006, the Corporation sold a former banking office and relocated one supermarket branch.

Sales of $3.9 million in loans and leases during the year ended December 31, 2007 resulted in a gain of $197 thousand as compared to sales of $1.5 million during the year ended December 31, 2006 for a net gain of $39 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 2007. Gains on the sale of loans and leases are included in the other category in the noninterest income table.

In 2007, the Corporation recorded a net loss of $5 thousand on the sale of one other real estate owned property. During 2006, the Corporation sold two other real estate owned properties resulting in a gain of $139 thousand. Gains and losses on the sale of other real estate owned properties are included in the other category in the noninterest income table.

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 as of the dates indicated:

	For the Years Ended December 31,			
	2007	**2006**	**$ Change**	**% Change**
Salaries and benefits	**$ 30,811**	$ 28,547	$ 2,264	7.9%
Net occupancy	**4,753**	4,362	391	9.0
Equipment	**3,127**	3,274	(147)	(4.5)
Marketing and advertising	**831**	1,685	(854)	(50.7)
Other	**12,689**	12,090	599	5.0
Total noninterest expense	**$ 52,211**	$ 49,958	$ 2,253	4.5

Salaries and benefits increased in 2007 in comparison to 2006 primarily due to normal salary and benefit expenses associated with the formation of Univest Capital, Inc., the Balmer acquisition, normal escalation of base salary and benefit costs and special effort awards.

Net occupancy expense increased for the year ended December 31, 2007 in comparison to 2006 due to increased rental expense associated with rental obligations for the West Chester insurance office, Doylestown corporate office and the Vernfield banking office as well as increased costs in general building maintenance and repair. These increases were offset by growth in rental income from the West Chester insurance office and the Kulpsville banking site. Equipment expense decreased primarily due to a reduction in depreciation expense associated with furniture and equipment.

Marketing and advertising expenses decreased primarily due to a reduction in radio advertising and sales promotions. These decreases were partially offset by increases in internet advertising. Other expenses increased for the year ending December 31, 2007 compared to 2006 primarily due to increased audit and exam fees, legal fees and pension administration costs. These increases were partially offset by a decrease in consultant fees.

Provision For Income Taxes

The provision for income taxes was $9.4 million for the years ended December 31, 2007 and December 31, 2006. The provision for income taxes for 2007 and 2006 are at effective rates of 26.8% and 26.9%, 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 decrease in the effective tax rate in 2007 compared to 2006 is primarily due to a reduction in disallowed travel and entertainment expense; this reduction was partially offset by a reduction in low-income housing tax credits.

Results of Operations   2006 Versus 2005

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. Table 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, 2006 compared to 2005. 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. The Asset/Liability Management and Investment Committee works to maintain an adequate and stable net interest margin for the Corporation.

Table 3 Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential for 2006 versus 2005

	For the Year Ended December 31, 2006			2005		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	$ 621	$ 27	4.35%	$ 643	$ 17	2.64%
U.S. Government obligations	148,680	5,349	3.60	158,826	5,223	3.29
Obligations of states and political subdivisions	83,705	5,924	7.08	78,994	5,501	6.96
Other debt and equity securities	127,418	6,415	5.03	103,854	4,515	4.35
Federal Reserve Bank stock	1,687	101	5.99	1,687	101	5.99
Federal funds sold	5,481	281	5.13	6,369	212	3.33
Total interest-earning deposits, investments and federal funds sold	367,592	18,097	4.92	350,373	15,569	4.44
Commercial, financial and agricultural loans	392,917	29,267	7.45	342,966	21,678	6.32
Real estate commercial and construction loans	420,836	31,833	7.56	389,890	26,508	6.80
Real estate residential loans	303,041	16,464	5.43	297,988	15,257	5.12
Loans to individuals	105,772	7,086	6.70	84,049	5,087	6.05
Municipal loans and leases	90,079	5,348	5.94	83,481	4,629	5.54
Lease financings	5,066	572	11.29	507	54	10.65
Gross loans and leases	1,317,711	90,570	6.87	1,198,881	73,213	6.11
Total interest-earning assets	1,685,303	108,667	6.45	1,549,254	88,782	5.73
Cash and due from banks	41,409			39,974		
Reserve for loan and lease losses	(13,752)			(13,032)		
Premises and equipment, net	22,042			&		