EMC METALS CORP.
Form 10-Q
August 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2011**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT
For the transition period from _________to __________

000-54416
(Commission File Number)

EMC METALS CORP.
(Exact name of registrant as specified in its charter)

British Columbia, Canada	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

888 Dunsmuir Street, 11th Floor, Vancouver, British Columbia, Canada, V6C 3K4
(Address of principal executive offices) (Zip Code)

(604) 648-4653
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by sections 13 or 15(d) of the Securities and 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. Yes [ ] No [**X**]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [**X**] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filed [ ] Smaller reporting company [**X**]

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [**X**]

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: **As of August 12, 2011, the registrant s outstanding common stock consisted of 150,678,713 shares.**

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED JUNE 30, 2011

EMC Metals Corp.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)
(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current		
Cash	$ 3,379,626	$ 4,126,424
Investments in trading securities, at fair value (Note 4)	2,250	2,250
Receivables (net of allowance of $Nil (2010 - $Nil))	17,567	41,212
Subscription receivable	22,500	210,249
Prepaid expenses and deposits	177,761	91,870
Total Current Assets	3,599,704	4,472,005
Property, plant and equipment (Note 5)	34,134,971	34,289,873
Mineral interests (Note 6)	631,526	503,020
Total Assets	$ 38,366,201	$ 39,264,898
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable and accrued liabilities	$ 336,581	$ 412,849
Derivative liability (Note 8)	-	228,741
Current portion of promissory notes payable (Note 9)	482,250	500,000
Total Current Liabilities	818,831	1,141,590
Promissory notes payable (Note 9)	3,620,740	3,750,000
Total Liabilities	4,439,571	4,891,590
Stockholders Equity		
Capital stock (Note 10) (Authorized: Unlimited number of shares; Issued and outstanding: 150,678,713 (2010 149,059,412))	88,511,294	88,138,487
Treasury stock (Note 11)	(2,087,333)	(2,087,333)
Additional paid in capital (Note 10)	2,121,332	2,003,345
Deficit accumulated during the exploration stage	(54,618,663)	(53,681,191)
Total Stockholders Equity	33,926,630	34,373,308

Total Liabilities and Stockholders Equity	$	38,366,201	$	39,264,898
Nature and continuance of operations (Note 1)				

The accompanying notes are an integral part of these consolidated financial statements.

EMC Metals Corp.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in Canadian Dollars)
(Unaudited)

	Cumulative amounts from incorporation on July 17, 2006 to June 30, 2011	Three month period ended June 30, 2011	Three month period ended June 30,2010	Six month period ended June 30,2011	Six month period ended June 30, 2010
EXPENSES					
Amortization	$ 2,131,236	$ 86,333	$ 2,358	$ 174,971	$ 129,063
Consulting	2,326,203	69,278	41,726	150,577	91,526
Exploration	12,939,076	529,877	161,023	593,368	182,274
General and administrative	6,849,668	165,097	135,136	202,297	239,019
Insurance	907,635	4,491	95,795	16,858	130,657
Professional fees	2,941,782	82,644	130,576	104,980	187,134
Research and development	3,474,068	-	-	-	-
Salaries and benefits	6,150,575	131,019	187,722	281,674	300,296
Stock-based compensation (Note 10)	5,247,971	59,463	310,607	127,195	472,571
Travel and entertainment	1,517,994	35,341	30,422	94,220	67,270
Loss before other items	(44,486,208)	(1,163,543)	(1,095,365)	(1,746,140)	(1,799,810)
OTHER ITEMS					
Foreign exchange gain (loss)	800,620	139,806	(175,999)	217,452	17,606
Gain on transfer of marketable securities	206,974	-	-	-	-
Gain on settlement of convertible debentures	1,449,948	-	-	-	-
Gain on sale of marketable securities	1,836,011	-	-	-	-
Write-off of mineral interests	(18,091,761)	-	-	-	-
Gain on insurance proceeds	972,761	-	-	-	-
Interest income (expense)	340,804	(58,182)	(61,471)	(129,422)	(178,564)
Other income	502,965	-	-	-	-
Gain on disposition of assets	968,579	491,897	-	491,897	-
Change in fair value of derivative liability (Note 8)	485,358	-	183,897	228,741	89,861
	(3,269,033)	-	-	-	(67,249)

Unrealized loss on marketable securities									
		(13,796,774)		573,521		(53,573)		808,668	(138,346)
Loss before income taxes		(58,282,982)		(590,022)		(1,148,938)		(937,472)	(1,938,156)
Deferred income tax recovery		6,522,138		-		-		-	-
Loss and comprehensive loss for the period	$	(51,760,844)	$	(590,022)	$	(1,148,938)	$	(937,472)	$ (1,938,156)
Basic and diluted loss per common share				(0.00)		(0.02)		(0.01)	(0.02)
Weighted average number of common shares outstanding				150,384,412		76,095,442		150,120,292	115,507,092

The accompanying notes are an integral part of these consolidated financial statements.

EMC Metals Corp.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

	Cumulative amounts from incorporation on July 17, 2006 to June 30, 2011	Six month period ended June 30, 2011	Six month period ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	$ (51,760,844)	$ (937,472)	$ (1,938,156)
Items not affecting cash:			
Amortization	2,131,236	174,971	129,063
Research and development	3,474,068	-	-
Consulting paid with common shares	10,711	-	-
Gain on disposal of assets	(968,579)	(491,897)	-
Loss on disposal of equipment	17,415	17,415	-
Convertible debenture costs	(1,312,878)	-	-
Unrealized foreign exchange	567,852	(147,010)	(3,273)
Stock-based compensation	5,247,971	127,195	472,571
Unrealized loss on marketable securities	3,269,033	-	67,249
Realized gain on marketable securities	(1,836,011)	-	-
Write-off of mineral properties	18,091,761	-	-
Realized gain on transfer of marketable securities	(206,974)	-	-
Change in fair value of derivative liability	(485,358)	(228,741)	(89,861)
Deferred income tax recovery	(6,522,138)	-	-
	(30,282,735)	(1,485,539)	(1,362,407)
Changes in non-cash working capital items:			
Decrease in receivables	28,930	23,645	87,555
(Increase) decrease in prepaid expenses	(160,517)	(85,891)	107,756
Proceeds from sale of marketable securities, net	(4,135,798)	-	-
Decrease in accounts payable and accrued liabilities	(924,661)	(76,268)	(541,346)
Increase in due to related parties	1,163,028	-	-
Asset retirement obligations	(1,065,891)	-	-
	(35,377,644)	(1,624,053)	(1,708,442)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired from subsidiary	4,857,012	-	-
Cash paid for Subsidiary	(11,359,511)	-	-
Spin-out of Golden Predator Corp.	(76,388)	-	-

Reclamation bonds	795,785	-	-
Proceeds from sale of property, plant and equipment	660,336	-	-
Purchase of property, plant and equipment	(21,252,597)	(37,484)	-
Proceeds from sale of mineral interests	500,000	500,000	-
Additions to unproven mineral interests	(3,128,124)	(136,609)	-
	(29,003,487)	325,907	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares issued	55,521,421	210,249	749,770
Share issuance costs	(1,277,713)	-	-
Special warrants	13,000,000	-	-
Options exercised	384,900	43,000	112,800
Warrants exercised	11,142,349	298,099	939,375
Notes payable	(9,966,000)	-	-
Payment of promissory note	(1,260,700)	-	-
Advances from related party	216,500	-	133,382
Loans advanced to Midway	(2,000,000)	-	-
Loan repayment from Midway	2,000,000	-	-
	67,760,757	551,348	1,935,327
Change in cash during the period	3,379,626	(746,798)	226,885
Cash, beginning of period	-	4,126,424	584,436
Cash, end of period	$ 3,379,626	$ 3,379,626	$ 811,321

Supplemental disclosure with respect to cash flows (Note 13)

The accompanying notes are an integral part of these consolidated financial statements.

EMC Metals Corp.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Expressed in Canadian Dollars)
(Unaudited)

	Capital Stock					
	Number of Shares	Amount $	Additional Paid in Capital $	Treasury Stock $	Deficit Accumulated During the Exploration Stage $	Total $
Balance, July 17, 2006	-	-	-	-	-	-
Private placements	5,000,000	3,500,000	-	-	-	3,500,000
Excess of exchange amount over carrying amount of Springer Mining Company	-	-	-	-	(2,857,819)	(2,857,819)
Loss for the period	-	-	-	-	(357,670)	(357,670)
Balance, December 31, 2006	5,000,000	3,500,000	-	-	(3,215,489)	284,511
Private placements	17,577,500	35,155,000	-	-	-	35,155,000
Conversion of special warrants	5,390,000	5,390,000	-	-	-	5,390,000
Exercise of warrants	50,000	75,000	-	-	-	75,000
Share issuance costs broker s fees	-	(1,215,074)	99,000	-	-	(1,116,074)
Share issuance costs shares issued	100,000	100,000	-	-	-	100,000
Shares issued for mineral properties	100,000	100,000	-	-	-	100,000
Stock-based compensation	40,000	40,000	489,562	-	-	529,562
Loss for the year	-	-	-	-	(6,128,912)	(6,128,912)

Balance, December 31, 2007	28,257,500	43,144,926	588,562	-	(9,344,401)	34,389,087
Private placements	5,322,500	10,645,000	-	-	-	10,645,000
Conversion of special warrants	7,610,000	7,610,000	-	-	-	7,610,000
Share issuance costs broker s fees	-	(261,638)	-	-	-	(261,638)
Shares issued for mineral properties	110,000	210,000	-	-	-	210,000
Acquisition of Gold Standard Royalty Corp.	2,050,000	4,100,000	143,017	-	-	4,243,017
Acquisition of Great American Minerals Inc.	1,045,775	2,091,550	426,672	-	-	2,518,222
Acquisition of Fury Explorations Ltd.	10,595,814	13,774,558	7,787,783	(2,087,333)	-	19,475,008
Exercise of stock options	6,637,224	10,027,915	(184,265)	-	-	9,843,650
Shares issued for repayment of promissory note	4,728,000	2,364,000	-	-	-	2,364,000
Stock-based compensation	-	-	2,324,458	-	-	2,324,458
Loss for the year	-	-	-	-	(17,968,454)	(17,968,454)
Balance, December 31, 2008	66,356,813	93,706,311	11,086,227	(2,087,333)	(27,312,855)	75,392,350
Private placements	14,500,000	1,190,000	-	-	-	1,190,000
Exercise of stock options	101,000	126,186	(105,986)	-	-	20,200
Shares issued for mineral properties	2,765,643	367,695	-	-	-	367,695
Settlement of convertible debentures	7,336,874	2,934,752	62,903	-	-	2,997,655
	89,254	10,711	-	-	-	10,711

Shares issued for consulting						
Shares issued for acquisition of TTS	19,037,386	2,094,112	-	-	-	2,094,112
Stock-based compensation before spin-out	-	-	836,240	-	-	836,240
Spin-out of GPD	-	(18,540,194)	(11,879,384)	-	-	(30,419,578)
Stock-based compensation after spin-out	-	-	979,611	-	-	979,611
Loss for the year	-	-	-	-	(21,645,581)	(21,645,581)
Balance, December 31, 2009	110,186,970	81,889,573	979,611	(2,087,333)	(48,958,436)	31,823,415
Private placements	30,252,442	4,700,312	454,768	-	-	5,155,080
Exercise of stock options	1,320,000	456,602	(226,302)	-	-	230,300
Exercise of warrants	7,300,000	1,092,000	-	-	-	1,092,000
Stock-based compensation	-	-	795,268	-	-	795,268
Loss for the year	-	-	-	-	(4,722,755)	(4,722,755)
Balance, December 31, 2010	149,059,412	88,138,487	2,003,345	(2,087,333)	(53,681,191)	34,373,308
Exercise of stock options	250,000	52,208	(9,208)	-	-	43,000
Exercise of warrants	1,369,301	320,599	-	-	-	320,599
Stock-based compensation	-	-	127,195	-	-	127,195
Loss for the period	-	-	-	-	(937,472)	(937,472)
Balance, June 30, 2011	150,678,713	88,511,294	2,121,332	(2,087,333)	(54,618,663)	33,926,630

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Expressed in Canadian Dollars)
(Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

EMC Metals Corp. (the Company) is incorporated under the laws of the Province of British Columbia. The Company is focused on specialty metals exploration and production and has recently acquired various metallurgical technologies and licenses that it is utilizing to gain access to a number of specialty metals opportunities.

The Company s principal properties are located in the state of Nevada, Australia, and Norway. The Company s principal asset, the Springer Tungsten mill, is currently on care and maintenance pending a sustained improvement in tungsten prices. To June 30, 2011, the Company has not commenced production and has generated no revenue. The Company s remaining properties are in the exploration or pre-exploration stage. As such, the Company is in the exploration stage and anticipates incurring significant expenditures prior to commencement of contract milling operations.

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities at their carrying values in the normal course of business for the foreseeable future. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

The Company currently earns no operating revenues and will require additional capital in order to refit its Springer tungsten mill and earn its 50% interest in the Nyngan property. The Company s ability to continue as a going concern is uncertain and is dependent upon the generation of profits from mineral properties, obtaining additional financing or maintaining continued support from its shareholders and creditors. The Company is currently working on securing additional financing to meet its needs; however there is no guarantee that these efforts will be successful. In the event that additional financial support is not received or operating profits are not generated, the carrying values of the Company s assets may be adversely affected. The inability to raise additional financing may affect the future assessment of the Company as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim financial statements have been prepared by the Company in conformity with accounting principles generally accepted in the United States of America (US GAAP) applicable to interim financial information and with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations. In the opinion of management the unaudited interim financial statements include all adjustments necessary for the fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature, except as otherwise noted below. These financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the year ended December 31, 2010. The results of operations for the interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

Fair value of financial assets and liabilities

The Company measures the fair value of financial assets and liabilities based on US GAAP guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor s carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income.

Financial instruments, including receivables, subscriptions receivable, accounts payable and accrued liabilities, due to related parties, and promissory notes payable are carried at cost, which management believes approximates fair value due to the short term nature of these instruments. Investments in trading securities are classified as held for trading, with unrealized gains and losses being recognized in income.

The following table presents information about the assets that are measured at fair value on a recurring basis as of June 30, 2011, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset:

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June 30, 2011
(Expressed in Canadian Dollars)
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES *(Cont d)*

Fair value of financial assets and liabilities *(Cont d...)*

	June 30, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	$ 3,379,626	$ 3,379,626	$	$
Investments in trading securities	$ 2,250	$ 2,250	$	$
Total	$ 3,381,876	$ 3,381,876	$	$

The fair values of cash and investments in trading securities are determined through market, observable and corroborated sources.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2010, the Financial Accounting Standards Board (FASB) issued ASU 2010-13, Compensation Stock Compensation (Topic 718), amending ASC 718. ASU 2010-13 clarifies that a stock-based payment award with an exercise price denominated in the currency of a market in which the entity s equity securities trade should not be classified as a liability if it otherwise qualifies as equity. ASU 2010-13 is effective for interim and annual reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company). The Company is currently evaluating the impact of ASU 2010-09, but does not expect its adoption to have a material impact on the Company s financial reporting disclosures.

In December 2010, the FASB issued ASU 2010-29, which contains updated accounting guidance to clarify the acquisition date that should be used for reporting pro forma financial information when comparative financial statements are issued. This update requires that a company should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update also requires disclosure of the nature and amount of material, nonrecurring pro forma adjustments. The provisions of this update, which are to be applied prospectively, are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The impact of this update on the Company s consolidated financial statements will depend on the size and nature of future business combinations.

4. INVESTMENTS IN TRADING SECURITIES

At June 30, 2011, the Company held investments classified as trading securities, which consisted of various equity securities. All trading securities are carried at fair value. As of June 30, 2011, the fair value of trading securities was $2,250 (2010 $2,250).

5. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2011			December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land and water rights	$ 7,972,291	$ -	$ 7,972,291	$ 7,972,291	$ -	$ 7,972,291
Plant and equipment	25,635,515	-	25,635,515	25,618,528	-	25,618,528
Cosgrave plant and equipment	375,763	265,731	110,032	375,763	228,155	147,608
Building	222,685	40,871	181,814	222,685	35,304	187,381
Automobiles	175,625	174,337	1,288	172,542	172,542	-
Computer equipment	364,697	363,817	880	364,697	357,985	6,712
Small tools and equipment	963,537	776,836	186,701	963,537	680,482	283,055
Office equipment	278,561	232,111	46,450	278,561	204,263	74,298
Leasehold improvements	13,083	13,083	-	13,083	13,083	-
	$ 36,001,757	$ 1,866,786	$ 34,134,971	$ 35,981,687	$ 1,691,814	$ 34,289,873

Land and water rights are in respect of the Cosgrave property in Nevada. The plant and equipment is comprised of the Springer Plant and Mill in Nevada which is currently under care and maintenance.

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Expressed in Canadian Dollars)
(Unaudited)

6. MINERAL INTERESTS

June 30, 2011		Other		Tungsten		Total
Acquisition costs						
Balance, December 31, 2010	$	300,000	$	203,020	$	503,020
Additions		134,075		2,534		136,609
Sold		-		(8,103)		(8,103)
Balance, June 30, 2011	$	434,075	$	197,451	$	631,526

December 31, 2010		Other		Gold		Tungsten		Total
Acquisition costs								
Balance, December 31, 2009	$	-	$	1,343,173	$	203,020	$	1,546,193
Additions		300,000		-		-		300,000
Written-off		-		(1,138,432)		-		(1,138,432)
Sold		-		(204,741)		-		(204,741)
Balance, December 30, 2010	$	300,000	$	-	$	203,020	$	503,020

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral property interests. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its properties is in good standing.

Impairment of mineral properties

During the year ended December 31, 2010, the Company has reviewed the carrying value of its mineral properties for impairment and compared the carrying value to the future cash flows in the case of its tungsten properties, and fair market value in respect of its remaining properties, and has written down its gold properties by $1,138,432. The Company sold these properties during the year.

TUNGSTEN PROPERTY

Springer Property

On November 21, 2006, the Company acquired all outstanding and issued shares of Springer Mining Company (Springer). Included in the assets of Springer and allocated to property, plant and equipment (Note 5) are the Springer Mine and Mill located in Pershing County, Nevada.

Fostung Property

The Company held a 100% interest certain mineral claims known as the Fostung Property, Ontario. During the period ended June 30, 2011, the Company sold these claims for $500,000 and recorded a gain on the sale of $491,897.

SCANDIUM PROPERTY

Nyngan, New South Wales Property

On February 5, 2010, the Company entered in to an agreement with Jervois Mining Limited (Jervois) whereby it would acquire a 50% interest in certain properties located in New South Wales, Australia. In order for the Company to earn its interest which is subject to a 2% NSR, the Company paid the sum of $300,000 into escrow, that was released to Jervois upon satisfaction of certain conditions precedent, including verification of title to the Nyngan property and approval of the Toronto Stock Exchange, and must:

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(Expressed in Canadian Dollars)
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6. MINERAL INTERESTS *(Cont d)*

SCANDIUM PROPERTY *(Cont d)*

Nyngan, New South Wales Property (Cont d)

a) Incur exploration and metallurgical work of A$500,000 (CAD$466,000) within 180 business days of the conditions precedent being satisfied, or pay cash in lieu thereof. On September 29, 2010 the Company received a six month extension to complete its exploration commitment. In the event that the Company wishes to continue the joint venture, the Company must deliver a feasibility study within 480 (extended to February 28, 2012) business days of the conditions precedent being satisfied, failing which the agreement will terminate.

b) Upon delivering the feasibility study to Jervois, pay to Jervois an additional A$1,300,000 plus GST at which time it will be granted a 50% interest in the joint venture. The joint venture agreement provides for straight-line dilution, with interests diluted below 10% being converted into a 2% NSR royalty.

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Expressed in Canadian Dollars)
(Unaudited)

9. PROMISSORY NOTES PAYABLE

		2011	(5,251)					
Reserve for loan and lease losses at period end	**$**	**28,883**	$	21,945	**$**	**28,883**	$	21,945

Information with respect to loans and leases that are impaired is as follows:

(Dollars in thousands)	**At September 30, 2010**				**At December 31, 2009**			
		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	**$**	**9,832**	**$**	**1,020**	$	9,549	$	1,424
Recorded investment in impaired loans and leases at period-end requiring no specific reserve for loan and lease losses		**24,024**				27,560		
Recorded investment in impaired loans and leases at period-end	**$**	**33,856**			$	37,109		
Recorded investment in nonaccrual and restructured loans and leases at period-end	**$**	**33,856**			$	37,109		

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

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Recorded investment in nonaccrual and restructured loans and leases at period end	**$ 33,856**	$ 36,332	**$ 33,856**	$ 36,332
Average recorded investment in impaired loans and leases	**32,167**	18,851	**34,155**	10,730
Interest income that would have been recognized under original terms	**536**	309	**1,450**	499

Interest income of $0 thousand and $25 thousand was recognized on these loans for the three and nine months ended September 30, 2010, respectively. Interest income of $74 thousand and $126 thousand was recognized on these loans for the three and nine months ended September 30, 2009, respectively.

Note 5. Mortgage Servicing Rights

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method using an accelerated amortization method and are subject to periodic impairment testing.

Changes in the mortgage servicing rights balance are summarized as follows:

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Beginning of period	**$ 1,799**	$ 1,019	**$ 1,437**	$ 418
Servicing rights capitalized	**370**	261	**877**	953
Amortization of servicing rights	**(89)**	(63)	**(228)**	(100)
Changes in valuation	**(412)**	(30)	**(418)**	(84)
End of period	**$ 1,668**	$ 1,187	**$ 1,668**	$ 1,187
Mortgage loans serviced for others, end of period	**$ 255,292**	$ 142,651	**$ 255,292**	$ 142,651

Activity in the valuation allowance for mortgage servicing rights was as follows:

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Valuation allowance, beginning of period	**$ (256)**	$ (220)	**$ (250)**	$ (166)
Additions	**(412)**	(30)	**(418)**	(84)
Reductions				
Direct write-downs				
Valuation allowance, end of period	**$ (668)**	$ (250)	**$ (668)**	$ (250)

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The estimated amortization expense of mortgage servicing rights for each of the five succeeding fiscal years is as follows:

Year (Dollars in thousands)	**Amount**
2010	$ 132
2011	375
2012	290
2013	225
2014	175
Thereafter	471

The Corporation services loans for others with unpaid principal balances at September 30, 2010 and December 31, 2009 of approximately $255.3 million and $174.1 million, respectively. The balance of mortgage servicing rights, net of fair value adjustments and accumulated amortization, or fair value, included in other intangibles at September 30, 2010 was $1.7 million and at December 31, 2009 was $1.4 million. The aggregate fair value of these rights was $1.7 million and $1.6 million at September 30, 2010 and December 31, 2009, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 5.07% to 10.00% for the nine months ended September 30, 2010. The cumulative unfavorable fair value adjustments were $668 thousand and $250 thousand at September 30, 2010 and December 31, 2009, respectively.

Note 6. Income Taxes

As of September 30, 2010 and December 31, 2009, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. As of September 30, 2010, the Corporation s tax years 2006 through 2009 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

The Corporation had a noncontributory retirement plan covering substantially all employees. The plan provided benefits based on a formula of each participant s final average pay. On June 24, 2009, the Compensation Committee of the Board of Directors of the Corporation resolved that effective December 31, 2009, the benefits under the noncontributory retirement plan, in its current form, would be frozen and the current plan would be amended and converted to a cash balance plan under which employees would continue to receive future benefits in accordance with the provisions of the cash balance plan. Additionally, participation in the plan was frozen to new entrants effective December 7, 2009. Effective December 31, 2009, the plan was frozen with participants not losing any benefits already earned and the plan was converted to a cash balance plan. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. Information on these plans is aggregated and reported under Retirement Plans within this footnote.

The Corporation also provides certain postretirement healthcare and life insurance benefits for retired employees. Information on these benefits is reported under Other Postretirement Benefits within this footnote.

Components of net periodic benefit cost were as follows:

	Three Months Ended September 30,			
	2010	**2009**	**2010**	**2009**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 178**	$ 322	**$ 19**	$ 18
Interest cost	**496**	489	**26**	23
Expected return on plan assets	**(418)**	(386)		
Accretion of transition asset	**(70)**			

Amortization of net loss		**170**		224		**6**		4
Amortization (accretion) of prior service cost		**11**		12		**(5)**		(5)
Net periodic cost	**$**	**367**	$	661	**$**	**46**	$	40

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(Dollars in thousands)	Nine Months Ended September 30, 2010	2009	2010	2009
	Retirement Plans		Other Post Retirement Benefits	
Service cost	**$ 528**	$ 1,031	**$ 57**	$ 54
Interest cost	**1,489**	1,467	**79**	70
Expected return on plan assets	**(1,253)**	(1,158)		
Accretion of transition asset	**(212)**			
Amortization of net loss	**507**	672	**13**	11
Amortization (accretion) of prior service cost	**35**	36	**(15)**	(15)
Net periodic cost	**$ 1,094**	$ 2,048	**$ 134**	$ 120

The Corporation previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to make contributions of $471 thousand to its qualified and non-qualified retirement plans and $202 thousand to its other postretirement benefit plans in 2010. During the nine months ended September 30, 2010, the Corporation contributed $462 thousand and $59 thousand to its qualified and non-qualified retirement plans and other postretirement plans, respectively. As of September 30, 2010, $1.5 million and $59 thousand have been paid to participants from its qualified and non-qualified retirement plans and other postretirement plans, respectively.

Note 8. Earnings Per Share

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

(Dollars and shares in thousands, except per share data)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Numerator:				
Numerator for basic and diluted earnings per share - Income available to common shareholders	**$ 4,147**	$ 2,753	**$ $10,847**	$ 9,258
Denominator:				
Denominator for basic earnings per share - weighted-average shares outstanding	**16,621**	14,873	**16,582**	13,636
Effect of dilutive securities:				
Employee stock options				
Denominator for diluted earnings per share adjusted weighted-average shares outstanding	**16,621**	14,873	**16,582**	13,636
Basic earnings per share	**$ 0.25**	$ 0.19	**$ 0.65**	$ 0.68
Diluted earnings per share	**$ 0.25**	$ 0.19	**$ 0.65**	$ 0.68

Anti-dilutive options have been excluded in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common stock. For the three months ended September 30, 2010 and 2009, there were 428,032 and 213,482 anti-dilutive options at an average exercise price of $23.07 and $25.57, per share, respectively. For the nine months ended September 30, 2010 and 2009, there were 403,032 and

211,534 anti-dilutive options at an average exercise price of $23.41 and $25.61, per share, respectively.

Note 9. Comprehensive Income and Accumulated Other Comprehensive (Loss) Income

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

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	**$ 4,147**	$ 2,753	**$ 10,847**	$ 9,258
Net unrealized gains on available-for-sale investment securities:				
Net unrealized gains arising during the period	**439**	4,371	**1,936**	4,988
Less: reclassification adjustment for net gains (losses) on sales realized in net income	**220**	73	**277**	83
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	**(7)**	(31)	**(38)**	(941)
Total net unrealized gains on available-for-sale investment securities	**226**	4,329	**1,697**	5,846
Net change in fair value of derivative used for cash flow hedges	**(507)**	(368)	**(1,554)**	875
Defined benefit pension plans:				
Less: accretion of transition asset included in net periodic pension costs	**46**		**138**	
Less: amortization of net loss included in net periodic pension costs	**(106)**	(146)	**(338)**	(441)
Less: amortization of prior service cost included in net periodic pension costs	**(5)**	(5)	**(14)**	(13)
Total defined benefit pension plans	**65**	151	**214**	454
Total comprehensive income, net of tax	**$ 3,931**	$ 6,865	**$ 11,204**	$ 16,433

The following table shows the components of accumulated other comprehensive (loss) income, net of taxes, for the periods presented:

(Dollars in thousands)	Net Unrealized Gains on Available for Sale Investment Securities	Net Change in Fair Value of Derivative Used for Cash Flow Hedges	Net Change Related to Defined Benefit Pension Plan	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2008	$ 2,281	$ (149)	$ (10,751)	$ (8,619)

Net Change		5,846		875		454		7,175
Balance, September 30, 2009	$	8,127	$	726	$	(10,297)	$	(1,444)
Balance, December 31, 2009	**$**	**5,373**	**$**	**1,150**	**$**	**(7,047)**	**$**	**(524)**
Net Change		**1,697**		**(1,554)**		**214**		**357**
Balance, September 30, 2010	**$**	**7,070**	**$**	**(404)**	**$**	**(6,833)**	**$**	**(167)**

Note 10. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to floating in order to reduce the impact of interest rate changes on future net interest income. The Corporation accounts for its interest-rate swap contracts in cash flow and fair value hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows or fair value of assets or liabilities that are being hedged. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in fair value of the ineffective part of the instrument would need to be charged to the statement of operations, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods.

The Corporation s credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in equity until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in income. For a qualifying fair value hedge, the gain or loss on the hedging relationship is recognized in earnings, and the change in fair value on the hedged item to the extent attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in earnings.

Derivative loan commitments represent agreements for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. The Corporation s derivative loan commitments are commitments to sell loans secured by 1-to-4 family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Loans held for sale are included as forward loan commitments. At September 30, 2010, the notional amounts of interest rate locks with customers and forward loan commitments were $53.4 million and $57.2 million, respectively, with fair values of a positive $1.5 million and a negative $297 thousand, respectively. At December 31, 2009, the notional amounts of interest rate locks with customers and forward loan commitments were $11.6 million and $13.3 million, respectively, with fair values of $24 thousand and $132 thousand, respectively. For the interest rate locks with customers, the Corporation recognized fair value adjustments which resulted in gains of $782 thousand and $160 thousand for the three months ended September 30, 2010 and 2009, respectively and gains of $1.5 million and $367 thousand for the nine months ended September 30, 2010 and 2009, respectively. For the forward loan commitments, the Corporation recognized fair value adjustments which resulted in losses of $4 thousand and $175 thousand for the three months ended September 30, 2010 and 2009, respectively and losses of $430 thousand and $167 thousand for the nine months ended September 30, 2010 and 2009, respectively. The fair value gains and losses related to interest rate locks and forward loan commitments are classified as a component of net gains on mortgage banking activities in the Corporation s consolidated statements of income.

On March 24, 2009, the Corporation entered into a $22.0 million notional interest rate swap, which had been classified as a fair value hedge on a real estate-commercial loan. Under the terms of the swap agreement, the Corporation paid a fixed rate of 6.49% and received a floating rate which was based on the one month U.S. London Interbank Borrowing Rate (LIBOR) with a 357 basis point spread and a maturity date of April 1, 2019. The Corporation performed an assessment of the hedge at inception and at re-designation. During the fourth quarter of 2009, the Corporation participated $5.0 million of the hedged real estate-commercial loan and de-designated the hedge relationship. During the first quarter of 2010, the Corporation re-designated $17.0 million of the interest rate swap. Upon re-designation, $17.0 million of the swap had some ineffectiveness and the $5.0 million remained undesignated. During the third quarter of 2010, the Corporation terminated the swap. At December 31, 2009, the interest rate swap had a positive fair value of $1.2 million which was classified on the balance sheet in other assets. The underlying commercial loan had a positive fair value adjustment on the termination date of $859 thousand which will be amortized through a reduction of interest income over the remaining life. At December 31, 2009, the underlying commercial loan had a negative fair value adjustment of $431 thousand, which was classified on the balance sheet as a component of loans and leases. For this interest rate swap, the Corporation recognized fair value adjustments which resulted in losses of $246 thousand and $87 thousand for the three months ended September 30, 2010 and 2009, respectively; and a loss of $1.1 million and a gain of $194 thousand for the nine months ended September 30, 2010 and 2009, respectively. The fair value gains and losses related to this interest rate swap are classified as a component of net (loss) gain on interest rate swap in the Corporation s consolidated statements of income.

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On December 23, 2008, the Corporation entered into a cash flow hedge with a notional amount of $20.0 million that had the effect of converting the variable rates on trust preferred securities to a fixed rate. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.65% and receives a floating rate based on the three month LIBOR with a maturity date of January 7, 2019. The Corporation has performed an assessment of the hedge at inception and determined that this derivative is highly effective in offsetting the changes in the cash flows of the hedged item. At September 30, 2010, the interest rate swap had a negative fair value of $622 thousand, which was classified on the balance sheet as a component of other liabilities, and was determined to be highly effective in offsetting the changes in the cash flows of the hedged item. The fair value of the interest rate swap, net of taxes, of $404 thousand is recorded as a component of accumulated other comprehensive loss on the balance sheet. At December 31, 2009, the interest rate swap had a positive fair value of $1.8 million, which was classified on the balance sheet as a component of other assets, and was determined to be highly effective in offsetting the changes in the cash flows of the hedged item. The fair value of the interest rate swap, net of taxes, of $1.1 million was recorded as a component of accumulated other comprehensive income on the balance sheet. The cash payments on the interest rate swap of $109 thousand and $107 thousand during the three months ended September 30, 2010 and 2009, respectively, and $347 thousand and $257 thousand during the nine months ended September 30, 2010 and 2009, respectively, were recorded as a component of interest expense on the income statement. The Corporation expects that approximately $460 thousand of the net gain in accumulated other comprehensive income will be reclassified as a reduction of interest expense within the next twelve months.

Note 11. Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Corporation determines the fair value of its financial instruments based on the fair value hierarchy. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation s assumptions that the market participants would use in pricing the asset or liability based on the best information available in the circumstances. Three levels of inputs are used to measure fair value. A financial instrument s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

Level 1 Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Assets and liabilities utilizing Level 1 inputs include: Exchange-traded equity and most U.S. treasury securities.

Level 2 Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities generally utilizing Level 2 inputs include: most U.S. Government agency mortgage-backed debt securities (MBS), corporate debt securities, corporate and municipal bonds, asset-backed securities (ABS), residential mortgage loans held for sale, certain commercial loans, certain equity securities, mortgage servicing rights and derivative financial instruments.

Level 3 Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities utilizing Level 3 inputs include: financial instruments whose value is determined using pricing models, discounted cash-flow methodologies, or similar techniques, as well as instruments for which the fair value calculation requires significant management judgment or estimation. These assets and liabilities include: certain commercial mortgage obligations (CMOs) and certain ABS securities.

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Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include highly liquid U.S. Treasury securities and most equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. Government sponsored enterprises, certain MBS, CMOs, and municipal bonds and certain equity securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Investment securities classified within Level 3 include certain CMO and certain ABS securities.

Derivative Financial Instruments

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Derivative financial instruments are classified within Level 2 of the valuation hierarchy.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, classified using the fair value hierarchy:

	At September 30, 2010			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/ Liabilities at Fair Value**
Assets:				
Available-for-sale securities:				
U.S government corporations and agencies	**$**	**$ 153,604**	**$**	**$ 153,604**
State and political subdivisions		**106,218**		**106,218**
Mortgage-backed securities		**76,487**		**76,487**
Commercial mortgage obligations		**56,151**	**4,559**	**60,710**
Other securities		**21,104**		**21,104**
Equity securities	**2,827**			**2,827**
Total available-for-sale securities	**2,827**	**413,564**	**4,559**	**420,950**
Interest rate locks with customers		**1,529**		**1,529**
Total assets	**$ 2,827**	**$ 415,093**	**$ 4,559**	**$ 422,479**
Liabilities:				
Interest rate swap	**$**	**$ 622**	**$**	**$ 622**
Forward loan commitments		**297**		**297**
Total liabilities	**$**	**$ 919**	**$**	**$ 919**

	At December 31, 2009							
(Dollars in thousands)	Level 1		Level 2		Level 3		Assets/ Liabilities at Fair Value	
Assets:								
Available-for-sale securities:								
U.S government corporations and agencies	$		$	119,992	$		$	119,992
State and political subdivisions				107,566				107,566
Mortgage-backed securities				101,289				101,289
Commercial mortgage obligations				74,282		5,172		79,454
Asset-backed securities						573		573
Other securities				9,144				9,144
Equity securities		1,924						1,924
Total available-for-sale securities		1,924		412,273		5,745		419,942
Interest rate swaps				2,968				2,968
Interest rate locks with customers				24				24
Forward loan commitments				132				132
Total assets	$	1,924	$	415,397	$	5,745	$	423,066
Liabilities:								
Liabilities	$		$		$		$	
Total liabilities	$		$		$		$	

The following table presents a reconciliation for all assets measured at fair value on a recurring basis and for which the Corporation utilized Level 3 inputs to determine fair value for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010									
(Dollars in thousands)	Balance at June 30, 2010		Total Unrealized Gains or (Losses)		Total Realized Gains or (Losses)		Paydowns		Balance at September 30, 2010	
Available-for-sale securities:										
Commercial mortgage obligations	**$**	**4,752**	**$**	**130**	**$**		**$**	**(323)**	**$**	**4,559**
Asset-backed securities		**301**		**(1)**				**(300)**		**-**
Total Level 3 assets	**$**	**5,053**	**$**	**129**	**$**		**$**	**(623)**	**$**	**4,559**

	Three Months Ended September 30, 2009	
	Total	Total

(Dollars in thousands)	Balance at June 30, 2009	Unrealized Gains or (Losses)	Realized Gains or (Losses)	Paydowns	Balance at September 30, 2009
Available-for-sale securities:					
Commercial mortgage obligations	$ 5,415	$ 625	$	$ (350)	$ 5,690
Asset-backed securities	886			(164)	722
Total Level 3 assets	$ 6,301	$ 625	$	$ (514)	$ 6,412

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(Dollars in thousands)	Balance at December 31, 2009	Total Unrealized Gains or (Losses)	Total Realized Gains or (Losses)	Paydowns	Balance at September 30, 2010
	Nine Months Ended September 30, 2010				
Available-for-sale securities:					
Commercial mortgage obligations	**$ 5,172**	**$ 276**	**$**	**$ (889)**	**$ 4,559**
Asset-backed securities	**573**	**(9)**		**(564)**	
Total Level 3 assets	**$ 5,745**	**$ 267**	**$**	**$ (1,453)**	**$ 4,559**

(Dollars in thousands)	Balance at December 31, 2008	Total Unrealized Gains	Total Realized Gains or (Losses)	Paydowns	Balance at September 30, 2009
	Nine Months Ended September 30, 2009				
Available-for-sale securities:					
Commercial mortgage obligations	$ 5,340	$ 1,382	$	$ (1,032)	$ 5,690
Asset-backed securities	1,211	34		(523)	722
Total Level 3 assets	$ 6,551	$ 1,416	$	$ (1,555)	$ 6,412

Realized gains or losses are recognized in the consolidated statements of income. There were no realized gains or losses recognized on Level 3 assets during the three or nine month periods ended September 30, 2010 or 2009.

The following table represents assets measured at fair value on a non-recurring basis as of September 30, 2010 and December 31, 2009.

(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
	At September 30, 2010			
Real estate-commercial loan	**$**	**$ 17,381**	**$**	**$ 17,381**
Impaired loans and leases			**32,836**	**32,836**
Mortgage servicing rights		**1,668**		**1,668**
Total	**$**	**$ 19,049**	**$ 32,836**	**$ 51,885**

(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
	At December 31, 2009			

Acquired leases	$	$		$	3,796	$	3,796
Real estate-commercial loan			16,569				16,569
Impaired loans and leases					35,685		35,685
Mortgage servicing rights			1,437				1,437
Other long-lived assets			1,080				1,080
Total	$	$	19,086	$	39,481	$	58,567

Acquired leases are measured at the time of acquisition and are based on the fair value of the collateral securing these leases. Acquired leases are classified within Level 3 of the valuation hierarchy.

The fair value of the hedged real estate-commercial loan (as discussed in Note 10) was based on a discounted cash flow model which takes into consideration the changes in market value due to changes in LIBOR. Commercial loans are classified within Level 2 of the valuation hierarchy. During the fourth quarter of 2009, the Corporation participated $5.0 million of the hedged real estate-commercial loan and at that time the remaining $17.0 million loan was marked to fair value due to the de-designation of the fair value hedge. During the first quarter of 2010, the swap was re-designated and the hedged loan was being marked to fair value on a recurring basis. During the third quarter of 2010 the swap was terminated and the loan was marked to fair value. The fair value will be amortized to par value over the remaining life of the loan using the level-yield method.

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Impaired loans and leases include those collateral-dependent loans and leases for which the practical expedient was applied, resulting in a fair-value adjustment to the loan or lease. Impaired loans and leases are evaluated and valued at the time the loan and lease is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and leases less cost to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At September 30, 2010, impaired loans and leases had a carrying amount of $33.9 million with a valuation allowance of $1.0 million. At December 31, 2009, impaired loans and leases had a carrying amount of $37.1 million with a valuation allowance of $1.4 million.

The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the current interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 2 of the valuation hierarchy. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value.

The fair value of long-lived assets is based upon readily available market prices adjusted for underlying restrictions on selling; therefore, long-lived assets are classified within Level 2 of the valuation hierarchy. At December 31, 2009, long-lived assets in the previous non-recurring basis table consisted of the Corporation s ownership of shares of stock in a company which it was restricted from trading. During the first quarter of 2010, due to increased market activity and removal of underlying restrictions from selling, these thinly traded equities were marked to fair value and continue to be marked to fair value on a recurring basis and are included in equity securities in the previous recurring basis table.

Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other intangible assets. During the nine months ended September 30, 2010, there were no triggering events to fair value goodwill and other intangible assets.

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

(Dollars in thousands)	At September 30, 2010 Carrying, Notional or Contract Amount	At September 30, 2010 Fair Value	At December 31, 2009 Carrying, Notional or Contract Amount	At December 31, 2009 Fair Value
Assets:				
Cash and short-term assets	**$ 62,015**	**$ 62,015**	$ 68,597	$ 68,597
Investment securities	**420,998**	**420,999**	420,045	420,050
Loans held for sale	**3,801**	**3,941**	1,693	1,708
Net loans and leases	**1,438,499**	**1,502,646**	1,401,182	1,459,568
Interest rate swaps			42,000	2,968
Interest rate locks with customers	**53,420**	**1,529**	11,637	24
Forward loan commitments			13,330	132
Liabilities:				
Deposits	**1,677,641**	**1,658,370**	1,564,257	1,542,882
Short-term borrowings	**99,161**	**99,255**	183,379	185,139
Long-term borrowings	**29,744**	**30,158**	30,684	31,248
Interest rate swaps	**20,000**	**622**		
Forward loan commitments	**57,220**	**297**		
Off-Balance-Sheet:				
Commitments to extend credit		**(975)**		(935)

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

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

Investment securities: Fair values for the held-to-maturity and available-for-sale investment securities are based on quoted market prices that are available in an active market for identical instruments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Loans held for sale: The fair value of the Corporation s loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including, interest rates, and bids or indications provided by market participants on specific loans that are actively marketed for sale. The Corporation s loans held for sale are primarily residential mortgage loans. Loans held for sale are carried at the lower of cost or estimated fair value.

Loans and leases: The fair values for loans are estimated using discounted cash flow analyses, using a discount rate consisting of an appropriate risk free rate, as well as components for credit risk, operating expense and embedded prepayment options. As permitted, the fair value of the loans and leases are not based on the exit price concept as discussed in the first paragraph of this note.

Derivative Financial Instruments: The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

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

Short-term borrowings: The carrying amounts of securities sold under repurchase agreements, and fed funds purchased approximate their fair values. Short-term FHLB advances with embedded options are estimated using a discounted cash flow analysis using a discount rate consisting of an appropriate risk free rate, as well as operating expense, and embedded prepayment options.

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

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

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

(All dollar amounts presented within tables are in thousands, except per share data. N/M equates to not meaningful ; - equates to zero or doesn t round to a reportable number ; and N/A equates to not applicable . Certain amounts have been reclassified to conform to the current-year presentation.)

Forward-Looking Statements

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

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

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.

Critical Accounting Policies

Management, in order to prepare the Corporation s financial statements in conformity with U.S. generally accepted accounting principles, is required to make estimates and assumptions that effect the amounts reported in the Corporation s financial statements. There are uncertainties inherent in making these estimates and assumptions. Certain critical accounting policies, discussed below, could materially affect the results of operations and financial position of the Corporation should changes in circumstances require a change in related estimates or assumptions. The Corporation has identified the fair value measurement of investment securities available for sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation as areas with critical accounting policies. For more information on these critical accounting policies, please refer to the Corporation s 2009 Annual Report on Form 10-K.

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. The Bank is the parent company of Delview, Inc., which is the parent company of Univest Insurance, Inc., an independent insurance agency, and Univest Investments, Inc., a full-service broker-dealer and investment advisory firm. The Bank is also the parent company of Univest Capital, Inc., a small ticket commercial finance business, and TCG Investment Advisory, a registered investment advisor which provides discretionary investment consulting and management services. Through its wholly-owned subsidiaries, the Bank provides a variety of financial services to individuals, municipalities and businesses throughout its markets of operation.

Executive Overview

The Corporation reported net income for the three months ended September 30, 2010 of $4.1 million or $0.25 diluted earnings per share compared to net income of $2.8 million or $0.19 diluted earnings per share for the three months ended September 30, 2009. Net income for the nine months ended September 30, 2010 was $10.8 million or $0.65 diluted earnings per share compared to net income of $9.3 million or $0.68 diluted earnings per share for the same period in the prior year. Although there was a $1.5 million increase in net income over the nine-month periods, diluted earnings per share were less primarily due to a greater average number of shares outstanding in 2010 compared to 2009 as a result of issuing an additional 3.4 million common shares in a public offering during the third quarter of 2009.

Net interest income on a tax-equivalent basis for the three months ended September 30, 2010 was up $1.7 million, or 9.4% compared to the same period in 2009. The third quarter 2010 net interest margin was 4.15% compared to 4.11% for the second quarter of 2010 and 3.82% for the third quarter of 2009. Net interest income on a tax-equivalent basis for the nine months ended September 30, 2010 was up $3.8 million, or 7.0% compared to the same period in 2009. The tax-equivalent net interest margin for the first nine months of 2010 was 4.08% compared to 3.82% for the first nine months of 2009. The increase in net interest income and the net interest margin for the three and nine months ended September 30, 2010 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits, and declines in the volume of Federal Home Loan Bank of Pittsburgh (FHLB) borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation has continued to experience core deposit growth which has allowed the Corporation to not replace or renew its maturing FHLB advances.

The provision for loan and lease losses decreased by $399 thousand for the three months ended September 30, 2010 compared to the same period in 2009 and increased by $1.9 million for the nine months ended September 30, 2010 from the comparable period in 2009. The year-to-date increase in the provision was primarily due to the migration of loans to higher-risk ratings as a result of deterioration of underlying collateral and economic factors that began to manifest in June 2009.

Non-interest income increased $1.8 million during the three months ended September 30, 2010 compared to the same period in 2009 and $4.1 million for the nine months ended September 30, 2010 compared to the same period in the prior year primarily due to increased income from trust fees, investment advisory commissions and fees, insurance commissions and fees, other service fees, higher gains on mortgage banking activities and higher gains on sales of securities. Additionally, the nine months ended September 30, 2009 was impacted by $1.4 million of other-than-temporary impairments on equity securities compared to $59 thousand of other-than-temporary impairments recorded in the nine months ended September 30, 2010.

Non-interest expense increased $1.6 million for the three months ended September 30, 2010 compared to the same period in 2009 and increased $3.3 million for the nine months ended September 30, 2010 compared to the same period in 2009. Non-interest expense for the three and nine months ended September 30, 2010 was impacted by higher salary and benefit expenses to grow the commercial lending and mortgage banking businesses and higher restricted stock expense partially offset by reduced pension plan expenses; increased marketing and advertising expenses mainly to support a major brand campaign to position the Corporation to take advantage of the disruption in its markets; and increased other expenses related to legal fees resulting from non-performing loan activity and increased audit expenses. The nine-month period ended September 30, 2009 was impacted by the FDIC special assessment which affected all banks and resulted in an additional charge of $947 thousand to the Corporation in the second quarter of 2009 which was partially offset by higher deposit insurance premiums in 2010.

Nonperforming loans and leases were $34.8 million at September 30, 2010 compared to $37.8 million at December 31, 2009 and $37.0 million at September 30, 2009. Nonperforming loans and leases as a percentage of total loans and leases were 2.37% at September 30, 2010 compared to 2.65% at December 31, 2009 and 2.55% at September 30, 2009. Net charge-offs for the three months ended September 30, 2010 were $5.8 million compared to $2.8 million for the three months ended September 30, 2009. Net charge-offs for the nine months ended September 30, 2010 were $11.2 million compared to $4.6 million for the same period in the prior year. The increase in loan and lease charge-offs was primarily due to deterioration of underlying collateral and economic factors. The charge-offs occurred across various loan and lease categories.

The Corporation earns its revenues primarily from the margins and fees it generates from loans and leases and depository services it provides as well as from trust 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 approved levels. As interest rates increase, fixed-rate assets that banks hold will tend to decrease in value; conversely, as interest rates decline, fixed-rate assets that banks hold will tend to increase in value. The Corporation has shifted to a more asset sensitive position; although interest rates are expected to remain low for the foreseeable future, it anticipates increasing interest rates over the longer term, which it expects would benefit its net interest margin.

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

Results of Operations

The Corporation s consolidated net income and earnings per share for the three and nine months ended September 30, 2010 and 2009 were as follows:

(Dollars in thousands, except per share data)	For the Three Months Ended September 30, 2010	2009	Change Amount	Percent	For the Nine Months Ended September 30, 2010	2009	Change Amount	Percent
Net income	**$ 4,147**	$ 2,753	$ 1,394	50.6%	**$ 10,847**	$ 9,258	$ 1,589	17.2%
Net income per share:								
Basic	**$ 0.25**	$ 0.19	$ 0.06	31.6%	**$ 0.65**	$ 0.68	$ (0.03)	(4.4)%
Diluted	**0.25**	0.19	0.06	31.6	**0.65**	0.68	(0.03)	(4.4)

Return on average shareholders equity was 6.07% and return on average assets was 0.78% for the three months ended September 30, 2010, compared to 4.55% and 0.52%, respectively, for the same period in 2009. Return on average shareholders equity was 5.37% and return on average assets was 0.70% for the nine months ended September 30, 2010, compared to 5.68% and 0.60%, respectively, for the same period in 2009. The lower return on average shareholders equity during the first nine months of 2010 was mainly attributable to the issuance of common stock totaling $55.6 million in August 2009 partially offset by higher income for the nine months ended September 30, 2010 compared to the same period in 2009.

Net Interest Income

Net interest income is the difference between interest earned on loans and leases, investments and other interest-earning assets and interest paid on deposits and other interest-bearing liabilities. Net interest income is the principal source of the Corporation s revenue. Table 1 presents a summary of the Corporation s average balances; the tax-equivalent yields earned on average assets, and the cost of average liabilities, and shareholders equity on a tax-equivalent basis for the three and nine months ended September 30, 2010 and 2009. The tax-equivalent net interest margin is tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread represents the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of net interest free funding sources represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders equity. 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 Committee works to maintain an adequate and stable net interest margin for the Corporation.

Net interest income on a tax-equivalent basis for the three months ended September 30, 2010 increased $1.7 million, or 9.4% compared to the same period in 2009. The tax-equivalent net interest margin for the three months ended September 30, 2010 increased 33 basis points to 4.15% from 3.82% for the three-months ended September 30, 2009. Net interest income on a tax-equivalent basis increased $3.8 million, or 7.0% for the nine months ended September 30, 2010 compared to the same period in 2009. The tax-equivalent net interest margin for the nine months ended September 30, 2010 increased 26 basis points to 4.08% from 3.82% for the first nine months of 2009. The increase in net interest income and the net interest margin for the three and nine months ended September 30, 2010 was mainly attributable to declines in the cost of interest-bearing liabilities, primarily time deposits, and a decline in the volume of FHLB borrowings, exceeding the declines in yields on total interest-earning assets. The Corporation has continued to experience core deposit growth which has allowed the Corporation to not replace or renew its maturing FHLB advances reducing FHLB advances from $92.0 million at December 31, 2009 to $14.0 million at September 30, 2010.

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

	Three Months Ended September 30,					
	2010			2009		
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 32,983**	**$ 20**	**0.24%**	$ 4,067	$ 3	0.29%
U.S. Government obligations	**156,579**	**669**	**1.70**	123,008	979	3.16
Obligations of states and political subdivisions	**109,376**	**1,746**	**6.33**	105,060	1,734	6.55
Other debt and equity securities	**165,238**	**1,687**	**4.05**	219,857	2,531	4.57
Total interest-earning deposits and investments	**464,176**	**4,122**	**3.52**	451,992	5,247	4.61
Commercial, financial and agricultural loans	**435,823**	**5,428**	**4.94**	417,694	4,802	4.56
Real estate-commercial and construction loans	**538,288**	**7,871**	**5.80**	528,104	7,972	5.99
Real estate-residential loans	**255,715**	**2,800**	**4.34**	282,758	3,242	4.55
Loans to individuals	**44,250**	**657**	**5.89**	48,110	829	6.84
Municipal loans and leases	**110,650**	**1,662**	**5.96**	91,674	1,388	6.01
Lease financings	**75,094**	**1,671**	**8.83**	88,122	1,796	8.09
Gross loans and leases	**1,459,820**	**20,089**	**5.46**	1,456,462	20,029	5.46
Total interest-earning assets	**1,923,996**	**24,211**	**4.99**	1,908,454	25,276	5.25
Cash and due from banks	**38,924**			32,637		
Reserve for loan and lease losses	**(29,853)**			(19,445)		
Premises and equipment, net	**34,862**			33,274		
Other assets	**149,779**			144,044		
Total assets	**$ 2,117,708**			$ 2,098,964		
Liabilities:						
Interest-bearing checking deposits	**$ 179,117**	**61**	**0.14**	$ 162,764	57	0.14
Money market savings	**301,674**	**239**	**0.31**	296,676	342	0.46
Regular savings	**454,358**	**578**	**0.50**	367,825	714	0.77
Time deposits	**432,881**	**2,339**	**2.14**	491,356	4,171	3.37
Total time and interest-bearing deposits	**1,368,030**	**3,217**	**0.93**	1,318,621	5,284	1.59

Securities sold under agreements to repurchase	**99,855**	**90**	**0.36**	102,582	155	0.60
Other short-term borrowings	**40,277**	**437**	**4.30**	95,008	825	3.45
Long-term debt	**5,000**	**48**	**3.81**	44,810	315	2.79
Subordinated notes and capital securities	**24,744**	**315**	**5.05**	26,244	322	4.87
Total borrowings	**169,876**	**890**	**2.08**	268,644	1,617	2.39
Total interest-bearing liabilities	**1,537,906**	**4,107**	**1.06**	1,587,265	6,901	1.72
Demand deposits, non-interest bearing	**274,583**			228,815		
Accrued expenses and other liabilities	**34,174**			42,617		
Total liabilities	**1,846,663**			1,858,697		
Shareholders Equity:						
Common stock	**91,332**			83,588		
Additional paid-in capital	**61,420**			43,882		
Retained earnings and other equity	**118,293**			112,797		
Total shareholders equity	**271,045**			240,267		
Total liabilities and shareholders equity	**$ 2,117,708**			$ 2,098,964		
Net interest income		**$ 20,104**			$ 18,375	
Net interest spread			**3.93**			3.53
Effect of net interest-free funding sources			**0.22**			0.29
Net interest margin			**4.15%**			3.82%
Ratio of average interest-earning assets to average interest-bearing liabilities	**125.10%**			120.24%		

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	Nine Months Ended September 30,					
		2010			2009	
(Dollars in thousands)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets:						
Interest-earning deposits with other banks	**$ 24,727**	**$ 50**	**0.27%**	$ 3,602	$ 8	0.30%
U.S. Government obligations	**143,238**	**2,332**	**2.18**	105,565	2,743	3.47
Obligations of states and political subdivisions	**108,287**	**5,289**	**6.53**	103,389	5,206	6.73
Other debt and equity securities	**176,317**	**5,640**	**4.28**	218,169	8,005	4.91
Federal funds sold				77		
Total interest-earning deposits, investments and federal funds sold	**452,569**	**13,311**	**3.93**	430,802	15,962	4.95
Commercial, financial and agricultural loans	**420,572**	**14,985**	**4.76**	409,513	14,021	4.58
Real estate-commercial and construction loans	**528,611**	**23,185**	**5.86**	518,828	23,289	6.00
Real estate-residential loans	**257,637**	**8,443**	**4.38**	297,248	10,432	4.69
Loans to individuals	**45,969**	**2,054**	**5.97**	50,759	2,621	6.90
Municipal loans and leases	**104,321**	**4,651**	**5.96**	88,851	4,082	6.14
Lease financings	**78,341**	**5,136**	**8.77**	92,792	5,827	8.40
Gross loans and leases	**1,435,451**	**58,454**	**5.44**	1,457,991	60,272	5.53
Total interest-earning assets	**1,888,020**	**71,765**	**5.08**	1,888,793	76,234	5.40
Cash and due from banks	**36,045**			31,490		
Reserve for loan and lease losses	**(28,444)**			(16,358)		
Premises and equipment, net	**34,908**			33,011		
Other assets	**152,213**			141,963		
Total assets	**$ 2,082,742**			$ 2,078,899		
Liabilities:						
Interest-bearing checking deposits	**$ 177,776**	**180**	**0.14**	$ 161,213	199	0.17
Money market savings	**291,841**	**832**	**0.38**	312,888	1,389	0.59
Regular savings	**438,832**	**2,020**	**0.62**	343,897	2,211	0.86
Time deposits	**434,334**	**7,993**	**2.46**	515,755	13,603	3.53
	1,342,783	**11,025**	**1.10**	1,333,753	17,402	1.74

Total time and interest-bearing deposits						
Securities sold under agreements to repurchase	**98,181**	**318**	**0.43**	88,104	416	0.63
Other short-term borrowings	**54,379**	**1,664**	**4.09**	89,987	1,867	2.77
Long-term debt	**5,485**	**142**	**3.46**	61,899	1,654	3.57
Subordinated notes and capital securities	**25,116**	**940**	**5.00**	26,617	975	4.90
Total borrowings	**183,161**	**3,064**	**2.24**	266,607	4,912	2.46
Total interest-bearing liabilities	**1,525,944**	**14,089**	**1.23**	1,600,360	22,314	1.86
Demand deposits, non-interest bearing	**253,238**			220,789		
Accrued expenses and other liabilities	**33,560**			39,909		
Total liabilities	**1,812,742**			1,861,058		
Shareholders Equity:						
Common stock	**91,332**			77,476		
Additional paid-in capital	**61,420**			29,897		
Retained earnings and other equity	**117,248**			110,468		
Total shareholders equity	**270,000**			217,841		
Total liabilities and shareholders equity	**$ 2,082,742**			$ 2,078,899		
Net interest income		**$ 57,676**			$ 53,920	
Net interest spread			**3.85**			3.54
Effect of net interest-free funding sources			**0.23**			0.28
Net interest margin			**4.08%**			3.82%
Ratio of average interest-earning assets to average interest-bearing liabilities	**123.73%**			118.02%		

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. Loans held for sale have been included in the average loan balances. Tax-equivalent amounts for the three and nine months ended September 30, 2010 and 2009 have been calculated using the Corporation s federal applicable rate of 35.0%.

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Table 2 Analysis of Changes in Net Interest Income

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

	Three Months Ended September 30, 2010 Versus 2009			Nine Months Ended September 30, 2010 Versus 2009		
(Dollars in thousands)	Volume Change	Rate Change	Total	Volume Change	Rate Change	Total
Interest income:						
Interest-earning deposits with other banks	$ 18	$ (1)	$ 17	$ 43	$ (1)	$ 42
U.S. Government obligations	143	(453)	(310)	608	(1,019)	(411)
Obligations of states and political subdivisions	70	(58)	12	238	(155)	83
Other debt and equity securities	(556)	(288)	(844)	(1,337)	(1,028)	(2,365)
Interest on deposits and investments	(325)	(800)	(1,125)	(448)	(2,203)	(2,651)
Commercial, financial and agricultural loans	226	400	626	413	551	964
Real estate-commercial and construction loans	152	(253)	(101)	439	(543)	(104)
Real estate-residential loans	(292)	(150)	(442)	(1,300)	(689)	(1,989)
Loans to individuals	(57)	(115)	(172)	(214)	(353)	(567)
Municipal loans and leases	286	(12)	274	689	(120)	569
Lease financings	(289)	164	(125)	(948)	257	(691)
Interest and fees on loans and leases	26	34	60	(921)	(897)	(1,818)
Total interest income	(299)	(766)	(1,065)	(1,369)	(3,100)	(4,469)
Interest expense:						
Interest-bearing checking deposits	4		4	17	(36)	(19)
Money market savings	9	(112)	(103)	(66)	(491)	(557)
Regular savings	114	(250)	(136)	426	(617)	(191)
Time deposits	(309)	(1,523)	(1,832)	(1,482)	(4,128)	(5,610)
Interest on time and interest-bearing deposits	(182)	(1,885)	(2,067)	(1,105)	(5,272)	(6,377)
Securities sold under agreement to repurchase	(3)	(62)	(65)	34	(132)	(98)
Other short-term borrowings	(592)	204	(388)	(1,091)	888	(203)
Long-term debt	(382)	115	(267)	(1,461)	(51)	(1,512)

Subordinated notes and capital securities	(19)	12	(7)	(55)	20	(35)
Interest on borrowings	(996)	269	(727)	(2,573)	725	(1,848)
Total interest expense	(1,178)	(1,616)	(2,794)	(3,678)	(4,547)	(8,225)
Net interest income	$ 879	$ 850	$ 1,729	$ 2,309	$ 1,447	$ 3,756

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. Loans held for sale have been included in the average loan balances. Tax-equivalent amounts for the three and nine months ended September 30, 2010 and 2009 have been calculated using the Corporation s federal applicable rate of 35.0%.

Interest Income

Three months ended September 30, 2010 versus 2009

Interest income on a tax-equivalent basis for the three months ended September 30, 2010 decreased $1.1 million, or 4.2% from the same period in 2009. This decrease was mainly due to a 109 basis point decrease in the average rate earned on investment securities and deposits at other banks due to the lower interest rate environment. Interest and fees on loans and leases remained level during the three months ended September 30, 2010 compared to the same period in 2009. The Corporation experienced decreases in the average rates on residential real estate loans, commercial real estate and construction loans and loans to individuals as well as decreases in average volume for residential real estate loans and lease financings. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity as well as reduced leasing origination volume. These unfavorable variances were offset by growth and higher average rates of commercial business loans as well as growth in commercial real estate and construction loans and municipal loans and leases.

Nine months ended September 30, 2010 versus 2009

Interest income on a tax-equivalent basis for the nine months ended September 30, 2010 decreased $4.5 million, or 5.9% from the same period in 2009. This decrease was mainly due to a 102 basis point decrease in the average rate earned on investment securities and deposits at other banks, a 9 basis point decrease in the average rate earned on loans and a $22.5 million decrease in average loan volume. The decline in average rate earned on investment securities was mostly due to the lower interest rate environment. The decline in interest and fees earned on loans and leases was primarily due to decreases in the average rates on residential real estate loans, commercial real estate and construction loans and loans to individuals as well as decreases in average volume for residential real estate loans and lease financings. These decreases were mostly attributable to the lower interest rate environment and increased refinancing activity as well as reduced lease origination volume. These unfavorable variances were partially offset by growth and higher average rates of commercial business loans as well as growth in commercial real estate and construction loans and municipal loans and leases.

Interest Expense

Three months ended September 30, 2010 versus 2009

Interest expense on a tax-equivalent basis for the three months ended September 30, 2010 decreased $2.8 million, or 40.5% from the same period in 2009. This decrease was mainly due to a 66 basis point decrease in the Corporation s average cost of deposits and a $98.8 million decrease in average borrowings. The decrease in the Corporation s cost of deposits was largely attributable to maturities of higher yielding time deposit accounts. For the three months ended September 30, 2010, average deposits increased by $49.4 million with increases in average regular savings of $86.5 million and interest-bearing checking accounts of $16.4 million partially offset by a decrease in average time deposits of $58.5 million. The Corporation s focus on growing low cost core deposits and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts. In addition, the average balance of time deposits decreased, in part, from a reduction of brokered deposits due to the Corporation s reduced reliance on wholesale funding sources. Interest on other short-term borrowings mainly 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. Interest expense on other short-term borrowings decreased $388 thousand for the three months ended September 30, 2010 compared to the same period in 2009 primarily due to a decrease in average volume of $54.7 million partially offset by an average rate increase of 85 basis points. Interest on long-term debt, which consists of long-term FHLB borrowings, decreased by $267 thousand mainly due to a decline in average volume of $39.8 million, resulting from reclasses from long-term FHLB debt to short-term borrowings as the remaining term to maturity became one year or less.

Nine months ended September 30, 2010 versus 2009

Interest expense on a tax-equivalent basis for the nine months ended September 30, 2010 decreased $8.2 million, or 36.9% from the same period in 2009. This decrease was mainly due to a 64 basis point decrease in the Corporation s average cost of deposits and an $83.4 million decrease in average borrowings. The decrease in the Corporation s cost of deposits was largely attributable to maturities of higher yielding time deposit accounts. For the nine months ended September, 30, 2010, average deposits increased by $9.0 million with increases in average regular savings of $94.9 million and interest-bearing checking of $16.6 million mostly offset by decreases in average time deposits of $81.4 million and average money market savings of $21.0 million. The Corporation s focus on growing low cost core deposits and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts. In addition, the average balance of time deposits decreased, in part, from a reduction of brokered deposits due to the Corporation s reduced reliance on wholesale funding sources. Interest expense on other short-term borrowings decreased $203 thousand for the nine months ended September 30, 2010 compared to the same period in 2009 primarily due to a decrease in average volume of $35.6 million partially offset by an average rate increase of 132 basis points. Interest on long-term debt decreased by $1.5 million mainly due to a decline in average volume of $56.4 million, resulting from reclasses from long-term FHLB debt to short-term borrowings as the remaining term to maturity became one year or less.

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Provision for Loan and Lease Losses

The reserve for loan and lease losses is determined through a periodic evaluation that takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charged-off activity. Loans and leases are also reviewed for impairment based on discounted cash flows using the loans and leases initial effective interest rates or the fair value of the collateral for certain collateral dependent loans and leases. Any of the above criteria may cause the reserve to fluctuate. The provision for the three months ended September 30, 2010 and 2009 was $5.5 million and $5.9 million, respectively. The provision for the nine months ended September 30, 2010 and 2009 was $15.3 million and $13.4 million, respectively. The increase in provision was primarily due to the migration of loans and leases to higher-risk ratings as a result of deterioration of underlying collateral and economic factors that began to manifest in June 2009. Additionally, impaired loans and leases decreased to $33.9 million at September 30, 2010 from $37.1 million at December 31, 2009 and decreased from $36.3 million at September 30, 2009. The decrease in impaired loans and leases was mainly due to a payoff of $6.7 million on a real estate construction loan during the second quarter of 2010 partially offset by a real estate commercial loan relationship totaling $3.9 million which became impaired during the third quarter of 2010. Impaired loans at September 30, 2009 included two large commercial/construction real estate credits which went on non-accrual during the third quarter of 2009. One credit was a Shared National Credit to a continuing care retirement community in which Univest participated. The parent company of the community came under financial difficulty and as a result, the parent company and all communities declared bankruptcy. This credit was paid off in the second quarter of 2010. The second credit is for four separate facilities to a local commercial real estate developer/home builder which aggregated to $14.6 million at September 30, 2010. Univest will continue to closely monitor the impaired loan credits and may have to provide additional reserve in future quarters related to these credits.

Noninterest Income

Non-interest income consists of trust department fee income, service charges on deposit accounts, commission income, net gains (losses) on sales of securities and loans, net gains (losses) on mortgage banking activities, net gains (losses) on interest rate swaps and other miscellaneous types of income. 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. Bank owned life insurance income represents changes in the cash surrender value of bank-owned life insurance policies, which is affected by the market value of the underlying assets, and also includes any excess proceeds from death benefit claims. Other non-interest income includes gains (losses) on investments in partnerships, gains (losses) on sales of other real estate owned, reinsurance income and other miscellaneous income. The following table presents noninterest income for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Change Amount	Change Percent	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change Amount	Change Percent
Trust fee income	**$ 1,450**	$ 1,325	$ 125	9.4%	**$ 4,450**	$ 4,075	$ 375	9.2%
Service charges on deposit accounts	**1,633**	1,745	(112)	(6.4)	**5,227**	5,050	177	3.5
Investment advisory commission and fee income	**1,227**	876	351	40.1	**3,435**	2,402	1,033	43.0
Insurance commission and fee income	**1,815**	1,470	345	23.5	**5,954**	5,567	387	7.0
Other service fee income	**962**	851	111	13.0	**3,346**	2,575	771	29.9

Bank owned life insurance income	**326**	405	(79)	(19.5)	**860**	970	(110)	(11.3)
Other-than-temporary impairment on equity securities	**(12)**	(47)	35	74.5	**(59)**	(1,447)	1,388	95.9
Net gain on sales of securities	**339**	112	227	N/M	**426**	127	299	N/M
Net gain on mortgage banking activities	**1,246**	386	860	N/M	**2,181**	1,531	650	42.5
Net (loss) gain on interest rate swap	**(246)**	(87)	(159)	N/M	**(1,072)**	194	(1,266)	N/M
Net loss on dispositions of fixed assets					**(11)**	(147)	136	92.5
Other	**144**	62	82	N/M	**413**	201	212	N/M
Total noninterest income	**$ 8,884**	$ 7,098	$ 1,786	25.2	**$ 25,150**	$ 21,098	$ 4,052	19.2

Three months ended September 30, 2010 versus 2009

Total non-interest income increased $1.8 million, or 25.2% during the three months ended September 30, 2010 compared to the same period in 2009 primarily due to increased income from trust fees, investment advisory commissions and fees, insurance commissions and fees, other service fees, a higher net gain on mortgage banking activities and higher gains on sales of securities. Additionally, the three months ended September 30, 2010 included a net loss on the interest rate swap of $246 thousand compared to a net loss of $87 thousand during the same period in 2009.

Investment advisory commissions and fee income, the primary source of income for Univest Investments, Inc. increased by $351 thousand for the three months ended September 30, 2010 from the same period in 2009 primarily due to an increase in the market value of client assets as well as higher business volume. Insurance commission and fee income increased by $345 thousand during the three months ended September 30, 2010 primarily attributable to increased volume.

Service charges on deposit accounts decreased $112 thousand during the three months ended September 30, 2010 over the comparable period in 2009 primarily due to decreased levels of insufficient fund charges. In November 2009, the Federal Reserve Board issued a final rule that, effective July 1, 2010, in accordance with Regulation E, prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Consumers must be provided a notice that explains the financial institution s overdraft services, including the fees associated with the service, and the consumer s choices. The Corporation implemented the provisions of Regulation E in the third quarter of 2010.

The Corporation realized other-than-temporary impairment charges of $12 thousand on its equity portfolio during the three months ended September 30, 2010 as compared to $47 thousand for the same period in the prior year. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other under-water securities, at this time, as the financial performance and near-term prospects of the underlying companies are not indicative of the market deterioration of their stock. The Corporation has the positive intent and ability to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. During the three months ended September 30, 2010, approximately $9.9 million of available for sale securities were sold recognizing a net gain of $339 thousand. During the three months ended September 30, 2009, the Corporation sold $8.9 million in available for sale securities that resulted in a net gain of $112 thousand.

For the three months ended September 30, 2010, the Corporation recognized a net gain on mortgage banking activities of $1.2 million compared to a net gain of $386 thousand for the same period in 2009. These gains consist of gains on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan commitments. The increase in the net gain was primarily due to an increase in the volume of the underlying contracts for the interest rate locks.

For the three months ended September 30, 2010, the Corporation recognized a loss of $246 thousand related to fair value adjustments on an interest rate swap for a commercial real estate loan, due to the decline in interest rates during the third quarter of 2010. This interest rate swap was terminated during the third quarter of 2010 due to the forecasted low interest rate environment. The underlying commercial loan had a positive fair value adjustment at the termination date of $859 thousand which will be amortized through a reduction of interest income over the remaining life of the loan. Fair value adjustments on the interest rate swap for the three months ended September 30, 2009 resulted in losses of $87 thousand.

Nine months ended September 30, 2010 versus 2009

Total non-interest income increased $4.1 million, or 19.2% during the nine months ended September 30, 2010 compared to the same period in 2009 primarily due to increased income from trust fees, investment advisory commissions and fees, insurance commissions and fees, other service fees, a higher net gain of mortgage banking activities and higher gains on sales of securities. Additionally, the nine months ended September 30, 2009 was impacted by $1.4 million of other-than-temporary impairments on equity securities compared to $59 thousand of other-than-temporary impairments recorded in the nine months ended September 30, 2010. The nine months ended

September 30, 2010 included a net loss on the interest rate swap of $1.1 million compared to a net gain of $194 thousand during the same period in 2009.

Investment advisory commissions and fee income increased $1.0 million for the nine months ended September 30, 2010 from the same period in 2009 primarily due to an increase in the market value of client assets as well as higher business volume. Insurance commission and fee income increased by $387 thousand during the nine months ended September 30, 2010 primarily attributable to increased volume. Other service fee income increased $771 thousand during the nine months ended September 30, 2010 primarily attributable to increases in Mastermoney fees. During the nine months ended September 30, 2010, approximately $13.8 million of available for sale securities were sold recognizing a net gain of $426 thousand. During the nine months ended September 30, 2009, the Corporation sold $41.9 million in available for sale securities that resulted in a net gain of $127 thousand.

For the nine months ended September 30, 2010, the Corporation recognized a net gain on mortgage banking activities of $2.2 million compared to a net gain of $1.5 million for the same period in 2009. These gains consist of gains on sales of mortgages held for sale and fair value adjustments on interest-rate locks and forward loan commitments.

For the nine months ended September 30, 2010, the Corporation recognized a loss of $1.1 million related to fair value adjustments on an interest rate swap for a commercial real estate loan, due to the decline in interest rates during 2010. This interest rate swap was terminated during the third quarter of 2010 due to the forecasted low interest rate environment. The underlying commercial loan had a positive fair value adjustment at the termination date of $859 thousand which will be amortized through a reduction of interest income over the life of the loan. Fair value adjustments on the interest rate swap for the nine months ended September 30, 2009 resulted in a net gain of $194 thousand.

Noninterest Expense

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

The following table presents noninterest expense for the periods indicated:

	Three Months Ended September 30,		**Change**		**Nine Months Ended September 30,**		**Change**	
	2010	**2009**	**Amount**	**Percent**	**2010**	**2009**	**Amount**	**Percent**
Salaries and benefits	**$ 9,775**	$ 8,818	$ 957	10.9%	**$ 29,055**	$ 27,667	$ 1,388	5.0%
Net occupancy	**1,384**	1,338	46	3.4	**4,047**	4,005	42	1.0
Equipment	**1,051**	878	173	19.7	**2,889**	2,569	320	12.5
Marketing and advertising	**365**	397	(32)	(8.1)	**1,966**	877	1,089	N/M
Deposit insurance premiums	**698**	526	172	32.7	**1,958**	2,586	(628)	(24.3)
Other	**3,898**	3,606	292	8.1	**11,244**	10,152	1,092	10.8
Total noninterest expense	**$ 17,171**	$ 15,563	$ 1,608	10.3	**$ 51,159**	$ 47,856	$ 3,303	6.9

Three months ended September 30, 2010 versus 2009

Total non-interest expense increased $1.6 million, or 10.3% for the three months ended September 30, 2010 compared to the same period in 2009. Salaries and benefit expense increased $957 thousand during the three months ended September 30, 2010 compared to the same period in 2009 mainly due to additional personnel to grow the commercial lending and mortgage banking businesses and higher restricted stock expense partially offset by reduced pension plan expenses as a result of the Corporation s conversion to a cash balance plan effective December 31, 2009. Equipment expense increased $173 thousand for the three months ended September 30, 2010 primarily as a result of increased computer software contract expenses. Deposit insurance premiums increased $172 thousand for the three months ended September 30, 2010 mainly due to the growth in deposits. Other expenses increased primarily due to increased legal fees resulting from non-performing loan activity and increased audit expenses.

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Nine months ended September 30, 2010 versus 2009

Total non-interest expense increased $3.3 million, or 6.9% for the nine months ended September 30, 2010 compared to the same period in 2009. Salaries and benefits increased $1.4 million for the nine months ended September 30, 2010 compared to the same period in 2009 mainly due to additional personnel to grow the commercial lending and mortgage banking businesses and higher restricted stock expense partially offset by reduced pension plan expenses as a result of the Corporation s conversion to a cash balance plan effective December 31, 2009. Marketing and advertising expenses increased $1.1 million during the nine months ended September 30, 2010 primarily to support a major brand campaign to position the Corporation to take advantage of the disruption in its markets. Deposit insurance premiums for the nine-month period ended September 30, 2010 decreased $628 thousand primarily due to the FDIC special assessment which affected all banks and resulted in an additional charge of $947 thousand to the Corporation in the second quarter of 2009 partially offset by higher deposit insurance premiums in 2010 due to the growth in deposits. Other expenses increased primarily due to increased director fees resulting mainly from fair value adjustments on directors deferred fees, increased legal fees resulting from non-performing loan activity and increased audit expenses.

Tax Provision

The provision for income taxes for the three months ended September 30, 2010 and 2009 was $990 thousand and $197 thousand, at effective rates of 19.27% and 6.68%, respectively. The provision for income taxes for the nine months ended September 30, 2010 and 2009 was $2.2 million and $1.4 million, respectively, at effective rates of 16.79% and 13.20%, 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 and loans, and bank-owned life insurance. The increase in the effective tax rate between the three-month periods is primarily due to lower levels of bank-owned life insurance and a reduction in tax credits generated from investments in low-income housing projects. The increase in the effective tax rate between the nine-month periods is primarily due to a smaller percentage of tax-exempt income to pre-tax income and a reduction in tax credits generated from investments in low-income housing projects.

Financial Condition

Assets

Total assets increased $28.8 million since December 31, 2009. An increase in loans and leases was partially offset by a decrease in interest-earning deposits and other assets. The following table presents the assets for the periods indicated:

(Dollars in thousands)	At September 30, 2010	At December 31, 2009	Change Amount	Change Percent
Cash, interest-earning deposits and federal funds sold	**$ 62,015**	$ 68,597	$ (6,582)	(9.6)%
Investment securities	**420,998**	420,045	953	0.2
Loans held for sale	**3,801**	1,693	2,108	N/M
Total loans and leases	**1,467,382**	1,425,980	41,402	2.9
Reserve for loan and lease losses	**(28,883)**	(24,798)	(4,085)	(16.5)
Premises and equipment, net	**35,105**	34,201	904	2.6
Goodwill and other intangibles, net	**55,369**	55,970	(601)	(1.1)
Bank owned life insurance	**47,600**	46,740	860	1.8
Accrued interest and other assets	**50,817**	56,993	(6,176)	(10.8)
Total assets	**$ 2,114,204**	$ 2,085,421	$ 28,783	1.4

Cash, Interest-earning Deposits and Federal Funds Sold

Cash, interest-earning deposits and federal funds sold decreased as of September 30, 2010 as compared to December 31, 2009 primarily due to a decrease in cash maintained at the Federal Reserve Bank.

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Investment Securities

The investment portfolio is managed as part of the overall asset and liability management process to optimize income and market performance over an entire interest rate cycle while mitigating risk. Activity in this portfolio is undertaken primarily to manage liquidity and interest rate risk, to take advantage of market conditions that create more economically attractive returns on these investments, and to collateralize public funds deposits. The securities portfolio consists primarily of U.S. Government agency, residential mortgage-backed and municipal securities.

Total investments remained level at September 30, 2010 compared to December 31, 2009. Security purchases of $230.1 million were offset by maturities and paydowns of $52.1 million and sales and calls of $181.1 million.

Loans and Leases

Total gross loans and leases increased at September 30, 2010 as compared to December 31, 2009 mainly due to increases in commercial loans of $22.5 million, commercial real estate loans of $25.0 million and construction loans of $9.5 million. These increases were partially offset by decreases in residential real estate loans of $12.2 million.

Asset Quality

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

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

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

Total cash basis, restructured and nonaccrual loans and leases totaled $33.9 million at September 30, 2010, $37.1 million at December 31, 2009 and $36.3 million at September 30, 2009; the balance at September 30, 2010 primarily consisted of real estate commercial and real estate construction loans. For the nine months ended September 30, 2010 and 2009, nonaccrual loans and leases resulted in lost interest income of $1.5 million and $499 thousand, respectively. The Corporation s ratio of nonperforming assets to total loans and leases and other real estate owned was 2.47% as of September 30, 2010, compared to 2.89% as of December 31, 2009 and 2.77% as of September 30, 2009. The ratio of nonperforming assets to total assets was 1.72% at September 30, 2010, 1.98% at December 31, 2009 and 1.90% at September 30, 2009.

At September 30, 2010, the recorded investment in loans and leases that were considered to be impaired was $33.9 million, all of which were on a nonaccrual basis or trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.0 million. The amount of the specific reserve needed for these credits could change in future periods subject to changes in facts and judgments related to these credits. Specific reserves have been established based on current facts and management s judgments about the ultimate outcome of these credits. Impaired loans and leases decreased $3.3 million at September 30, 2010 compared to December 31, 2009 mainly due to a payoff of $6.7 million on a real estate construction loan during the second quarter of 2010 partially offset by a real estate commercial loan relationship totaling $3.9 million which became impaired during the third quarter of 2010. Impaired loans at September 30, 2009 included two large commercial/construction real estate credits which went on non-accrual during the third quarter of 2009. One credit was a Shared National Credit to a continuing care retirement community in which Univest

participated. The parent company of the community came under financial difficulty and as a result, the parent company and all communities declared bankruptcy. This credit was paid off in the second quarter of 2010 as discussed previously. The second credit is for four separate facilities to a local commercial real estate developer/home builder which aggregated to $14.6 million at September 30, 2010. Univest will continue to closely monitor this credit relationship and may have to provide additional reserve in future quarters related to this credit. Univest will continue to closely monitor the impaired loans and may have to provide additional reserves in future quarters related to these credits. At December 31, 2009, the recorded investment in loans and leases that were considered to be impaired was $37.1 million, all of which were on a nonaccrual basis or trouble debt restructured. The related reserve for loan and lease losses for those loans was $1.4 million. At September 30, 2009, the recorded investment in loans and leases that were considered to be impaired was $36.3 million and the related reserve for loan and lease losses for those credits was $2.1 million.

The Corporation held five other real estate owned properties at September 30, 2009. During the remainder of 2009, the Corporation acquired two additional other real estate owned properties and sold two, leaving five properties owned at December 31, 2009. During 2010, the Corporation acquired one property and sold four. At September 30, 2010, the Corporation owned two other real estate owned properties of which one is a residential property and one is a commercial property. The commercial property was written down by $359 thousand during the first quarter of 2010.

Table 3 Nonaccrual, Past Due and Restructured Loans and Leases, and Other Real Estate Owned

The following table details the aggregate principal balance of loans and leases classified as nonaccrual, past due and restructured as well as other real estate owned as of the dates indicated:

(Dollars in thousands)		**At September 30, 2010**		At December 31, 2009		At September 30, 2009
Nonaccruing loans and leases:						
Commercial, financial and agricultural	**$**	**3,708**	$	3,275	$	4,906
Real estate commercial		**19,728**		14,005		13,017
Real estate construction		**6,641**		14,872		12,912
Real estate residential		**1,983**		572		363
Loans to individuals						224
Leases financings		**983**		774		1,694
Total nonaccruing loans and leases		**33,043**		33,498		33,116
Restructured loans and leases, not included above		**813**		3,611		3,216
Total impaired loans and leases	**$**	**33,856**	$	37,109	$	36,332
Accruing loans and leases 90 days or more past due:						
Commercial, financial and agricultural	**$**	**94**	$	134	$	282
Real estate commercial						
Real estate residential		**348**		273		82
Loans to individuals		**457**		319		280
Lease financings						
Total accruing loans and leases, 90 days or more past due	**$**	**899**	$	726	$	644
Total non-performing loans and leases	**$**	**34,755**	$	37,835	$	36,976

Other real estate owned	**$**	**1,557**	$	3,428	$	3,330
Total non-performing assets	**$**	**36,312**	$	41,263	$	40,306

Reserve for Loan and Lease Losses

Management believes the reserve for loan and lease losses is maintained at a level that is adequate to absorb probable losses in the loan and lease portfolio. Management s methodology to determine the adequacy of and the provisions to the reserve considers specific credit reviews, past loan and lease loss experience, current economic conditions and trends, and the volume, growth, and composition of the portfolio.

The reserve for loan and lease losses is determined through a monthly evaluation of reserve adequacy. This analysis takes into consideration the growth of the loan and lease portfolio, the status of past-due loans and leases, current economic conditions, various types of lending activity, policies, real estate and other loan commitments, and significant changes in charge-off activity. Non-accrual loans and leases, and those which have been restructured, are evaluated individually. All other loans and leases are evaluated as pools. Based on historical loss experience, loss factors are determined giving consideration to the areas noted in the first paragraph and applied to the pooled loan and lease categories to develop the general or allocated portion of the reserve. Loans are also reviewed for impairment based on discounted cash flows using the loans initial effective interest rate or the fair value of the collateral for certain collateral-dependent loans. Management also reviews the activity within the reserve to determine what actions, if any, should be taken to address differences between estimated and actual losses. Any of the above factors may cause the provision to fluctuate.

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Wholesale leasing portfolios are purchased by the Bank s subsidiary, Univest Capital, Inc. Credit losses on these purchased portfolios are largely the responsibility of the seller up to pre-set dollar amounts initially equal to 10 to 20 percent of the portfolio purchase amount. The dollar amount of recourse for purchased portfolios is inclusive of cash holdbacks and purchase discounts.

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

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

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

The class reserve element is determined by an internal loan and lease grading process in conjunction with associated allowance factors. The Corporation revises the class allowance factors whenever necessary, but no less than quarterly, in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan or lease pool classification.

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

The reserve for loan and lease losses increased $4.1 million from December 31, 2009 to September 30, 2010, primarily due to deterioration of underlying collateral and economic factors. Management believes that the reserve is maintained at a level that is adequate to absorb losses in the loan and lease portfolio. The ratio of the reserve for loan and lease losses to total loans and leases was 1.97% at September 30, 2010 and 1.74% at December 31, 2009.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with acquisitions. The Corporation has covenants not to compete, intangible assets due to branch acquisitions, core deposit intangibles, customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The amortization of intangible assets was $363 thousand and $374 thousand for the three months ended September 30, 2010 and 2009, respectively and $1.1 million and $1.0 million for the nine months ended September 30, 2010 and 2009, respectively. Fair market valuation adjustments related to mortgage servicing rights resulted in charges of $412 thousand and $31 thousand for the three months ended September 30, 2010 and 2009, respectively, and $418 thousand and $84 thousand for the nine months ended September 30, 2010 and 2009, respectively. The Corporation also has goodwill with a net carrying amount of $50.4 million at September 30, 2010 and December 31, 2009, which is deemed to be an indefinite intangible asset and is not amortized.

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Goodwill and other identifiable intangibles are reviewed for potential impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation completed an annual impairment test for the intangible asset category during 2009 and there were no impairments recorded in 2009. There can be no assurance that future impairment tests will not result in a charge to earnings. Since the last annual impairment date, there were no circumstances to indicate impairment.

Other Assets

At September 30, 2010 and December 31, 2009, the Bank held $3.3 million in Federal Reserve Bank stock as required by the Federal Reserve Bank. The Bank is required to hold stock in the FHLB in relation to the level of outstanding borrowings. The Bank held FHLB stock of $7.4 million as of September 30, 2010 and December 31, 2009. On December 23, 2008, the FHLB announced that it was suspending the payment of its dividends and the repurchase of excess capital stock in-order to rebuild its capital levels. This was due to the other-than-temporary impairment write down required on their private-label mortgage portfolio which could reduce their capital below required levels. Additionally, the FHLB might require its members to increase its capital stock requirement. Based on current information from the FHLB, management believes that if there is any impairment in the stock it is temporary. Therefore, as of September 30, 2010 and December 31, 2009, the FHLB stock is recorded at cost.

Liabilities

Total liabilities increased since December 31, 2009 primarily due to an increase in deposits partially offset by a decrease in short-term borrowings. The following table presents the liabilities for the periods indicated:

(Dollars in thousands)	At September 30, 2010	At December 31, 2009	Change Amount	Change Percent
Deposits	**$ 1,677,641**	$ 1,564,257	$ 113,384	7.2%
Short-term borrowings	**99,161**	183,379	(84,218)	(45.9)
Long-term borrowings	**29,744**	30,684	(940)	(3.1)
Accrued expenses and other liabilities	**36,885**	39,294	(2,409)	(6.1)
Total liabilities	**$ 1,843,431**	$ 1,817,614	$ 25,817	1.4

Deposits

Total deposits increased at the Bank primarily due to increases in regular savings of $57.7 million, noninterest-bearing demand deposits of $30.1 million and interest-bearing demand deposits of $40.6 million which were partially offset by decreases in time deposits of $15.0 million. Deposit growth resulted mainly from the Corporation s successful marketing strategy to take advantage of the disruption in its market place. The Corporation s focus on growing low cost core deposits and the lower interest rate environment has resulted in a shift in customer deposits from time deposits to savings accounts. In addition, the balance of time deposits decreased, in part, from a reduction of brokered deposits due to the Corporation s reduced reliance on wholesale funding sources.

Borrowings

Long-term borrowings at September 30, 2010, included $4.1 million in Subordinated Capital Notes, $20.6 million of Trust Preferred Securities and $5.0 million in long-term borrowings from the FHLB. Short-term borrowings typically include federal funds purchased, Federal Reserve Bank discount window borrowings and short-term FHLB borrowings. Short-term borrowings decreased mainly due to FHLB maturities of $78.0 million. At September 30, 2010, the Bank also had outstanding short-term letters of credit with the FHLB totaling $57.0 million which were utilized to collateralize seasonal public funds deposits.

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Shareholders Equity

Total shareholders equity at September 30, 2010 increased $3.0 million since December 31, 2009. This increase was primarily due to the issuance of stock under the dividend reinvestment and employee stock purchase plans and net income exceeding dividends declared.

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

(Dollars in thousands)	At September 30, 2010	At December 31, 2009	Change Amount	Change Percent
Common stock	**$ 91,332**	$ 91,332	$	%
Additional paid-in capital	**58,980**	60,126	(1,146)	(1.9)
Retained earnings	**150,506**	150,507	(1)	
Accumulated other comprehensive loss	**(167)**	(524)	357	68.1
Treasury stock	**(29,878)**	(33,634)	3,756	11.2
Total shareholders equity	**$ 270,773**	$ 267,807	$ 2,966	1.1

Retained earnings at September 30, 2010 were impacted by the nine months of net income of $10.8 million offset by cash dividends of $10.0 million declared during the first nine months of 2010. Additional paid-in capital decreased mainly due to shares issued for restricted stock awards. Treasury stock decreased primarily due to shares issued for the employee stock purchase plan, the dividend reinvestment plan and restricted stock awards. There is a buyback program in place that allows the Corporation to purchase an additional 643,782 shares of its outstanding common stock in the open market or in negotiated transactions.

Capital Adequacy

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s and the Bank s financial statements. Capital adequacy guidelines, and additionally for the Bank prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

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

Table 4 Regulatory Capital

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2010:						
Total Capital (to Risk-Weighted Assets):						
Corporation	**$ 259,046**	**15.45%**	**$ 134,113**	**8.00%**	**$ 167,642**	**10.00%**

Bank	**244,418**	**14.79**	**132,176**	**8.00**	**165,221**	**10.00**
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	**237,071**	**14.14**	**67,057**	**4.00**	**100,585**	**6.00**
Bank	**223,662**	**13.54**	**66,088**	**4.00**	**99,132**	**6.00**
Tier 1 Capital (to Average Assets):						
Corporation	**237,071**	**11.51**	**82,406**	**4.00**	**103,008**	**5.00**
Bank	**223,662**	**10.95**	**81,702**	**4.00**	**102,127**	**5.00**
As of December 31, 2009:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 255,482	15.76%	$ 129,711	8.00%	$ 162,139	10.00%
Bank	241,177	15.13	127,502	8.00	159,377	10.00
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	233,654	14.41	64,856	4.00	97,283	6.00
Bank	221,193	13.88	63,751	4.00	95,626	6.00
Tier 1 Capital (to Average Assets):						
Corporation	233,654	11.46	81,539	4.00	101,924	5.00
Bank	221,193	10.97	80,666	4.00	100,833	5.00

As of September 30, 2010 and December 31, 2009, management believes that the Corporation and the Bank met all capital adequacy requirements to which they are subject. The Corporation, like other bank holding companies, currently is required to maintain Tier 1 Capital and Total Capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). The Bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and Total Capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. As of September 30, 2010, the most recent notification from the Office of Comptroller of the Currency and Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category.

Asset/Liability Management

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

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

Liquidity

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

Sources of Funds

Core deposits and cash management repurchase agreements (Repos) have historically been the most significant funding sources for the Corporation. These deposits and Repos are generated from a base of consumer, business and public customers primarily located in Bucks and Montgomery counties, Pennsylvania. The Corporation faces increased competition for these deposits from a large array of financial market participants, including banks, thrifts, mutual funds, security dealers and others.

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

The Bank purchases Certificates from the Pennsylvania Local Government Investment Trust (PLGIT) to augment its short-term fixed funding sources. The PLGIT deposits are public funds collateralized with a letter of credit that PLGIT maintains with the FHLB; therefore, Univest National Bank is not required to provide collateral on these deposits. At September 30, 2010 and December 31, 2009, the Bank had no PLGIT deposits.

The Corporation, through the Bank, has short-term and long-term credit facilities with the FHLB with a maximum borrowing capacity of approximately $371.0 million. At September 30, 2010 and December 31, 2009, total outstanding short-term and long-term borrowings with the FHLB totaled $14.0 million and $92.0 million, respectively. At September 30, 2010, the Bank also had outstanding short-term letters of credit with the FHLB totaling $57.0 million which were utilized to collateralize seasonal public funds deposits. The maximum borrowing capacity with the FHLB changes as a function of qualifying collateral assets and the amount of funds received may be reduced by additional required purchases of FHLB stock.

The Corporation maintains federal fund lines with several correspondent banks totaling $82.0 million at September 30, 2010 and December 31, 2009; there were no outstanding balances at September 30, 2010 and December 31, 2009. Future availability under these lines is subject to the prerogatives of the granting banks and may be withdrawn at will.

The Corporation, through the Bank, has an available line of credit at the Federal Reserve Bank of Philadelphia, the amount of which is dependent upon the balance of loans and securities pledged as collateral. At September 30, 2010 and December 31, 2009, the Corporation had no outstanding borrowings under this line.

Cash Requirements

The Corporation has cash requirements for various financial obligations, including contractual obligations and commitments that require cash payments. The most significant contractual obligation, in both the under and over one year time period, is for the Bank to repay its certificates of deposit. Securities sold under agreement to repurchase constitute the next largest payment obligation which is short term in nature. The Bank anticipates meeting these obligations by continuing to provide convenient depository and cash management services through its branch network, thereby replacing these contractual obligations with similar fund sources at rates that are competitive in our market. Commitments to extend credit are the Bank s most significant commitment in both the under and over one year time periods. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Footnote 1, Summary of Significant Accounting Policies of this Form 10-Q.

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Recent Legislative Developments

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Act) was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Corporation s business, results of operations and financial condition. The Act, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees;
- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% and changes in the basis for determining FDIC premiums from deposits to assets;
- Permanently increases the deposit insurance coverage to $250 thousand and allows depository institutions to pay interest on checking accounts;
- Creates a new consumer financial protection bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws;
- Provides for new disclosure and other requirements relating to executive compensation and corporate governance;
- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;
- Provides mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and
- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes in the Corporation s market risk or market strategy occurred during the current period. A detailed discussion of market risk is provided in the Registrant s Annual Report on Form 10-K for the period ended December 31, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management is responsible for the disclosure controls and procedures of Univest Corporation of Pennsylvania (Univest). Disclosure controls and procedures are in place to assure that all material information is collected and disclosed in accordance with Rule 13a 15(e) and 15d-15(e) under the Securities Exchange Act of 1934. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Corporation s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures. Based on their evaluation, Management concluded that the disclosure controls and procedures were effective to ensure that financial information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Corporation s management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in the Corporation s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in the Registrant s Form 10-K, Part 1, Item 1A, for the Year Ended December 31, 2009 as filed with the Securities and Exchange Commission on March 5, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on repurchases by the Corporation of its common stock during the three months ended September 30, 2010.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
July 1 - 31, 2010				643,782
August 1 - 31, 2010				643,782
September 1 - 30, 2010				643,782
Total				

1. Transactions are reported as of settlement dates.

2. The Corporation s current stock repurchase program was approved by its Board of Directors and announced on August 22, 2007. The repurchased shares limit is net of normal

Treasury activity such as purchases to fund the Dividend Reinvestment Program, Employee Stock Purchase Program and the equity compensation plan.

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

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

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

6. The Corporation has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further

purchases. The plans are restricted during certain blackout periods in conformance with the Corporation s Insider Trading Policy.

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

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Item 6. Exhibits

a. Exhibits

Exhibit 31.1	Certification of William S. Aichele, Chairman, President and Chief Executive Officer of the Corporation, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Jeffrey M. Schweitzer, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of William S. Aichele, Chief Executive Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Jeffrey M. Schweitzer, Chief Financial Officer of the Corporation, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Univest Corporation of Pennsylvania
(Registrant)

Date: November 8, 2010	/s/ William S. Aichele William S. Aichele, Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: November 8, 2010	/s/ Jeffrey M. Schweitzer Jeffrey M. Schweitzer, Executive Vice President, and Chief Financial Officer (Principal Financial and Accounting Officer)