

UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 08, 2006

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006.

or

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

Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation of organization)

23-1886144
(IRS Employer Identification No.)

14 North Main Street, Souderton, Pennsylvania 18964
(Address of principal executive offices)(Zip Code)

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

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. RYes £No

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

Large accelerated filer £ Accelerated filer R Non-accelerated filer £

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

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

<u>Common</u> <u>Stock, \$5 par</u> <u>value</u> (Title of Class)	<u>12,984,041</u> (Number of shares outstanding at 9/30/06)
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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

UNIVEST CORPORATION OF PENNSYLVANIA
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2006	December 31, 2005
(\$ in thousands)		
ASSETS		
Cash and due from banks	\$ 44,871	\$ 46,226
Interest-bearing deposits with other banks	655	563
Federal funds sold	924	12,650
Investment securities held-to-maturity (market value \$12,820 and \$14,686 at September 30, 2006 and December 31, 2005, respectively)	12,831	14,808
Investment securities available-for-sale	382,421	328,451
Loans and leases	1,370,620	1,249,652
Less: Reserve for loan and lease losses	(12,997)	(13,363)
Net loans and leases	1,357,623	1,236,289
Premises and equipment, net	22,326	21,635
Goodwill, net of accumulated amortization of \$2,845 at September 30, 2006 and December 31, 2005	41,150	40,998
Other intangibles, net of accumulated amortization of \$4,869 and \$4,424 at September 30, 2006 and December 31, 2005, respectively	6,691	2,389
Cash surrender value of insurance policies	36,265	35,211
Accrued interest and other assets	31,640	30,089
Total assets	\$ 1,937,397	\$ 1,769,309
LIABILITIES		
Demand deposits, noninterest-bearing	\$ 228,646	\$ 246,736
Demand deposits, interest-bearing	446,213	445,395
Savings deposits	189,970	192,154
Time deposits	598,887	482,430
Total deposits	1,463,716	1,366,715
Securities sold under agreements to repurchase	92,997	108,312
Other short-term borrowings	70,800	
Accrued expenses and other liabilities	26,493	32,753
Long-term debt	67,154	56,580
Subordinated notes	10,125	11,250
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Uninvest ("Trust Preferred Securities")	20,619	20,619
Total liabilities	1,751,904	1,596,229
SHAREHOLDERS' EQUITY		
Common stock, \$5 par value: 24,000,000 shares authorized at September 30, 2006 and December 31, 2005; 14,873,904 shares and 14,873,904 shares issued and 12,984,041 and 12,947,001 shares outstanding at September 30, 2006 and December 31, 2005, respectively	74,370	74,370
Additional paid-in capital	22,376	22,051

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Retained earnings	124,541	114,346
Accumulated other comprehensive loss, net of tax benefit	(60)	(1,050)
Treasury stock, at cost; 1,889,863 and 1,926,903 shares at September 30, 2006 and December 31, 2005, respectively	(35,734)	(36,637)
Total shareholders' equity	185,493	173,080
Total liabilities and shareholders' equity	\$ 1,937,397	\$ 1,769,309

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Interest income	(\$ in thousands, except per share data)			
Interest and fees on loans and leases:				
Taxable	\$ 22,542	\$ 17,866	\$ 62,598	\$ 49,861
Exempt from federal income taxes	1,003	807	2,860	2,403
Total interest and fees on loans and leases	23,545	18,673	65,458	52,264
Interest and dividends on investment securities:				
Taxable	3,178	2,559	8,424	7,306
Exempt from federal income taxes	959	882	2,907	2,652
Other interest income	42	51	216	158
Total interest income	27,724	22,165	77,005	62,380
Interest expense				
Interest on deposits	9,722	5,361	24,829	14,089
Interest on long-term debt and capital securities	1,264	1,123	3,607	3,214
Interest on short-term debt	1,091	480	2,375	1,029
Total interest expense	12,077	6,964	30,811	18,332
Net interest income	15,647	15,201	46,194	44,048
Provision for loan and lease losses	568	509	1,594	1,409
Net interest income after provision for loan and lease losses	15,079	14,692	44,600	42,639
Noninterest income				
Trust fee income	1,363	1,301	4,362	3,964
Service charges on deposit accounts	1,748	1,803	5,091	5,147
Investment advisory commission and fee income	545	517	1,701	1,438
Insurance commission and fee income	1,233	846	3,534	2,779
Life insurance income	433	373	1,054	977
Other service fee income	893	790	2,437	2,335
Net gain on sales of securities	3	63	50	150
Net loss on disposition of fixed assets		(3)	(67)	(218)
Other	16	(134)	192	83
Total noninterest income	6,234	5,556	18,354	16,655
Noninterest expense				
Salaries and benefits	7,051	6,766	21,554	20,039
Net occupancy	1,078	1,006	3,205	3,211
Equipment	829	741	2,406	2,212
Other	3,374	2,558	10,162	8,711
Total noninterest expense	12,332	11,071	37,327	34,173
Income before income taxes	8,981	9,177	25,627	25,121

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Applicable income taxes		2,444		2,475		6,861		6,648
Net income	\$	6,537	\$	6,702	\$	18,766	\$	18,473
Net income per share:								
Basic	\$	0.50	\$	0.52	\$	1.45	\$	1.43
Diluted		0.50		0.51		1.44		1.42
Dividends declared		0.20		0.19		0.58		0.53

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

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

For the Nine Months Ended September 30,
2006 **2005**

	(\$ in thousands)	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 18,766	\$ 18,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,594	1,409
Depreciation of premises and equipment	1,627	1,470
Realized gains on investment securities	(50)	(150)
Realized losses on dispositions of fixed assets	67	218
Increase in cash surrender value of insurance policies	(1,054)	(977)
Other adjustments to reconcile net income to cash provided by operating activities	(446)	(997)
Increase in interest receivable and other assets	(1,475)	(1,036)
(Decrease) increase in accrued expenses and other liabilities	(7,672)	3,899
Net cash provided by operating activities	11,357	22,309
Cash flows from investing activities:		
Net cash paid due to acquisitions	(4,330)	(200)
Net capital expenditures	(2,327)	(3,274)
Proceeds from maturing securities held-to-maturity	827	68,755
Proceeds from maturing securities available-for-sale	121,265	35,732
Proceeds from sales and calls of securities available-for-sale	22,298	10,514
Purchases of investment securities held-to-maturity		(49,885)
Purchases of investment securities available-for-sale	(194,655)	(83,259)
Proceeds from sales of mortgages	1,156	5,750
Purchases of lease financings	(10,412)	
Net increase in loans and leases	(113,420)	(60,677)
Net (increase) decrease in interest-bearing deposits	(92)	114
Net decrease (increase) in federal funds sold	11,726	(2,494)
Net cash used in investing activities	(167,964)	(78,924)
Cash flows from financing activities:		
Net increase in deposits	97,182	71,571
Net increase (decrease) in short-term borrowings	55,485	(3,304)
Issuance of long-term debt	20,000	
Repayment of long-term debt	(9,075)	
Repayment of subordinated debt	(1,125)	(1,125)
Purchases of treasury stock	(3,397)	(3,323)
Stock issued under dividend reinvestment and employee stock purchase plans	1,539	1,491
Proceeds from exercise of stock options, including tax benefits	2,026	2,201
Cash dividends paid	(7,383)	(6,491)
Net cash provided by financing activities	155,252	61,020
Net (decrease) increase in cash and due from banks	(1,355)	4,405

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Cash and due from banks at beginning of year		46,226		35,876
Cash and due from banks at end of period	\$	44,871	\$	40,281

Supplemental disclosures of cash flow information

Cash paid during the year for:

Interest	\$	29,046	\$	17,758
Income taxes, net of refunds received		6,999		6,091

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

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES**Notes to the Unaudited Condensed Consolidated Financial Statements****Note 1. Financial Information**

The accompanying unaudited condensed consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the "Corporation") and its wholly owned subsidiaries; the Corporation's primary subsidiary is Univest National Bank and Trust Co. (the "Bank"). The unaudited condensed consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary to present a fair statement of the results and condition for the interim periods presented. Operating results for the nine-month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2005, which has been filed with the SEC.

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.

During the second quarter of 2006, the Bank entered into the small ticket commercial leasing business through its newly formed subsidiary Vanguard Leasing, Inc. ("Vanguard"). Vanguard is incorporated under Pennsylvania law and is located in Bensalem, Pennsylvania.

On July 27, 2006, the Corporation completed the acquisition of B. G. Balmer & Company, Inc. ("Balmer"), a full-service insurance agency, located in West Chester, Pennsylvania. The acquisition expands the Corporation's growing insurance business and provides a prominent, competitive presence in Chester County. The Corporation has recorded additional intangible assets of \$4.7 million for the Balmer acquisition based on a preliminary analysis of the purchase price and is subject to adjustment.

Note 2. Loans

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

(\$ in thousands)	At September 30, 2006	At December 31, 2005
Commercial, financial and agricultural	\$ 454,176	\$ 383,792
Real estate-commercial	359,299	349,384
Real estate-construction	135,326	110,032
Real estate-residential	304,313	303,994
Loans to individuals	106,945	102,095
Lease financings	11,628	415

Total gross loans and leases	1,371,687		1,249,712
Less: Unearned income	(1,067)		(60)
Total loans and leases	\$ 1,370,620	\$	1,249,652

Net unamortized deferred loan and lease origination fees at September 30, 2006 and December 31, 2005 were \$1.0 million and \$1.5 million, respectively.

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Note 3. Reserve for Loan and Lease Losses

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Reserve for loan and lease losses at beginning of period	\$ 14,280	\$ 13,252	\$ 13,363	\$ 13,099
Provision for loan and lease losses	568	509	1,594	1,409
Recoveries	110	139	512	916
Loans charged off	(1,961)	(1,190)	(2,472)	(2,714)
Reserve for loan and lease losses at period end	\$ 12,997	\$ 12,710	\$ 12,997	\$ 12,710

Information with respect to loans and leases that are considered to be impaired under SFAS 114 at September 30, 2006 and December 31, 2005 is as follows:

(\$ in thousands)	At September 30, 2006		At December 31, 2005	
	Balance	Specific Reserve	Balance	Specific Reserve
Recorded investment in impaired loans and leases at period-end subject to a specific reserve for loan and lease losses and corresponding specific reserve	\$ 4,918	\$ 1,093	\$ 3,263	\$ 1,076
Recorded investment in impaired loans and leases at period-end requiring no specific reserve for loan and lease losses				
Recorded investment in impaired loans and leases at period-end	\$ 4,918		\$ 3,263	
Recorded investment in nonaccrual and restructured loans and leases	\$ 4,918		\$ 3,263	

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Nonaccrual and restructured loans and leases at period end	\$ 4,918	\$ 6,024	\$ 4,918	\$ 6,024
Average recorded investment in impaired loans and leases	7,915	7,384	5,658	9,047
Interest income that would have been recognized under original terms	86	61	319	444

No interest income was recognized on these loans for the three- and nine-month periods ended September 30, 2006 and 2005.

Note 4. Earnings Per Share

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

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Numerator for basic and diluted earnings per share -				
Net income	\$ 6,537	\$ 6,702	\$ 18,766	\$ 18,473
Denominator:				
Denominator for basic earnings per share -				
weighted-average shares outstanding	12,963	12,917	12,949	12,892
Effect of dilutive securities:				
Employee stock options	69	131	57	153
Denominator for diluted earnings per share - adjusted				
weighted-average shares outstanding	13,032	13,048	13,006	13,045
Basic earnings per share	\$ 0.50	\$ 0.52	\$ 1.45	\$ 1.43
Diluted earnings per share	\$ 0.50	\$ 0.51	\$ 1.44	\$ 1.42

As permitted under SFAS No. 123 (before revision), "Accounting for Stock-Based-Compensation" ("SFAS 123"), the Corporation applied the intrinsic value method of accounting for stock options and other awards granted to employees. Under that method, the Corporation did not recognize any compensation cost during 2005. 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 three- and nine-month periods ended September 30, 2006 are not directly comparable to the same periods in the prior year.

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 were amortized to expense over the option-vesting period:

(\$ in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Income as reported	\$ 6,537	\$ 6,702	\$ 18,766	\$ 18,473
Add: Stock-based compensation expense included in reported net income, net of tax	138		375	
Deduct: Stock-based compensation expense determined under the fair value based method for all awards, net of tax	138	118	375	270
Pro forma net income	\$ 6,537	\$ 6,584	\$ 18,766	\$ 18,203
Basic earnings per share:				
As reported	\$ 0.50	\$ 0.52	\$ 1.45	\$ 1.43
Pro forma	\$ 0.50	\$ 0.51	\$ 1.45	\$ 1.41

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Diluted earnings per share:

As reported	\$	0.50	\$	0.51	\$	1.44	\$	1.42
Pro forma	\$	0.50	\$	0.50	\$	1.44	\$	1.40

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Note 5. Share-Based Compensation

The 1996 Employee Stock Purchase Plan (the "Purchase Plan") provided 984,375 shares of common stock available for issuance, of which 882,226 shares were available for issuance at September 30, 2006. 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 established by the Administrative Committee provided, however, that the purchase price will not be less than 85% of the lesser of the market price on the first day or last day of the offering period. Under SFAS 123R compensation expense must be recognized if the discount is greater than 5%.

The Corporation adopted the shareholders' 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 246,737 options to purchase common shares outstanding at September 30, 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 are exercisable each year for a period not exceeding ten years. There were 1,232,701 common shares available for future grants and 267,254 options to purchase common shares outstanding at September 30, 2006 under the 2003 plan.

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

(\$ in thousand except per share data)	Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value at September 30, 2006
Outstanding at December 31, 2005	589,223	\$ 21.57		
Granted	37,500	25.01		
Expired	(850)	28.27		
Forfeited	(5,700)	25.46		
Exercised	(106,182)	16.02		
Outstanding at September 30, 2006	513,991	22.91	4.9	\$ 11,777
Exercisable at September 30, 2006	259,548	20.82	2.2	5,404

During the first nine months of 2006 and 2005, proceeds from the exercise of stock options were \$1.7 million and \$1.9 million, respectively; the tax benefit recognized and recorded to additional paid in capital was \$325 thousand and \$314 thousand, respectively; and the intrinsic value of the options exercised was \$1.3 million and \$1.8 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 and that remain 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 Three Months Ended September 30,		For the Nine Months Ended September 30,		For Fiscal Years			
	2006	2005	2006	2005	2005	2004	2003	2002
Expected option life in years			8.9	8.6	8.7		8.0	5.0
Risk free interest rate			5.15%	4.00%	4.35%		3.04%	2.75%
Expected dividend yield			3.04%	2.38%	3.11%		2.11%	2.26%
Expected volatility			.309	.358	.335		.142	.219
Fair value of options			\$ 7.96	\$ 10.13	\$ 7.69		\$ 4.57	\$ 3.93

During the third quarter of 2006, the Corporation recognized stock-based compensation expense of \$144 thousand on stock options and \$7 thousand on the Employee Stock Purchase Plan and recognized a tax benefit on nonqualified stock option expense of \$13 thousand. During the nine months ended September 30, 2006, the Corporation recognized stock-based compensation expense of \$389 thousand on stock options and \$20 thousand on the Employee Stock Purchase Plan and recognized a tax benefit on nonqualified stock option expense of \$34 thousand. At September 30, 2006, accrued stock-based compensation expense amounted to \$386 thousand for stock options that the Corporation anticipates to vest over a weighted average period of 1.4 years. At September 30, 2006, there was \$1.2 million of unrecognized expense related to stock options which is expected to be recognized over a weighted-average period of 3.0 years.

During the nine months ended September 30, 2006, the Corporation accelerated the vesting of 4,437 grants 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.

The following table provides information about the change in nonvested options over the first nine months of 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	(4,437)	4.92
Forfeited	(5,700)	6.71
Nonvested options at September 30, 2006	254,443	6.30

Note 6. Accumulated Comprehensive Income

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Income	\$ 6,537	\$ 6,702	\$ 18,766	\$ 18,473
	41	(29)	45	(29)

Unrealized gain (loss) on cash flow hedges, net of tax				
Unrealized gain (loss) on available-for-sale investment securities, net of tax	2,823	(1,750)	977	(2,436)
Less: reclassification adjustment for gains realized, net of tax, in net income	1	41	32	98
Total comprehensive income, net of tax	\$ 9,400	\$ 4,882	\$ 19,756	\$ 15,910

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Note 7. Pensions and Other Postretirement Benefits

Components of net periodic benefit cost:

(\$ in thousands)

	Three Months Ended September 30,			
	2006	2005	2006	2005
	Retirement Plans		Other Postretirement	
Service cost	\$ 326	\$ 300	\$ 14	\$ 13
Interest cost	406	389	20	18
Expected return on plan assets	(395)	(372)		
Amortization of net loss	95	59	3	2
Amortization of prior service cost	(19)	(18)	(5)	(5)
Net periodic benefit cost	\$ 413	\$ 358	\$ 32	\$ 28

(\$ in thousands)

	Nine Months Ended September 30,			
	2006	2005	2006	2005
	Retirement Plans		Other Postretirement	
Service cost	\$ 1,013	\$ 918	\$ 43	\$ 40
Interest cost	1,226	1,180	59	55
Expected return on plan assets	(1,171)	(1,132)		
Amortization of net (gain) loss	261	166	3	6
Amortization of prior service cost	(55)	(55)	(15)	(15)
Net periodic benefit cost	\$ 1,274	\$ 1,077	\$ 96	\$ 86

The Corporation previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to make payments of \$1.5 million for its qualified and non-qualified retirement plans and \$94 thousand for its other postretirement benefit plans in 2006. As of September 30, 2006, \$1.2 million and \$65 thousand have been paid to participants from its qualified and non-qualified retirement plans and other postretirement plans, respectively. During the nine months ended September 30, 2006, the Corporation contributed \$383 thousand and \$65 thousand to its non-qualified retirement plans and other postretirement plans, respectively. The Corporation presently anticipates making essentially equal payments for the remaining quarter in 2006 to fund the non-qualified retirement plan and other postretirement plans.

Note 8. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

At September 30, 2006, the total notional amount of the "Pay Floating, Receive Fixed" swap outstanding was \$20.0 million. The net payable or receivable from the interest-rate swap agreement is accrued as an adjustment to interest income. The \$20.0 million in notional amount of interest-rate swap outstanding expires on November 2, 2006. The Corporation's credit exposure on swaps is limited to the value of interest-rate swaps that have become favorable to the Corporation. At September 30, 2006, the market value of the interest-rate swaps in an unfavorable position was \$25 thousand and there were no interest-rate swaps with a market value in a favorable position.

Note 9. 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 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 financial statements.

In June 2006, 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 has not completed its assessment of FIN 48 and the impact, if any, on the financial statements.

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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 financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plan" ("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 has not completed its assessment of SFAS 158, but anticipates recording a reduction to Shareholders' Equity in Net Other Comprehensive Loss during the fourth quarter of 2006.

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. Implementation of SAB 108 is encouraged in any report for an interim period of the first fiscal year ending after November 15, 2006. The Corporation did not early adopt SAB No. 108. The Corporation has not yet determined whether this interpretation will have a material impact on its consolidated financial statements upon adoption.

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

Forward-Looking Statements

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

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

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

General

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

The Bank is engaged in the general commercial banking business and provides a full range of banking services and trust services to its customers. Delview, Inc., a wholly owned subsidiary of the Bank, provides various financial services including financial planning, investment management, insurance products and brokerage services to individuals and businesses through its subsidiaries Univest Investments, Inc. and Univest Insurance, Inc. During the second quarter of 2006, the Bank entered into the small ticket commercial leasing business through its newly formed subsidiary Vanguard Leasing, Inc. ("Vanguard"). Vanguard is incorporated under Pennsylvania law and is located in Bensalem, Pennsylvania.

On July 27, 2006, the Corporation completed the acquisition of B. G. Balmer & Company, Inc. ("Balmer"), a full-service insurance agency, located in West Chester, Pennsylvania. The acquisition expands the Corporation's growing insurance business and provides a prominent, competitive presence in Chester County. The Corporation recorded additional intangible assets of \$4.7 million related to this acquisition based on a preliminary analysis of the purchase price and is subject to adjustment.

Executive Overview

The Corporation recorded net income for the nine months ended September 30, 2006 of \$18.8 million, a 1.6% increase over the September 30, 2005 period. Both basic and diluted net income per share increased 1.4%.

Average earning assets increased \$131.1 million and average interest-bearing liabilities increased \$118.1 million when comparing the nine-month periods ended September 30, 2006 and 2005. Increased rates on commercial business loans and commercial and construction real estate loans, partially offset by increased rates on money market savings and certificates of deposits, contributed to a \$2.1 million increase in net interest income. The tax-equivalent net interest margin declined slightly to 3.9% for the nine-month period ended September 30, 2006 compared to 4.0% for the same period in 2005.

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Non-interest income grew 10.2%, when comparing the nine-month periods ended September 30, 2006 to 2005, primarily due to increases in insurance commissions and fee income, investment advisory commissions and fee income, and trust fee income. Non-interest expense grew 9.2% primarily due to an increase in salary and employee benefit expense as well as an increase in the capital shares tax.

The Corporation earns its revenues primarily from the margins and fees it generates from the loan and depository services it provides as well as from trust, insurance and investment commissions and fees. The Corporation seeks to achieve adequate and reliable earnings by growing its business while maintaining adequate levels of capital and liquidity and limiting its exposure to credit and interest rate risk to Board approved levels. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value while the margin impact will vary from bank to bank based upon the structure of its balance sheet. The Corporation maintains a relatively low interest rate risk profile and does not anticipate that an increase in interest rates would be adverse to its net interest margin.

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

Results of Operations - Three Months Ended September 30, 2006 Versus 2005

The Corporation's consolidated net income and earnings per share for the three months ended September 30, 2006 and 2005 were as follows:

(\$ in thousands, except per share data)	Three Months Ended		Change	
	2006	2005	Amount	Percent
Net income	\$ 6,537	\$ 6,702	(\$165)	(2.46%)
Net income per share:				
Basic	\$ 0.50	\$ 0.52	(\$ 0.02)	(3.8%)
Diluted	0.50	0.51	(0.01)	(2.0%)

Return on average shareholders' equity was 14.36% and return on average assets was 1.39% for the three months ended September 30, 2006 compared to 15.81% and 1.56%, respectively, for the same period in 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. The following table presents a summary of the Corporation's average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities for the three months ended September 30, 2006 and 2005. Sensitivities associated with the mix of assets and liabilities are numerous and complex. The Asset/Liability Management and Investment committees work to maintain an adequate and reliable net interest margin for the Corporation.

Net interest income increased \$446 thousand for the three months ended September 30, 2006 compared to 2005 primarily due to increased rates on commercial loans and commercial real estate and construction loans, partially

offset by increased rates on money market savings deposits and certificates of deposit. The tax-equivalent net interest margin, which is tax-equivalent net interest income as a percentage of average interest-earning assets, was 3.8% and 4.1% for the three-month periods ended September 30, 2006 and 2005, respectively. The tax-equivalent net interest spread, which represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities, was 3.3% for the three months ended September 30, 2006 compared to 3.7% for the same period in 2005. The effect of net interest free funding sources increased to 0.5% for the three months ended September 30, 2006 compared to 0.4% for the same period in 2005; this represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders' equity.

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Table 1 — Distribution of Assets, Liabilities and Stockholders' Equity Interest Rates and Interest Differential

	For the Three Months Ended September 30,					
	2006 Average Balance	Income/ Expense	Avg. Rate	2005 Average Balance	Income/ Expense	Avg. Rate
Assets:						
Interest-earning deposits with other banks	\$ 663	\$ 7	4.2%	\$ 651	\$ 4	2.5%
U.S. Government obligations	159,125	1,456	3.7	169,346	1,418	3.3
Obligations of states & political subdivisions	83,566	1,474	7.1	77,695	1,355	7.0
Other securities	131,419	1,697	5.2	104,167	1,116	4.3
Federal Reserve bank stock	1,687	25	5.9	1,687	25	5.9
Federal funds sold	2,815	35	5.0	4,759	47	4.0
Total interest-earning deposits, investments and federal funds sold	379,275	4,694	5.0	358,305	3,965	4.4
Commercial, financial and agricultural loans and leases	415,686	7,950	7.7	347,785	5,746	6.6
Real estate commercial and construction loans	430,982	8,564	7.9	390,686	6,812	7.0
Real estate residential loans	301,296	4,156	5.5	298,901	3,864	5.2
Loans to individuals	107,359	1,872	7.0	90,664	1,444	6.4
Municipal loans	90,710	1,357	6.0	83,023	1,134	5.5
Gross loans and leases	1,346,033	23,899	7.1	1,211,059	19,000	6.3
Total interest-earning assets	1,725,308	28,593	6.6	1,569,364	22,965	5.8
Cash and due from banks	42,330			42,551		
Reserve for loan losses	(14,278)			(13,272)		
Premises and equipment, net	22,142			21,030		
Other assets	109,924			104,298		
Total assets	\$ 1,885,426			\$ 1,723,971		
Liabilities:						
Interest-bearing checking deposits	\$ 132,672	69	0.2	\$ 146,861	40	0.1
Money market savings	330,013	3,187	3.9	278,466	1,600	2.3
Regular savings	194,999	499	1.0	208,696	146	0.3
Certificates of deposit	537,524	5,592	4.2	450,868	3,407	3.0
Time open & club accounts	31,495	375	4.8	21,667	168	3.1
Total time and interest-bearing deposits	1,226,703	9,722	3.2	1,106,558	5,361	1.9

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Federal funds purchased	12,853	172	5.4	5,940	56	3.8
Securities sold under agreements to repurchase	92,623	516	2.2	96,547	400	1.7
Other short-term borrowings	33,545	403	4.8	2,623	24	3.7
Long-term debt	57,201	649	4.5	56,761	622	4.4
Subordinated notes and capital securities	30,752	615	8.0	32,244	501	6.2
Total borrowings	226,974	2,355	4.2	194,115	1,603	3.3
Total interest-bearing liabilities	1,453,677	12,077	3.3	1,300,673	6,964	2.1
Demand deposits, non-interest bearing	227,389			233,247		
Accrued expenses & other liabilities	22,239			20,538		
Total liabilities	1,703,305			1,554,458		
Shareholders' Equity:						
Common stock	74,370			74,370		
Additional paid-in capital	22,178			21,787		
Retained earnings and other equity	85,573			73,356		
Total shareholders' equity	182,121			169,513		
Total liabilities and shareholders' equity	\$ 1,885,426			\$ 1,723,971		
Net interest income		\$ 16,516			\$ 16,001	
Net interest spread			3.3			3.7
Effect of net interest-free funding sources			0.5			0.4
Net interest margin			3.8%			4.1%
Ratio of average interest-earning assets to average interest-bearing liabilities		118.7%			120.7%	

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

Analysis of Changes in Net Interest Income

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

**The Three Months Ended September 30,
2006 Versus 2005**

	Volume Change	Rate Change	Total
Interest income:			
Interest-earning deposits with other banks	\$ —	\$ 3	\$ 3
U.S. Government obligations	(131)	169	38
Obligations of states & political subdivisions	100	19	119
Other securities	347	234	581
Federal Reserve bank stock	—	—	—
Federal funds sold	(24)	12	(12)
Interest on deposits, investments and federal funds sold	292	437	729
Commercial, financial and agricultural loans and leases	1,248	956	2,204
Real estate commercial and construction loans	873	879	1,752
Real estate residential loans	68	224	292
Loans to individuals	292	136	428
Municipal loans	119	104	223
Interest and fees on loans and leases	2,600	2,299	4,899
Total interest income	2,892	2,736	5,628
Interest expense:			
Interest checking deposits	(8)	37	29
Money market savings	473	1,114	1,587
Regular savings	(12)	365	353
Certificates of deposit	832	1,353	2,185
Time open & club accounts	115	92	207
Interest on deposits	1,400	2,961	4,361
Federal funds purchased	92	24	116
Securities sold under agreement to repurchase	(5)	121	116
Other short-term borrowings	372	7	379
Long-term debt	13	14	27
Subordinated notes and capital securities	(31)	145	114
Interest on borrowings	441	311	752
Total interest expense	1,841	3,272	5,113
Net interest income	\$ 1,051	\$ (536)	\$ 515

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

Interest Income

Interest on deposits, investments and federal funds sold increased primarily due to a rate and volume increases on mortgage-backed securities and U.S. Government agency obligations and average volume increases in obligations of state and political subdivisions.

The growth in interest and fees on loans and leases is due primarily to volume and rate increases on commercial business loans and commercial and construction real estate loans. The average interest yield on the commercial loan portfolio increased 104 basis points, primarily due to a 183 basis point increase in the average prime rate, for the three months ended September 30, 2006 compared to the same period in 2005; which, along with average volume increases of \$67.9 million, contributed to a \$2.2 million increase in interest income. The average yield on commercial and construction real estate loans increased by 98 basis points; this along with average volume increases of \$40.3 million contributed to a \$1.8 million increase in interest income. The average volume of loans to individuals increased \$16.7 million, primarily contributing to an increase in interest income of \$428 thousand.

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Interest Expense

The Corporation's average rate on deposits increased 123 basis points for the three months ended September 30, 2006 compared to the same period in 2005. The average rate paid on money market savings increased 156 basis points due to new products and promotions offered to grow deposits in the Bank's competitive marketplace; which contributed to a \$1.6 million increase in interest expense. Interest on certificates of deposit increased \$2.2 million, due to a 114 basis-point increase in average rate and average volume increases of \$86.7 million. Since August 2004, the Bank obtained deposits from 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, the Univest National Bank is not required to provide collateral on these deposits. The average balance of PLGIT deposits increased \$49.6 million comparing the three months ended September 30, 2006 over the same period in 2005.

Interest expense on short-term borrowings includes interest paid on federal funds purchased and short-term FHLB borrowings. In addition, the Bank offers an automated cash management checking account that sweeps funds daily into a repurchase agreement account ("sweep accounts"). Interest expense on short-term borrowings increased \$611 thousand during the three months ended September 30, 2006 compared to 2005 primarily due to an increase in short-term FHLB borrowings.

Interest on long-term borrowings increased primarily due to a 178 basis point increase in the rate paid on subordinated notes and trust preferred securities. This increase in rate was due to Three Month London Interbank Offer Rate ("LIBOR") increases 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 are also reviewed for impairment based on discounted cash flows using the loans' initial effective interest rate or the fair value of the collateral for certain collateral dependent loans as provided for under SFAS No. 114. Any of the above criteria may cause the provision to fluctuate. The bank's primary regulators, as an integral part of their examination process, may require adjustments to the allowance. Continued growth in loan and lease volumes and current economic conditions indicated the need for an increase to the reserve in 2006. The provision for the three months ended September 30, 2006 and 2005 was \$568 thousand and \$509 thousand, respectively.

Non-interest Income

Non-interest income consists of trust department fee income, service charges on deposits income, commission income, net gains on sales of securities, and other miscellaneous types of income. It also includes various types of service fees, such as ATM fees, and life insurance income which primarily represents changes in the cash surrender value of bank-owned life insurance policies. Total non-interest income increased during the three months ended September 30, 2006 compared to 2005 primarily due to higher insurance commission and fee income resulting from the acquisition of B. G. Balmer & Company, Inc. ("Balmer") during the third quarter of 2006.

	For the Three Months Ended			Change	
	September 30,			Amount	Percent
	2006	2005			
Trust fee income	\$ 1,363	\$ 1,301	\$ 62	4.8%	
Service charges on deposit accounts	1,748	1,803	(55)	(3.1)	
	545	517	28	5.4	

Investment advisory commission and fee income				
Insurance commission and fee income	1,233	846	387	45.7
Life insurance income	433	373	60	16.1
Other service fee income	893	790	103	13.0
Net gain on sales of securities	3	63	(60)	(95.2)
Net loss on dispositions of fixed assets	-	(3)	3	100.0
Other	16	(134)	150	111.9
Total non-interest income	\$ 6,234	\$ 5,556	\$ 678	12.2

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Trust fee income increased in 2006 over 2005 primarily due to an increase in the number and market value of managed accounts. Service charges on deposit accounts decreased for the third quarter in 2006 compared to 2005 primarily due to a reduction in checking account service charges.

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. Life insurance income is primarily the change in the cash surrender values of bank owned life insurance policies, which is primarily affected by the market value of the underlying assets. The increase recognized on these policies was greater in the third quarter of 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 debit card fees, other merchant fees, mortgage servicing income and mortgage placement income. Other service fee income increased for the second quarter of 2006 over 2005 primarily due to increases in Mastermoney fees and mortgage placement income.

Other non-interest income includes loss on investments in partnerships, gains on sales of mortgages, gains on sales of other real estate owned, reinsurance income and other miscellaneous income. The Corporation recognized smaller losses on investments in partnerships when comparing September 30, 2006 to the same period in 2005.

Gains on Sale of Assets

Sales of \$390 thousand in mortgage loans during the three months ended September 30, 2006 resulted in gains of \$12 thousand compared to sales of \$1.1 million for gains of \$2 thousand for the three months ended September 30, 2005.

During the three months ended September 30, 2006, approximately \$31 thousand of securities were sold recognizing gains of \$3 thousand. During the three months ended September 30, 2005, \$7.7 million of securities were sold recognizing gains of \$63 thousand.

Non-interest Expense

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

The following table presents noninterest expense for the periods indicated:

	For the Three Months Ended		Change	
	2006	2005	Amount	Percent
Salaries and benefits	\$ 7,051	\$ 6,766	\$ 285	4.2%
Net occupancy	1,078	1,006	72	7.2
Equipment	829	741	88	11.9
Other	3,374	2,558	816	31.9
Total non-interest expense	\$ 12,332	\$ 11,071	\$ 1,261	11.4

Salary and benefits increased due to the normal annual increases, the recognition of stock-based compensation expense of \$151 thousand, and increased pension costs of \$80 when compared to the same period in 2005. Occupancy expense increased primarily due to the increase of rental expense as the result of the acquisition Balmer. Equipment

expense increased due to depreciation on assets purchased for new branches opened in 2005. Other expenses increased primarily due to bank shares tax overpayments and credits utilized in 2005 which were no longer available in 2006 and reductions taken in 2005 in loss contingency reserves.

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Tax Provision

The provision for income taxes was \$2.4 million for the three months ended September 30, 2006 compared to \$2.5 million in 2005, at effective rates of 27.21% and 26.97%, respectively. The effective tax rates reflect the benefits of tax credits generated from investments in low-income housing projects and tax-exempt income from investments in municipal securities, loans and bank-owned life insurance. The increase in the effective tax rate between the three-month periods is primarily due to a decrease in low-income housing credits and non-deductible stock option compensation expense, partially offset by an increase in tax-exempt income and a decrease in pre-tax income.

Results of Operations - Nine Months Ended September 30, 2006 Versus 2005

The Corporation's consolidated net income and earnings per share for the nine months ended September 30, 2006 and 2005 were as follows:

(\$ in thousands, except per share data)	For the Nine Months Ended		Change	
	2006	2005	Amount	Percent
Net income	\$ 18,766	\$ 18,473	\$ 293	1.59%
Net income per share:				
Basic	\$ 1.45			