

UNION FIRST MARKET BANKSHARES CORP

Form 10-Q

August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

OR

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

Commission File Number: 0-20293

UNION FIRST MARKET BANKSHARES CORPORATION

(Exact name of registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-1598552
(I.R.S. Employer
Identification No.)

111 Virginia Street

Suite 200

Richmond, Virginia 23219

(Address of principal executive offices) (Zip Code)

(804) 633-5031

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

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 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock outstanding as of August 2, 2010 was 25,933,516

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UNION FIRST MARKET BANKSHARES CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)	June 30, 2009 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	\$ 56,385	\$ 38,725	\$ 36,111
Interest-bearing deposits in other banks	77,375	4,106	41,242
Money market investments	177	127	123
Other interest-bearing deposits	1	2,598	2,598
Federal funds sold	1,796	355	303
Total cash and cash equivalents	135,734	45,911	80,377
Securities available for sale, at fair value	556,926	400,591	406,662
Loans held for sale	74,722	54,280	64,069
Loans, net of unearned income	2,819,651	1,874,224	1,871,506
Less allowance for loan losses	33,956	30,484	29,639
Net loans	2,785,695	1,843,740	1,841,867
Bank premises and equipment, net	92,010	78,722	78,787
Other real estate owned	28,394	22,509	14,663
Core deposit intangibles, net	30,698	7,690	8,652
Goodwill	57,567	56,474	56,474
Other assets	112,453	77,355	63,896
Total assets	\$ 3,874,199	\$ 2,587,272	\$ 2,615,447
LIABILITIES			
Noninterest-bearing demand deposits	\$ 514,301	\$ 294,222	\$ 302,841
Interest-bearing deposits:			
NOW accounts	352,060	215,327	200,431
Money market accounts	746,529	446,980	452,373
Savings accounts	151,050	102,852	101,145
Time deposits of \$100,000 and over	589,213	407,894	453,336
Other time deposits	742,321	449,089	487,238
Total interest-bearing deposits	2,581,173	1,622,142	1,694,523
Total deposits	3,095,474	1,916,364	1,997,364

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Securities sold under agreements to repurchase	77,829	50,550	57,202
Other short-term borrowings	35,000	115,201	65,000
Trust preferred capital notes	60,310	60,310	60,310
Long-term borrowings	155,082	140,000	140,000
Other liabilities	28,197	22,759	21,112
Total liabilities	3,451,892	2,305,184	2,340,988
Commitments and contingencies			
STOCKHOLDERS EQUITY			
Preferred stock, \$10.00 par value, \$1,000 liquidation value, shares authorized 500,000; issued and outstanding, 35,595 shares, no shares, 59,000 shares, respectively	35,595		58,874
Common stock, \$1.33 par value, shares authorized 36,000,000; issued and outstanding, 25,933,516 shares, 18,419,567 shares, and 13,604,601 shares, respectively	34,451	24,462	18,103
Surplus	184,681	98,136	43,792
Retained earnings	161,726	155,047	153,947
Warrant			2,808
Discount on preferred stock	(1,302)		(2,544)
Accumulated other comprehensive income (loss)	7,156	4,443	(521)
Total stockholders equity	422,307	282,088	274,459
Total liabilities and stockholders equity	\$ 3,874,199	\$ 2,587,272	\$ 2,615,447

See accompanying notes to condensed consolidated financial statements.

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest and dividend income:				
Interest and fees on loans	\$ 44,269	\$ 27,863	\$ 82,663	\$ 55,372
Interest on Federal funds sold	3		15	
Interest on deposits in other banks	15	60	23	114
Interest and dividends on securities:				
Taxable	3,503	2,630	7,042	5,066
Nontaxable	1,532	1,424	2,897	2,789
Total interest and dividend income	49,322	31,977	92,640	63,341
Interest expense:				
Interest on deposits	7,837	10,787	15,100	21,892
Interest on Federal funds purchased			14	
Interest on short-term borrowings	663	712	1,261	1,343
Interest on long-term borrowings	1,255	1,774	2,538	3,688
Total interest expense	9,755	13,273	18,913	26,923
Net interest income	39,567	18,704	73,727	36,418
Provision for loan losses	3,955	4,855	8,956	7,985
Net interest income after provision for loan losses	35,612	13,849	64,771	28,433
Noninterest income:				
Service charges on deposit accounts	2,381	2,105	4,552	4,101
Other service charges, commissions and fees	3,136	1,496	5,451	2,915
Gains on securities transactions, net	5	13	24	14
Gains on sales of loans	5,248	5,183	9,739	8,635
Gains (losses) on sales of other real estate and bank premises, net	5	(35)	44	(54)
Other operating income	1,326	516	2,030	1,000
Total noninterest income	12,101	9,278	21,840	16,611
Noninterest expenses:				
Salaries and benefits	17,403	10,872	32,818	21,547
Occupancy expenses	2,871	1,735	5,506	3,532
Furniture and equipment expenses	1,781	1,162	3,183	2,371
Other operating expenses	13,093	8,582	30,441	14,828
Total noninterest expenses	35,148	22,351	71,948	42,278

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Income before income taxes	12,565	776	14,663	2,766
Income tax expense (benefit)	3,839	(177)	4,238	60
Net income	\$ 8,726	\$ 953	\$ 10,425	\$ 2,706
Dividends paid and accumulated on preferred stock	462	738	765	1,475
Accretion of discount on preferred stock	50	124	101	246
Net income available to common shareholders	\$ 8,214	\$ 91	\$ 9,559	\$ 985
Earnings per common share, basic	\$ 0.32	\$ 0.01	\$ 0.39	\$ 0.07
Earnings per common share, diluted	\$ 0.32	\$ 0.01	\$ 0.39	\$ 0.07

See accompanying notes to condensed consolidated financial statements.

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UNION FIRST MARKET BANKSHARES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(Dollars in thousands, except share amounts)

(Unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Warrant	Discount on Preferred Stock	Accumulated Other Comprehensive Income (Loss)	Compre- hensive Income	Total
Balance - December 31, 2008	\$ 58,874	\$ 18,055	\$ 43,435	\$ 155,140	\$ 2,808	\$ (2,790)	\$ (1,724)		\$ 273,798
Comprehensive income:									
Net income				2,706				\$ 2,706	2,706
Unrealized holding gains arising during the period (net of tax, \$653)								1,212	
Reclassification adjustment for gains included in net income (net of tax, \$5)								(9)	
Other comprehensive gains (net of tax, \$648)							1,203	1,203	1,203
Total comprehensive income								\$ 3,909	
Dividends on Common Stock (\$.18 per share)				(2,455)					(2,455)
Tax benefit from exercise of stock awards			4						4
Issuance of Preferred Stock			(50)						(50)
Dividends on Preferred Stock				(1,198)					(1,198)
Accretion of discount on Preferred Stock				(246)		246			
Issuance of Common Stock under Dividend Reinvestment Plan (20,806 shares)		27	239						266
Issuance of Common Stock under Incentive Stock Option Plan (900 shares)		1	8						9
Vesting of Restricted Stock under Stock Incentive Plan (14,313 shares)		20	(20)						
Stock-based compensation expense			176						176
Balance - June 30, 2009	\$ 58,874	\$ 18,103	\$ 43,792	\$ 153,947	\$ 2,808	\$ (2,544)	\$ (521)		\$ 274,459
Balance - December 31, 2009	\$	\$ 24,462	\$ 98,136	\$ 155,047	\$	\$	\$ 4,443		\$ 282,088
Comprehensive income:									
Net income				10,425				\$ 10,425	10,425
Interest rate swap (cash flow hedge)								(1,444)	

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Unrealized holding gains arising during the period (net of tax, \$2,246)								4,173	
Reclassification adjustment for gains included in net income (net of tax, \$8)								(16)	
Other comprehensive gains (net of tax, \$2,238)							2,713	2,713	2,713
Total comprehensive income								\$ 15,851	
Issuance of Common Stock (7,477,273 shares)		9,945	86,137						96,082
Dividends on Common Stock (\$.12 per share)				(3,110)					(3,110)
Issuance of Preferred Stock	35,595				(1,403)				34,192
Dividends on Preferred Stock				(535)					(535)
Accretion of discount on Preferred Stock				(101)	101				
Issuance of Common Stock under Dividend Reinvestment Plan (9,846 shares)		13	170						183
Issuance of Common Stock under Incentive Stock Option Plan (4,541 shares)		6	11						17
Vesting of Restricted Stock under Stock Incentive Plan (14,334 shares)		25	(25)						
Stock-based compensation expense			252						252
Balance - June 30, 2010	\$ 35,595	\$ 34,451	\$ 184,681	\$ 161,726	\$	\$ (1,302)	\$ 7,156		\$ 422,307

See accompanying notes to condensed consolidated financial statements.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Dollars in thousands)****(Unaudited)**

	2010	2009
Operating activities:		
Net income	\$ 10,425	\$ 2,706
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization of bank premises and equipment	3,168	2,614
Amortization, net	2,837	1,919
Provision for loan losses	8,956	7,985
Increase in loans held for sale, net	(20,442)	(34,645)
Gains on the sale of investment securities	(24)	(14)
(Gains) losses on sales of other real estate owned and premises, net	(44)	54
Stock-based compensation expense	252	176
Decrease in other assets	318	210
Increase in other liabilities	3,606	3,569
Net cash and cash equivalents provided by (used in) operating activities	9,052	(15,426)
Investing activities:		
Purchases of securities available for sale	(91,429)	(134,659)
Proceeds from sales of securities available for sale	103,836	
Proceeds from maturities, calls and paydowns of securities available for sale	53,048	38,877
Net decrease (increase) in loans	21,003	(8,783)
Sales (purchases) of bank premises and equipment, net	3,140	(4,030)
Cash received in bank acquisition	137,460	
Net cash and cash equivalents provided by (used in) investing activities	227,058	(108,595)
Financing activities:		
Net increase in noninterest-bearing deposits	48,962	28,012
Net (decrease) increase in interest-bearing deposits	(78,175)	42,353
Net decrease in short-term borrowings	(112,922)	(1,080)
Net decrease in long-term borrowings	(707)	(10,000)
Cash dividends paid - common stock	(3,110)	(2,455)
Cash dividends paid - preferred stock	(535)	(1,198)
Tax benefit from the exercise of equity-based awards		4
Proceeds from the issuance of common stock	200	275
Issuance costs of preferred stock		(50)
Net cash and cash equivalents (used in) provided by financing activities	(146,287)	55,861
Increase (decrease) in cash and cash equivalents	89,823	(68,160)
Cash and cash equivalents at beginning of the period	45,911	148,537

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Cash and cash equivalents at end of the period	\$ 135,734	\$ 80,377
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Supplemental Disclosure of Cash Flow Information

Cash payments for:

Interest	\$ 18,294	\$ 27,166
Income taxes	3,143	

Supplemental Schedule of Noncash Activities

Unrealized gains on securities available for sale	\$ 6,395	\$ 1,851
Unrealized loss on cash flow hedge	(1,444)	
Transfer of loans to other real estate owned, net	9,627	7,558
Common stock issued for acquisition	96,083	
Preferred stock issued for acquisition	34,192	

Transactions related to bank acquisitions

Increase in assets and liabilities:

Loans	\$ 981,541	\$
Securities	218,676	
Other Assets	78,542	
Noninterest bearing deposits	171,117	
Interest bearing deposits	1,037,206	
Borrowings	75,789	
Other Liabilities	1,832	

See accompanying notes to condensed consolidated financial statements.

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

June 30, 2010

1. ACCOUNTING POLICIES

The condensed consolidated financial statements include the accounts of Union First Market Bankshares Corporation and its subsidiaries (the Company). Significant inter-company accounts and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and follow general practice within the banking industry. Accordingly, the unaudited condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2009 Annual Report on Form 10-K. If needed, certain previously reported amounts have been reclassified to conform to current period presentation.

The Company has adopted Accounting Standards Codification (ASC) 105, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*.

2. BUSINESS COMBINATIONS

On February 1, 2010, the Company completed its previously announced acquisition of First Market Bank, FSB (First Market Bank) in an all stock transaction. First Market Bank s common shareholders received 6,273,259 shares of the Company s common stock in exchange for each share of First Market Bank s common stock, resulting in the Company issuing 6,701,478 common shares. The Series A preferred shareholder of First Market Bank received 775,795 shares of the Company s common stock in exchange for all shares of the Series A preferred stock. In connection with the transaction, the Company issued a total of 7,477,273 common shares with an acquisition date fair value of \$96.1 million. The Series B and Series C preferred shareholder of First Market Bank received 35,595 shares of the Company s Series B preferred stock in exchange for all shares of the Series B and Series C preferred stock.

The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values on the acquisition date. Assets acquired totaled \$1.4 billion, including \$981.5 million in net loans and \$218.7 million in investment securities. Liabilities assumed were \$1.3 billion, including \$1.2 billion of deposits. In connection with the acquisition, the Company recorded \$1.1 million of goodwill and \$26.4 million of core deposit intangible. The core deposit intangible is being amortized over an average of 4.3 years using an accelerated method. In addition, the Company recorded \$1.2 million related to a trademark intangible. This is being amortized over a three year time period. The recorded goodwill was allocated to the community banking segment of the Company and is non-deductible for tax purposes.

In many cases, determining the estimated fair value of the acquired assets and assumed liabilities required the Company to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of these determinations related to the fair valuation of acquired loans. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference

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between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with GAAP, there was no carryover of First Market Bank's previously established allowance for loan losses. Subsequent decreases in the expected cash flows will require the Company to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows will result in the recognition of additional interest income over the then remaining lives of the loans.

The consideration paid for First Market Bank and the amounts of acquired identifiable assets and liabilities and preferred equity assumed as of the acquisition date were as follows (dollars in thousands):

Purchase price:	
Value of:	
Common shares issued (7,477,273 shares)	\$ 96,083
U. S. Treasury investment in First Market Bank	34,192
Total purchase price	130,275
Identifiable assets:	
Cash and due from banks	137,460
Investment securities	218,676
Loans and leases	981,541
Core deposit intangible	26,400
Other assets	51,049
Total assets	1,415,126
Liabilities and equity:	
Deposits	1,208,323
Short-term borrowings	60,000
Long-term borrowings	15,789
Other liabilities	1,832
Total liabilities	1,285,944
Net assets acquired	129,182
Goodwill resulting from acquisition	\$ 1,093

Interest income on acquired loans for the second quarter of 2010 was approximately \$13.6 million. The outstanding principal balance and the carrying amount of these loans that is included in the consolidated balance sheet at June 30, 2010 is as follows (dollars in thousands):

Outstanding principal balance	\$ 896,950
Carrying amount	\$ 880,591

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Loans obtained in the acquisition of First Market Bank for which there is specific evidence of credit deterioration and for which it was probable that the Company would be unable to collect all contractually required principal and interest payments represent less than 0.45% of the Company's consolidated assets and, accordingly, are not considered material.

The table below presents certain pro forma information as if First Market Bank had been acquired on January 1, 2009 for 2009 and January 1, 2010 for 2010. These results combine the historical results of First Market Bank into the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on the indicated dates.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010**

In particular, no adjustments have been made to eliminate the amount of First Market Bank's provision for credit losses of \$2.4 million in 2009 (there was no provision for loan losses during the month of January 2010 for First Market Bank) that would not have been necessary had the acquired loans been recorded at fair value as of the beginning of each year. The disclosure of First Market Bank's post-acquisition revenue and net income were not practicable due to combining its operations with the Company's largest affiliate shortly after the acquisition.

Additionally, the Company expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts that follow (dollars in thousands):

	Pro forma Six months ended June 30, 2010	
	2010	2009
Total revenues	\$ 120,725	\$ 119,011
Net income	\$ 15,668	\$ 5,039

Acquisition-related expenses associated with the acquisition of First Market Bank were \$843 thousand and \$7.7 million for the three and six month periods ended June 30, 2010, respectively, and are recorded in "Other operating expenses" in the Company's condensed consolidated statements of income. Such costs include legal and accounting fees, lease and contract termination expenses, system conversion, integrating operations, and employee severances, which have been expensed as incurred.

A summary of acquisition-related expenses associated with the First Market Bank acquisition included in the condensed consolidated statements of income is as follows (dollars in thousands). Included in the equipment and net occupancy category is the write-down of select fixed assets of approximately \$1.7 million following acquisition.

	Three months ended June 30, 2010	Six months ended June 30, 2010
Salaries and employee benefits	\$ 218	\$ 1,671
Equipment and net occupancy	205	2,405
Professional services	8	1,647
Other costs of operations	412	1,992
Total	\$ 843	\$ 7,715

Total inception-to-date costs incurred through June 30, 2010 were \$9.2 million. Total acquisition costs initially were estimated to be approximately \$10.8 million and are not expected to exceed that level.

3. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted ASC 718, *Stock Compensation*. This statement requires the costs resulting from all share-based payments to employees be recognized in the financial statements.

The Company's 2003 Stock Incentive Plan provides for the granting of incentive stock options, non-statutory stock options, and nonvested stock awards to key employees of the Company. The stock incentive plan makes available 525,000 shares which may be awarded to employees of the

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Company in the form of incentive stock options intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986, non-statutory stock options, and nonvested stock. Under the plan, the option price cannot be less than the fair market value of the stock on the grant date. The stock option's maximum term is 10 years from the date of grant and generally vests in equal annual installments of 20 percent over a five-year vesting schedule. The Company issues new shares to satisfy share-based awards. As of June 30, 2010, there were 132,864 shares available for issuance under the Company's 2003 Stock Incentive Plan.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010**

For the three month and six month periods ended June 30, 2010, the Company recognized stock-based compensation expense of approximately \$109 thousand and \$187 thousand, net of tax, respectively, and less than \$0.01 per common share for the both periods ended June 30, 2010.

Stock Options

The following table summarizes the stock option activity for the six months ended June 30, 2010:

	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, December 31, 2009	216,180	\$ 21.03
Granted	129,000	16.42
Exercised	(4,541)	8.73
Forfeited	(1,372)	26.37
Options outstanding, June 30, 2010	339,267	19.42
Options exercisable, June 30, 2010	192,337	20.88

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table for the six months ended June 30, 2010 and 2009:

	Six Months Ended June 30, 2010	2009
Dividend yield (1)	2.48%	2.45%
Expected life in years (2)	7.0	7.2
Expected volatility (3)	37.92%	34.84%
Risk-free interest rate (4)	3.23%	2.80%
Weighted average fair value per option granted	\$ 5.53	\$ 3.89

(1) Calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.

(2) Based on the average of the contractual life and vesting schedule for the respective option.

(3) Based on the monthly historical volatility of the Company's stock price over the expected life of the options.

(4) Based upon the U.S. Treasury bill yield curve, for periods within the contractual life of the option, in effect at the time of grant.

The following table summarizes information concerning stock options issued to the Company's employees that are vested or are expected to vest and stock options exercisable as of June 30, 2010 (dollars in thousands, except share and per share amounts):

Stock Options Vested or	Exercisable
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	Expected to Vest	
Stock options	321,574	192,337
Weighted average remaining contractual life in years	5.91	3.54
Weighted average exercise price on shares above water	\$ 10.17	\$ 10.17
Aggregate intrinsic value	\$ 70	\$ 70

The total intrinsic value for stock options exercised during the three and six months ended June 30, 2010 was \$1 thousand and \$18 thousand, respectively. The fair value of stock options vested during the six months ended June 30, 2010 was approximately \$113 thousand. Cash received from the exercise of stock options for the three and six months ended June 30, 2010 was \$1 thousand and \$39 thousand, respectively.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010*****Nonvested Stock***

The 2003 plan permits the granting of nonvested stock, but such grants are limited to one-third of the aggregate number of total awards granted. This equity component of compensation is divided between restricted (time-based) stock grants and performance-based stock grants. The restricted stock generally vests on either of the following vesting schedules: 1) In four installments, 25% at the ends of each of the four years following the grant date, or 2) In two installments, 50% at the end of the third year following the grant date and 50% at the end of the fourth year following the grant date. The performance-based stock is subject to vesting on the fourth anniversary of the date of the grant based on the performance of the Company's stock price. The value of the nonvested stock awards was calculated by multiplying the fair market value of the Company's common stock on the grant date by the number of shares awarded. Employees have the right to vote the shares and to receive cash or stock dividends (restricted stock), if any, except for the nonvested stock under the performance-based component (performance stock).

The following table summarizes the nonvested stock activity for the six months ended June 30, 2010:

	Restricted Stock	Weighted Average Grant- Date Fair Value
Balance, December 31, 2009	79,520	\$ 20.66
Granted	13,665	12.59
Vested	(14,334)	23.34
Forfeited	(471)	29.03
Balance, June 30, 2010	78,380	18.72

The estimated unamortized compensation expense, net of estimated forfeitures, related to nonvested stock and stock options issued and outstanding as of June 30, 2010 that will be recognized in future periods is as follows (dollars in thousands):

	Stock Options	Restricted Stock	Total
For the six months remaining of 2010	\$ 114	\$ 192	\$ 306
For year ended December 31, 2011	191	150	341
For year ended December 31, 2012	161	142	303
For year ended December 31, 2013	157	116	273
For year ended December 31, 2014	168	3	171
For year ended December 31, 2015	82		82
Total	\$ 873	\$ 603	\$ 1,476

4. ALLOWANCE FOR LOAN LOSSES

The following summarizes activity in the allowance for loan losses for the six months ended June 30, 2010 and 2009 (dollars in thousands):

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	June 30, 2010	June 30, 2009
Beginning balance	\$ 30,484	\$ 25,496
Recoveries credited to allowance	1,416	274
Loans charged off	(6,900)	(4,116)
Provision for loan losses	8,956	7,985
Ending balance	\$ 33,956	\$ 29,639

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

In accordance with current GAAP, the allowance for loan losses of First Market Bank was not carried over to the Company at acquisition date.

5. EARNINGS PER SHARE

Basic earnings per common share (EPS) is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS uses as the denominator the weighted average number of common shares outstanding during the period, including the effect of potentially dilutive common shares outstanding attributable to stock awards. Dividends on preferred stock and amortization of discount on preferred stock are treated as a reduction of the numerator in calculating basic and diluted EPS. There were approximately 220,978 and 179,222 shares underlying anti-dilutive stock awards as of June 30, 2010 and 2009, respectively. Dividends paid on nonvested stock awards were approximately \$7 thousand and \$6 thousand as of June 30, 2010 and 2009.

The following is a reconciliation of the denominators of the basic and diluted EPS computations for the three and six months ended June 30, 2010 and 2009 (dollars and shares in thousands, except per share amounts):

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
For the Three Months ended June 30, 2010			
Net income	\$ 8,726	25,872	\$ 0.34
Less: dividends paid and accumulated on preferred stock	462		0.02
Less: accretion of discount on preferred stock	50		
Basic	\$ 8,214	25,872	\$ 0.32
Add: potentially dilutive common shares - stock awards		42	
Diluted	\$ 8,214	25,914	\$ 0.32
For the Three Months ended June 30, 2009			
Net income	\$ 953	13,576	\$ 0.07
Less: dividends paid and accumulated on preferred stock	738		0.05
Less: accretion of discount on preferred stock	124		0.01
Basic	\$ 91	13,576	\$ 0.01
Add: potentially dilutive common shares - stock awards		39	
Diluted	\$ 91	13,615	\$ 0.01
For the Six Months ended June 30, 2010			
Net income	\$ 10,425	24,542	\$ 0.42
Less: dividends paid and accumulated on preferred stock	765		0.03
Less: accretion of discount on preferred stock	101		
Basic	\$ 9,559	24,542	\$ 0.39

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Add: potentially dilutive common shares - stock awards

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Diluted	\$	9,559	24,583	\$	0.39
For the Six Months ended June 30, 2009					
Net income	\$	2,706	13,569	\$	0.20
Less: dividends paid and accumulated on preferred stock		1,475			0.11
Less: accretion of discount on preferred stock		246			0.02
Basic	\$	985	13,569	\$	0.07
Add: potentially dilutive common shares - stock awards			41		
Diluted	\$	985	13,610	\$	0.07

6. TRUST PREFERRED CAPITAL NOTES AND RELATED CASH FLOW HEDGE

On March 30, 2006, the Company formed Union Bankshares Corporation Statutory Trust II (Statutory Trust II), a wholly owned subsidiary, for the purpose of issuing redeemable capital securities in connection with the acquisition of Prosperity Bank & Trust Company (Prosperity) that was completed on April 1, 2006. A Trust Preferred Capital Note of \$36.0 million was issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 1.40%) which adjusts and is payable quarterly.

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

The interest rate for the period ended June 30, 2010 was 1.93%. The redeemable capital securities may be called at par after five years on March 31, 2011 and each quarterly anniversary of such date until the securities mature in 30 years on March 31, 2036. The principal asset of the Statutory Trust II is \$37.1 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital notes, of which \$1.1 million is reflected as the Company's investment in Statutory Trust II reported as "Other assets" within the financial statements.

During the first quarter of 2004, Union Bankshares Corporation Statutory Trust I ("Statutory Trust I"), a wholly owned subsidiary, was formed for the purpose of issuing redeemable capital securities in connection with the acquisition of Guaranty Financial Corporation ("Guaranty"). A Trust Preferred Capital Note of \$22.5 million was issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 2.75%) which adjusts and is payable quarterly. The interest rate for the period ended June 30, 2010 was 3.28%. The redeemable capital securities have been redeemable at par since June 17, 2009 and each quarterly anniversary of such date until the securities mature on June 17, 2034. The principal asset of the Statutory Trust I is \$23.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital notes, of which \$696 thousand is reflected as the Company's investment in Statutory Trust I reported as "Other assets" within the financial statements.

During the quarter ended June 30, 2010, the Company entered into one interest rate swap agreement (the "swap") as part of the management of interest rate risk. The Company designated the swap as a cash flow hedge intended to protect against the variability of cash flows associated with the aforementioned Statutory Trust II preferred capital securities. The swap hedges the interest rate risk, wherein the Company receives interest of LIBOR from a counterparty and pays a fixed rate of 3.51% to the same counterparty calculated on a notional amount of \$36.0 million. The term of the swap is six years with a fixed rate that starts June 15, 2011. The swap agreement was entered into with a counterparty that met the Company's credit standards and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant.

Amounts receivable or payable are recognized as accrued under the terms of the agreements. The interest rate swap is designated as a cash flow hedge, with the effective portion of the derivative's unrealized gain or loss recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. At June 30, 2010, the fair value of the swap agreement was an unrealized loss of \$1.4 million and the amount the Company would have expected to pay if the contract was terminated. There was no hedge ineffectiveness for this swap.

7. SEGMENT REPORTING DISCLOSURES

The Company has two reportable segments: traditional full service community banks and a mortgage loan origination business. The community bank business includes three banks, which provide loan, deposit, investment, and other banking services to consumer and commercial customers through 92 branch offices located in Virginia. The Company's largest affiliate, Union First Market Bank, also offers trust services. The mortgage segment provides a variety of mortgage loan products principally in Virginia, Maryland and North Carolina. These loans are originated and sold primarily in the secondary market through purchase commitments from investors, which subject the Company to only *de minimis* risk.

Profit and loss is measured by net income after taxes including realized gains and losses on the Company's investment portfolio. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Inter-segment transactions are recorded at cost and eliminated as part of the consolidation process.

Both of the Company's reportable segments are service based. The mortgage business is a fee-based business while the banks are driven principally by net interest income. The banks provide a distribution and referral network through their customers for the mortgage loan origination business. The mortgage segment offers a more limited referral network for the banks, due largely to the number of mortgage branches outside the banks' operating markets.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010**

The community bank segment provides the mortgage segment with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest at the three month LIBOR rate plus 25 basis points. These transactions are eliminated in the consolidation process. A management fee for operations and administrative support services is charged to all subsidiaries and eliminated in the consolidated totals.

Information about reportable segments and reconciliation of such information to the consolidated financial statements for three and six months ended June 30, 2010 and 2009 was as follows (dollars in thousands):

	Community Banks	Mortgage	Eliminations	Consolidated
Three Months Ended June 30, 2010				
Net interest income	\$ 38,965	\$ 602	\$	\$ 39,567
Provision for loan losses	3,955			3,955
Net interest income after provision for loan losses	35,010	602		35,612
Noninterest income	6,964	5,253	(118)	12,101
Noninterest expenses	30,663	4,603	(118)	35,148
Income before income taxes	11,311	1,252		12,565
Income tax expense	3,383	456		3,839
Net income	\$ 7,928	\$ 796	\$	\$ 8,726
Total assets	\$ 3,865,549	\$ 81,857	\$ (73,207)	\$ 3,874,199
Three Months Ended June 30, 2009				
Net interest income	\$ 18,258	\$ 446	\$	\$ 18,704
Provision for loan losses	4,855			4,855
Net interest income after provision for loan losses	13,403	446		13,849
Noninterest income	4,178	5,181	(81)	9,278
Noninterest expenses	18,600	3,832	(81)	22,351
Income (loss) before income taxes	(1,019)	1,795		776
Income tax (benefit) expense	(807)	630		(177)
Net income (loss)	\$ (212)	\$ 1,165	\$	\$ 953
Total assets	\$ 2,607,302	\$ 70,514	\$ (62,369)	\$ 2,615,447
Six Months Ended June 30, 2010				
Net interest income	\$ 72,743	\$ 984	\$	\$ 73,727
Provision for loan losses	8,956			8,956

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Net interest income after provision for loan losses	63,787	984		64,771
Noninterest income	12,329	9,744	(235)	21,840
Noninterest expenses	63,674	8,509	(235)	71,948
Income before income taxes	12,442	2,219		14,663
Income tax expense	3,394	844		4,238
Net income	\$ 9,048	\$ 1,375	\$	\$ 10,425
Total assets	\$ 3,865,549	\$ 81,857	\$ (73,207)	\$ 3,874,199
Six Months Ended June 30, 2009				
Net interest income	\$ 35,678	\$ 740		\$ 36,418
Provision for loan losses	7,985			7,985
Net interest income after provision for loan losses	27,693	740		28,433
Noninterest income	8,144	8,628	(161)	16,611
Noninterest expenses	35,614	6,825	(161)	42,278
Income before income taxes	223	2,543		2,766
Income tax (benefit) expense	(832)	892		60
Net income	\$ 1,055	\$ 1,651	\$	\$ 2,706
Total assets	\$ 2,607,302	\$ 70,514	\$ (62,369)	\$ 2,615,447

8. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140*, was adopted into Codification in December 2009 through the issuance of Accounting Standards Update (ASU) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

In June 2009, the FASB issued new guidance relating to the variable interest entities. The new guidance, which was issued as SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167), was adopted into Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS No. 167 is effective as of January 1, 2010. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-04, *Accounting for Various Topics - Technical Corrections to SEC Paragraphs* (ASU 2010-04). This update makes technical corrections to existing Securities and Exchange Commission guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, requires new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU 2010-08, *Technical Corrections to Various Topics* (ASU 2010-08). ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The new disclosure guidance will significantly expand the existing requirements and will lead to greater transparency into a company's exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period will become effective for both interim and annual reporting periods ending after December 15, 2010. Specific items regarding activity that occurred before the issuance of the ASU, such as the allowance roll-forward and modification disclosures, will be required for periods beginning after December 15, 2010. The Company is currently assessing the impact that ASU 2010-20 will have on its consolidated financial statements.

9. GOODWILL AND INTANGIBLE ASSETS

The Company adopted ASC 350, *Goodwill and Other Intangible Assets*, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of this statement discontinued the amortization of goodwill and intangible assets with indefinite lives but require an impairment review at least annually and more frequently if certain impairment indicators are evident. Based on the annual testing during the second quarter of each year and the absence of impairment indicators during the current quarter the Company has recorded no impairment charges to date.

Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 4 to 15 years. In connection with the First Market Bank acquisition, accounted for using the acquisition method of accounting, the Company recorded \$26.4 million of core deposit intangible, \$1.2 million of trademark intangible and \$1.1 million in goodwill. None of the goodwill recognized will be deductible for income tax purposes. Changes in goodwill in the Company's consolidated balance sheet from December 31, 2009 were attributable to the acquisition of First Market Bank. The core deposit intangible on that acquisition is being amortized over an average of 4.3 years using an accelerated method and the trademark intangible is being amortized over 3 years using the straight-line method.

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Information concerning goodwill and intangible assets is presented in the following table (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
June 30, 2010			
Amortizable core deposit intangibles	\$ 46,615	\$ 15,917	\$ 30,698
Unamortizable goodwill	57,909	342	57,567
Trademark intangible	1,200	167	1,033
December 31, 2009			
Amortizable core deposit intangibles	\$ 20,215	\$ 12,525	\$ 7,690
Unamortizable goodwill	56,816	342	56,474
June 30, 2009			
Amortizable core deposit intangibles	\$ 20,215	\$ 11,563	\$ 8,652
Unamortizable goodwill	56,816	342	56,474

Amortization expense of the core deposit intangibles for the three and six month periods ended June 30, 2010 and 2009 totaled \$1.9 million and \$3.4 million, respectively compared to \$481 thousand and \$962 thousand, respectively. Amortization expense of the trademark intangibles for the three and six month periods ended June 30, 2010 was \$100 thousand and \$167 thousand, respectively. The Company had no trademark intangible in 2009. As of June 30, 2010, the estimated remaining amortization expense of core deposit and trademark intangibles for future periods is as follows (dollars in thousands):

2010	\$ 4,084
2011	6,571
2012	5,543
2013	3,806
2014	2,794
2015	2,396
Thereafter	6,537
	\$ 31,731

10. COMMITMENTS AND CONTINGENCIES

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payments of fees. Because many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. At June 30, 2010 and 2009, the Company had outstanding loan commitments approximating \$761.3 million and \$468.0 million, respectively.

Letters of credit written are conditional commitments issued by the Company to guarantee the performance of customers to third parties. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The amount of standby letters of credit whose contract amounts represent credit risk totaled approximately \$38.7 million and \$22.5 million at June 30, 2010, and 2009, respectively.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010**

At June 30, 2010, Union Mortgage Group, Inc. (Union Mortgage), a wholly owned subsidiary of Union First Market Bank, a wholly owned subsidiary of Union First Market Bankshares Corporation, had rate lock commitments to originate mortgage loans amounting to \$135.5 million and loans held for sale of \$74.7 million. Union Mortgage has entered into corresponding commitments on a best-efforts basis to sell loans on a servicing released basis totaling approximately \$210.2 million. These commitments to sell loans are designed to mitigate the mortgage company's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

11. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of investment securities as of June 30, 2010 and December 31, 2009 are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	(Losses)	
June 30, 2010				
U.S. government and agency securities	\$ 11,241	\$ 563	\$ (43)	\$ 11,761
Obligations of states and political subdivisions	158,713	3,487	(2,250)	159,950
Corporate and other bonds	17,294	259	(669)	16,884
Mortgage-backed securities	328,952	11,911		340,863
Federal Reserve Bank stock - restricted	6,711			6,711
Federal Home Loan Bank stock - restricted	20,450			20,450
Other securities	257	69	(19)	307
Total securities	\$ 543,618	\$ 16,289	\$ (2,981)	\$ 556,926
December 31, 2009				
U.S. government and agency securities	\$ 5,516	\$ 247	\$	\$ 5,763
Obligations of states and political subdivisions	123,573	2,928	(2,375)	124,126
Corporate and other bonds	16,924	225	(1,350)	15,799
Mortgage-backed securities	228,766	7,415	(176)	236,005
Federal Reserve Bank stock - restricted	3,683			3,683
Federal Home Loan Bank stock - restricted	14,958			14,958
Other securities	257	14	(14)	257
Total securities	\$ 393,677	\$ 10,829	\$ (3,915)	\$ 400,591

The following table shows the gross unrealized losses and fair value (in thousands) of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired. These are aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position and are as follows:

	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses

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As of June 30, 2010

U.S. government and agency securities	\$ 75	\$ (43)	\$	\$	\$ 75	\$ (43)
Obligations of states and political subdivisions	26,390	(523)	34,554	(1,727)	60,944	(2,250)
Corporate and other bonds	1,919	(46)	6,071	(642)	7,990	(688)
Totals	\$ 28,384	\$ (612)	\$ 40,625	\$ (2,369)	\$ 69,009	\$ (2,981)

As of December 31, 2009

Obligations of states and political subdivisions	\$ 9,597	\$ (174)	\$ 35,898	\$ (2,201)	\$ 45,495	\$ (2,375)
Mortgage-backed securities	23,815	(176)			23,815	(176)
Corporate and other bonds	1,836	(45)	5,118	(1,319)	6,954	(1,364)
	\$ 35,248	\$ (395)	\$ 41,016	\$ (3,520)	\$ 76,264	\$ (3,915)

As of June 30, 2010, there were \$40.6 million of individual securities that had been in a continuous loss position for more than 12 months. Additionally, these securities had an unrealized loss of \$2.4 million and consisted primarily of municipal obligations. In the second quarter of 2009, the Company adopted Other-Than-Temporary Impairment (OTTI) guidance, as amended, for debt securities regarding recognition and disclosure. The major change in the guidance was that an impairment is other-than-temporary if any of the following conditions exists: the entity intends to sell the security; it is more likely than not that the entity

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

will be required to sell the security before recovery of its amortized cost basis; or, the entity does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into a credit portion to be recognized in earnings and the remaining amount relating to all other factors recognized as other comprehensive loss.

During each quarter the Company conducts an assessment of the securities portfolio for OTTI consideration. The assessment considers factors such as external credit ratings, delinquency coverage ratios, market price, management's judgment, expectations of future performance and relevant industry research and analysis. Based on the assessment for the current quarter ended June 30, 2010 and in accordance with the revised guidance, no OTTI was recognized.

12. FAIR VALUE MEASUREMENTS

The Company adopted ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), on January 1, 2008 to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. This statement clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy under ASC 820 based on these two types of inputs are as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the markets.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. These unobservable inputs reflect the Company's assumptions about what market participants would use and information that is reasonably available under the circumstances without undue cost and effort.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

Securities available for sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). If the inputs used to provide the evaluation for certain securities are unobservable and/or there is little, if any, market activity then the security would fall to the lowest level of the hierarchy (Level 3). The carrying value of restricted Federal Reserve Bank of Richmond and Federal Home Loan Bank of Atlanta stock approximates fair value based on the redemption provisions of each entity and is therefore excluded from the following table.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010*****Interest rate swap agreement used for interest rate risk management***

The Company utilizes an interest rate swap agreement as part of the management of interest rate risk to modify the repricing characteristics of certain portions of the Company's interest-bearing liabilities. The Company determines the fair value of its interest rate swap using externally developed pricing models based on market observable inputs and therefore classifies such valuation as Level 2. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities.

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis (dollars in thousands):

	Fair Value Measurements at June 30, 2010 using			Balance
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
ASSETS				
Securities available for sale	\$	\$ 529,765	\$	\$ 529,765
Total	\$	\$ 529,765	\$	\$ 529,765
LIABILITIES				
Interest Rate Swap (cash flow hedge)	\$	\$ 1,444	\$	\$ 1,444
Total	\$	\$ 1,444	\$	\$ 1,444

	Fair Value Measurements at December 31, 2009 using			Balance
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
ASSETS				
Securities available for sale	\$	\$ 381,950	\$	\$ 381,950
Total	\$	\$ 381,950	\$	\$ 381,950

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Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements.

Loans held for sale

Loans held for sale are carried at the lower of cost or market value. These loans currently consist of residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the six months ended June 30, 2010. Gains and losses on the sale of loans are recorded within income from the mortgage segment on the Consolidated Statements of Income.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010****Impaired Loans**

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than two years old, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. At June 30, 2010, the Company's Level 3 loans consisted of one relationship secured by investment real estate of \$1.6 million with a \$272 thousand valuation reserve; three relationships secured by commercial real estate of \$1.5 million with a \$404 thousand valuation reserve; four relationships secured by inventory, receivables or equipment of \$1.0 million with a \$380 thousand valuation reserve; two relationships secured by residential real estate and lots of \$432 thousand with a valuation reserve of \$314 thousand and one relationship unsecured of \$113 thousand with a \$6 thousand valuation reserve.

The following tables summarize the Company's financial assets that were measured at fair value on a nonrecurring basis (dollars in thousands):

	Fair Value Measurements at June 30, 2010 using			Balance
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
ASSETS				
Loans held for sale	\$	\$ 74,722	\$	\$ 74,722
Impaired Loans		180,778	3,294	184,072
Total	\$	\$ 255,500	\$ 3,294	\$ 258,794

	Fair Value Measurements at December 31, 2009 using			Balance
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	

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ASSETS				
Loans held for sale	\$	\$	54,280	\$ 54,280
Impaired Loans			111,095	10,707 121,802
Total	\$	\$	165,375	\$ 10,707 176,082

The Company's nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis relate to other real estate owned (OREO), goodwill and intangible assets. In accordance with ASC 360, *Property, Plant and Equipment*, OREO with a carrying value above fair value is written down to its fair value and results in an impairment charge. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparables of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

measurement adjustments have generally been classified as Level 2. Total valuation expenses related to OREO for the three and six months ended June 30, 2010 were zero for both periods and for the three and six months ended June 30, 2009 were \$14 thousand and \$61 thousand, respectively. No impairment charges have been recorded for goodwill or intangible assets.

ASC 825, *Financial Instruments*, was effective for interim periods ending after June 15, 2009. This statement requires disclosure about fair value of financial instruments for interim periods and excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Cash and Cash Equivalents

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Loans

The fair value of performing loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Fair value for significant nonperforming loans is based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows.

Deposits

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowings

The carrying value of short-term borrowings is a reasonable estimate of fair value. The fair value of long-term borrowings is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Cash Flow Hedge

The carrying amount of the cash flow hedge approximates fair value.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At June 30, 2010, the carrying value and fair value of loan commitments and standby letters of credit were immaterial.

Table of Contents**UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2010**

The carrying values and estimated fair values of the Company's financial instruments as of June 30, 2010 are in the following table (dollars in thousands):

	June 30, 2010	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 135,734	\$ 135,734
Securities available for sale	556,926	556,926
Loans held for sale	74,722	74,722
Net loans	2,785,695	2,786,173
Accrued interest receivable	16,080	16,080
Financial liabilities:		
Deposits	3,095,474	3,104,489
Borrowings	328,221	331,697
Accrued interest payable	2,632	2,632
Cash flow hedge	1,444	1,444

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Union First Market Bankshares Corporation

Richmond, Virginia

We have reviewed the accompanying condensed consolidated balance sheets of Union First Market Bankshares Corporation and subsidiaries as of June 30, 2010 and 2009, the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2010 and 2009, and the related condensed consolidated statements of changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2010 and 2009. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Union First Market Bankshares Corporation and subsidiaries as of December 31, 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 16, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Winchester, Virginia

August 9, 2010

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Union First Market Bankshares Corporation and its subsidiaries (collectively the Company). This discussion and analysis should be read with the consolidated financial statements, the notes to the financial statements thereto, and the other financial data included in this report, as well as the Company's Annual Report on Form 10-K and management's discussion and analysis for the year ended December 31, 2009. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Results of operations for the three and six month periods ended June 30, 2010 and 2009 are not necessarily indicative of results that may be attained for any other period. Amounts are rounded for presentation purposes while some of the percentages presented are computed based on unrounded amounts.

FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as expect, believe, estimate, plan, project, anticipate or other statements concerning opinions or judgment of the Company and its management about future events. Although the Company believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits. The Company does not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

CRITICAL ACCOUNTING POLICIES

General

The accounting and reporting policies of the Company and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America (GAAP) and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities, and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's consolidated financial position and/or results of operations.

The more critical accounting and reporting policies include the Company's accounting for the allowance for loan losses, mergers and acquisitions and goodwill and intangible assets. The Company's accounting policies are fundamental to understanding the Company's consolidated financial position and consolidated results of operations. Accordingly, the Company's significant accounting policies are discussed in detail in Note 1 Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The Company adopted Accounting Standards Codification (ASC) 105, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*, during the third quarter 2009.

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The following is a summary of the Company's critical accounting policies that are highly dependent on estimates, assumptions and judgments.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450 *Contingencies*, which requires that losses be accrued when occurrence is probable and can be reasonably estimated, and (ii) ASC 310 *Receivables*, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company's allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. All components of the allowance represent an estimation performed pursuant to applicable GAAP. Management's estimate of each homogenous pool component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends; collateral values; loan volumes; geographic, borrower and industry concentrations; seasoning of the loan portfolio; the findings of internal credit quality assessments and results from external bank regulatory examinations. These factors, as well as historical losses and current economic and business conditions, are used in developing estimated loss factors used in the calculations.

Applicable GAAP requires that the impairment of loans that have been separately identified for evaluation are measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment is to be based on the net realizable value of the collateral. This statement also requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on impaired loans.

Reserves for commercial loans are determined by applying estimated loss factors to the portfolio based on historical loss experience and management's evaluation and risk grading of the commercial loan portfolio. Reserves are provided for noncommercial loan categories using historical loss factors applied to the total outstanding loan balance of each loan category. Additionally, environmental factors based on national and local economic conditions, as well as portfolio-specific attributes, are considered in estimating the allowance for loan losses.

While management uses the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the valuations or, if required by regulators, based upon information available to them at the time of their examinations. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

Mergers and Acquisitions

On February 1, 2010, the Company completed its acquisition of First Market Bank, FSB (First Market Bank or FMB) in an all stock transaction. First Market Bank's common shareholders received 6,273,259 shares of the Company's common stock in exchange for each share of First Market Bank's common stock, resulting in the Company issuing 6,701,478 common shares. The Series A preferred shareholder of First Market Bank received 775,795 shares of the Company's common stock in exchange for all shares of the Series A preferred stock. In connection with the transaction the Company issued a total of 7,477,273 common shares with an acquisition date fair value of \$96.1 million. The Series B and Series C preferred shareholder of First Market Bank received 35,595 shares of the Company's Series B preferred stock in exchange for all shares of the Series B and Series C preferred stock.

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The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values on the acquisition date. Assets acquired totaled \$1.4 billion, including \$981.5 million in net loans and \$218.7 million in investment securities. Liabilities assumed were \$1.3 billion, including \$1.2 billion of deposits. In connection with the acquisition, the Company recorded \$1.1 million of goodwill and \$26.4 million of core deposit intangible. The core deposit intangible is being amortized over an average of 4.3 years using an accelerated method. In addition, the Company recorded \$1.2 million related to a trademark intangible. This is being amortized over a three year time period.

In many cases, determining the estimated fair value of the acquired assets and assumed liabilities required the Company to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of these determinations related to the fair valuation of acquired loans. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with GAAP, there was no carryover of First Market Bank's previously established allowance for loan losses. Subsequent decreases in the expected cash flows (credit deterioration) will require the Company to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows will result in the recognition of additional interest income over the then remaining lives of the loans.

The estimated fair value of liabilities assumed was based on the discounted value of contractual cash flows and compared to other securities with similar characteristics and remaining maturities. Specifically, First Market Bank's Federal Home Loan Bank of Atlanta (FHLB) advances, subordinated debt and certificates of deposit were assumed at a net premium. This premium will have a favorable impact on the Company's net interest expense over the next 6 quarters as the premium reduces interest expense based on an accelerated method.

ABOUT UNION FIRST MARKET BANKSHARES CORPORATION

Union First Market Bankshares Corporation is the largest community banking organization based in Virginia, providing full service banking to the Northern, Central, Rappahannock, Tidewater and Northern Neck regions of Virginia through its bank subsidiaries, Union First Market Bank (77 locations in the counties of Albemarle, Caroline, Chesterfield, Fairfax, Fluvanna, Hanover, Henrico, James City, King George, King William, Nelson, Spotsylvania, Stafford, Westmoreland, York, and the cities of Richmond, Fredericksburg, Williamsburg, Newport News, Grafton, Charlottesville, Colonial Heights, and Roanoke); Northern Neck State Bank (9 locations in the counties of Richmond, Westmoreland, Essex, Northumberland and Lancaster); and Rappahannock National Bank (6 locations in Washington, Front Royal, Middleburg, Warrenton, and Winchester). Union Investment Services, Inc. provides full brokerage services; Union Mortgage Group, Inc. provides a full line of mortgage products; and Union Insurance Group, LLC offers various lines of insurance products. Union First Market Bank also owns a non-controlling interest in Johnson Mortgage Company, LLC.

On June 30, 2010, the Company announced its decision to combine two of its community banks, Northern Neck State Bank and Rappahannock National Bank, into its largest bank affiliate, Union First Market Bank, on October 12, 2010. Because the Company already provides backoffice services and operations support for these two banks, there will not be significant cost savings from this combination. However, the Company expects to achieve certain operating efficiencies in data consolidation processes, reduced board fees and increased effectiveness in marketing of our common brand throughout our footprint.

Additional information is available on the Company's website at www.ubsh.com. The information contained on the Company's website is not a part of this report.

The shares of the Company are traded on the NASDAQ Global Select Market under the symbol UBSH.

Table of Contents**RESULTS OF OPERATIONS*****Net Income***

The Company reported net income of \$8.7 million for the quarter ended June 30, 2010, an increase of \$7.8 million from the same quarter a year ago. The increase in net income largely relates to improvements in the net interest margin and the provision for loan losses, as well as the addition of the operations of the former First Market Bank. The results for the quarter and six months ended June 30, 2010 include the operations of the former First Market Bank for three and five months, respectively since the combination on February 1, 2010. Net income available to common shareholders, which deducts from net income the dividends and discount accretion on preferred stock, was \$8.2 million for the current quarter compared to \$91 thousand for the same quarter last year. This represented an increase in earnings per share, on a diluted basis, of \$0.31, to \$0.32 from \$0.01.

The reported net income of \$8.7 million for the quarter ended June 30, 2010 represented an increase of \$7.0 million from the quarter ended March 31, 2010. The increase was largely attributable to a reduction in nonrecurring acquisition costs and improvements in the net interest margin and the provision for loan losses, in addition to the operations of the former First Market Bank.

The reported net income of \$10.4 million for the six months ended June 30, 2010, represented an increase of \$7.7 million from the same period a year ago. The increase was principally related to five months of additional interest earning assets related to the acquisition of FMB and improvement in the net interest margin, partially offset by nonrecurring acquisition costs.

As a supplement to GAAP, the Company also reports certain alternate financial metrics relative to its operating performance. Diluted earnings per share on a cash basis for the quarter ended June 30, 2010 were \$0.39 as compared to \$0.09 for the same quarter a year ago and \$0.12 for the quarter ended March 31, 2010. Diluted earnings per share on a cash basis for the six months ended June 30, 2010 and 2009 were \$0.52 and \$0.24, respectively. Additionally, cash basis return on average tangible common equity for the quarter ended June 30, 2010 was 13.83% as compared to 3.29% in the prior year's same quarter and 3.82% for the quarter ended March 31, 2010. Cash basis return on average tangible common equity for the six months ended June 30, 2010 and 2009 was 8.91% and 4.35%, respectively.

NET INTEREST INCOME

On a linked quarter basis, tax-equivalent net interest income increased \$5.5 million, or 15.7%, to \$40.6 million due principally to increased interest-earning assets related to the acquisition of FMB, the accretion of fair value adjustments from acquisition accounting and lower costs of interest-bearing liabilities. The tax-equivalent net interest margin increased 6 basis points to 4.65% from 4.59% in the prior quarter. The net interest margin increase was principally attributable to improvements in the cost of funds and increases in demand deposits. Average interest-earning assets and related interest income increased \$398.4 million and \$6.1 million, respectively. Average interest-bearing liabilities and related interest expense increased \$295.8 million and \$596.0 thousand, respectively. Costs of interest-bearing liabilities declined 8 basis points to 1.34% while yields on interest-earning assets declined 1 basis point to 5.77%. The improvement in the cost of funds was principally a result of lower costs related to certificates of deposits (higher rate certificates of deposit matured and new or renewed certificates repriced at lower rates).

For the three months ended June 30, 2010, tax-equivalent net interest income increased \$20.9 million, or 106.6%, to \$40.6 million compared to the same period last year. This improvement was principally attributable to declines in costs of interest-bearing liabilities, as well as increased interest-earning assets related to the acquisition of FMB. The tax-equivalent net interest margin increased 135 basis points to 4.65% from 3.30% in the prior year. Average interest-earning assets and related interest income increased \$1.1 billion and \$17.4 million, respectively. Average interest-bearing liabilities increased \$891.1 million with related interest expense declining \$3.5 million. Costs of interest-bearing liabilities declined 129 basis points to 1.34% while yields on interest-earning assets increased 24 basis points to 5.77%. Improvements in

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the cost of funds were principally a result of declining costs on certificates of deposit and money market accounts, fair value adjustments from acquisition accounting and lower costs related to FHLB borrowings. Increases in interest-earning asset yields were principally related to improvements in loan yields.

For the six months ended June 30, 2010, tax-equivalent net interest income increased \$37.4 million, or 97.7%, to \$75.7 million compared to the same period last year. This improvement was principally attributable to declines in costs of interest-bearing liabilities as well as increased interest-earning assets related to the acquisition of FMB. The tax-equivalent net interest margin increased 134 basis points to 4.60% from 3.26% in the prior year. Average interest-earning assets and related interest income increased \$937.6 million and \$29.4 million, respectively. Average interest-bearing liabilities increased \$757.1 million with related interest expense declining \$8.0 million. Costs of interest-bearing liabilities declined 133 basis points to 1.37% while yields on interest-earning assets increased 19 basis points to 5.75%. The improvement in the cost of funds was principally a result of declining costs on certificates of deposit and money market accounts, fair value adjustments from acquisition accounting and lower costs related to FHLB borrowings.

During the quarter ended June 30, 2010 and since the Acquisition Date, the impact of acquisition accounting fair value adjustments on net interest income was \$3.6 million and \$6.4 million, respectively. If not for this impact, the net interest margin for the current quarter would have been 4.23%, unchanged from the most recent quarter and a 93 basis point improvement from the same quarter a year ago. The Company's ability to maintain the net interest margin at current levels is largely dependent upon future interest rates, loan demand and deposit competition.

The acquired loan and investment security portfolios of FMB were marked-to-market with a fair value discount to market rates. The performing loan and investment security accretion of the discount was \$2.1 million and \$139.2 thousand, respectively, for the quarter ended June 30, 2010 and \$3.5 million and \$232 thousand, respectively, since acquisition. The accretion is recognized as interest income over the estimated remaining life of the loans and investment securities under an accelerated method. The Company also assumed FHLB borrowings, subordinated debt and certificates of deposit. These liabilities were marked-to-market with estimates of fair value on acquisition date. FHLB borrowings were purchased at a premium to market rates and interest expense was reduced by \$503.1 thousand and \$911.5 thousand for the quarter ended June 30, 2010 and since acquisition, respectively. Subordinated debt was purchased at a discount to market rates and interest expense was increased by \$122.3 thousand and \$203.8 thousand for the quarter ended June 30, 2010 and since the acquisition, respectively. Certificates of deposit were purchased at a premium to market rates and interest expense was reduced by \$1.0 million and \$1.9 million for the quarter ended June 30, 2010 and since the acquisition, respectively. The related discount (or premium) to market is recorded as an increase (or decrease) to interest expense over the estimated lives of the liabilities.

Total net loans and investment securities acquired in the First Market Bank transaction were recorded at their estimated fair values of \$981.5 million and \$218.7 million, respectively. The fair value of noninterest and interest-bearing liabilities assumed were \$171.1 million and \$1.0 billion, respectively. Borrowings assumed were \$75.8 million, of which \$61.4 million and \$14.4 million consisted of FHLB advances and subordinated debt, respectively. Following the acquisition of First Market Bank, the Company reduced wholesale funding by approximately \$159.0 million through the sale of \$103.0 million in acquired investment securities and excess cash balances.

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The following table represents the scheduled loan accretion of the remaining discount related to acquired performing loans and will be recorded into interest income (in 000s):

	Loan Accretion
For the remaining six months of 2010	\$ 3,651
For the year ended 2011	4,555
For the year ended 2012	3,392
For the year ended 2013	2,925
For the year ended 2014	1,835
Thereafter	
Total	\$ 16,359

Table of Contents**AVERAGE BALANCES, INCOME AND EXPENSES, YIELDS AND RATES (TAXABLE EQUIVALENT BASIS)**

	2010			For the Three Months June 30, 2009			2008		
	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
<i>(Dollars in thousands)</i>									
Assets:									
Securities:									
Taxable	\$ 408,964	\$ 3,503	3.44%	\$ 258,950	\$ 2,630	4.07%	\$ 177,859	\$ 2,289	5.18%
Tax-exempt	139,483	2,356	6.77%	121,400	2,192	7.24%	109,375	1,959	7.20%
Total securities (2)	548,447	5,859	4.28%	380,350	4,822	5.08%	287,234	4,248	5.95%
Loans, net (3) (4)	2,825,183	43,757	6.21%	1,871,142	27,462	5.89%	1,794,443	29,408	6.59%
Loans held for sale	59,854	717	4.80%	51,522	580	4.52%	31,021	449	5.82%
Federal funds sold	7,666	3	0.19%	304		0.17%	240	1	2.16%
Money market investments	208		0.00%	104		0.00%	152		0.01%
Interest-bearing deposits in other banks	60,696	15	0.10%	84,408	60	0.29%	951	5	2.29%
Other interest-bearing deposits	344		0.00%	2,598		0.00%	2,598	16	2.42%
Total earning assets	3,502,398	50,351	5.77%	2,390,428	32,924	5.53%	2,116,639	34,127	6.48%
Allowance for loan losses	(34,158)			(28,249)			(20,746)		
Total non-earning assets	376,016			251,820			249,805		
Total assets	\$ 3,844,256			\$ 2,613,999			\$ 2,345,698		
Liabilities and Stockholders									
Equity:									
Interest-bearing deposits:									
Checking	\$ 360,760	206	0.23%	\$ 203,276	86	0.17%	\$ 228,009	362	0.64%
Money market savings	732,353	1,724	0.94%	442,436	2,636	2.39%	207,603	1,149	2.23%
Regular savings	151,657	127	0.34%	100,309	97	0.39%	103,047	140	0.54%
Certificates of deposit: (5)									
\$100,000 and over	664,418	3,033	1.83%	475,200	3,962	3.34%	439,298	4,348	3.98%
Under \$100,000	673,916	2,747	1.63%	489,752	4,006	3.28%	483,611	4,677	3.89%
Total interest-bearing deposits	2,583,104	7,837	1.22%	1,710,973	10,787	2.53%	1,461,568	10,676	2.94%
Other borrowings (6)	334,502	1,918	2.30%	315,517	2,486	3.18%	372,073	2,804	3.03%
Total interest-bearing liabilities	2,917,606	9,755	1.34%	2,026,490	13,273	2.63%	1,833,641	13,480	2.96%
Noninterest-bearing liabilities:									
Demand deposits	484,478			291,175			277,298		
Other liabilities	26,055			20,540			19,536		
Total liabilities	3,428,139			2,338,205			2,130,475		
Stockholders equity	416,117			275,794			215,223		

Total liabilities and stockholders equity	\$ 3,844,256	\$ 2,613,999	\$ 2,345,698
Net interest income	\$ 40,596	\$ 19,651	\$ 20,647
Interest rate spread (7)	4.43%	2.90%	3.52%
Interest expense as a percent of average earning assets	1.12%	2.23%	2.56%
Net interest margin	4.65%	3.30%	3.92%

- (1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
- (2) Interest income on securities includes \$139 thousand in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$278 thousand.
- (3) Nonaccrual loans are included in average loans outstanding.
- (4) Interest income on loans includes \$2.1 million in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$3.7 million.
- (5) Interest expense on certificates of deposits includes \$1.0 million in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$1.2 million.
- (6) Interest expense on borrowings includes \$381 thousand in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$190 thousand.
- (7) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.

Table of Contents**AVERAGE BALANCES, INCOME AND EXPENSES, YIELDS AND RATES (TAXABLE EQUIVALENT BASIS)**

	For the Six Months Ended June 30,								
	2010			2009			2008		
	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
	<i>(Dollars in thousands)</i>								
Assets:									
Securities:									
Taxable	\$ 393,813	\$ 7,042	3.61%	\$ 239,572	\$ 5,066	4.26%	\$ 177,298	\$ 4,577	5.19%
Tax-exempt	129,597	4,456	6.93%	119,082	4,291	7.27%	108,196	3,890	7.23%
Total securities (2)	523,410	11,498	4.43%	358,654	9,357	5.26%	285,494	8,467	5.96%
Loans, net (3) (4)	2,671,272	81,907	6.18%	1,870,455	54,720	5.90%	1,781,636	60,520	6.83%
Loans held for sale	52,273	1,163	4.48%	45,146	1,011	4.52%	27,265	726	5.35%
Federal funds sold	17,719	15	0.18%	304		0.19%	1,592	29	3.66%
Money market investments	160		0.00%	98		0.00%	194	1	0.63%
Interest-bearing deposits in other banks	37,822	23	0.12%	89,294	114	0.26%	1,017	14	2.68%
Other interest-bearing deposits	1,465		0.00%	2,598		0.00%	2,598	40	3.12%
Total earning assets	3,304,121	94,606	5.75%	2,366,549	65,202	5.56%	2,099,796	69,797	6.68%
Allowance for loan losses	(32,876)			(27,202)			(20,180)		
Total non-earning assets	372,044			250,661			249,033		
Total assets	\$ 3,643,289			\$ 2,590,008			\$ 2,328,649		
Liabilities and Stockholders									
Equity:									
Interest-bearing deposits:									
Checking	\$ 332,449	383	0.23%	\$ 200,712	166	0.17%	\$ 223,131	736	0.66%
Money market savings	683,493	3,200	0.94%	421,413	5,125	2.45%	187,817	2,075	2.22%
Regular savings	149,364	316	0.43%	97,953	198	0.41%	102,353	308	0.60%
Certificates of deposit: (5)									
\$100,000 and over	624,153	5,886	1.90%	472,448	8,014	3.42%	444,711	9,420	4.26%
Under \$100,000	631,683	5,315	1.70%	503,204	8,389	3.36%	481,870	9,872	4.12%
Total interest-bearing deposits	2,421,142	15,100	1.26%	1,695,730	21,892	2.60%	1,439,882	22,411	3.13%
Other borrowings (6)	349,224	3,813	2.20%	317,488	5,031	3.20%	381,279	6,814	3.59%
Total interest-bearing liabilities	2,770,366	18,913	1.37%	2,013,218	26,923	2.70%	1,821,161	29,225	3.23%
Noninterest-bearing liabilities:									
Demand deposits	443,452			279,642			272,070		
Other liabilities	26,477			20,977			20,582		
Total liabilities	3,240,295			2,313,837			2,113,813		
Stockholders' equity	402,994			276,171			214,836		

Total liabilities and stockholders equity	\$ 3,643,289	\$ 2,590,008	\$ 2,328,649
Net interest income	\$ 75,693	\$ 38,279	\$ 40,572
Interest rate spread (7)	4.38%	2.86%	3.45%
Interest expense as a percent of average earning assets	1.15%	2.29%	2.80%
Net interest margin	4.60%	3.26%	3.89%

- (1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
- (2) Interest income on securities includes \$232 thousand in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$278 thousand.
- (3) Nonaccrual loans are included in average loans outstanding.
- (4) Interest income on loans includes \$3.5 million in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$3.7 million.
- (5) Interest expense on certificates of deposits includes \$1.9 million in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$1.2 million.
- (6) Interest expense on borrowings includes \$708 thousand in accretion of the fair market value adjustments related to the recent acquisition. Remaining estimated accretion for 2010 is \$190 thousand.
- (7) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.

Table of Contents***Provision for Loan Losses***

The provision for loan losses for the quarter ended June 30, 2010 was \$4.0 million, a decline of \$1.0 million from the most recent quarter and a decrease of \$900 thousand from the same quarter a year ago. The current levels of the allowance for loan losses reflect specific reserves related to nonperforming loans, changes in risk ratings on loans, net charge-off activity, loan growth, delinquency trends and other credit risk factors that the Company considers in assessing the adequacy of the allowance for loan losses. As noted above, in acquisition accounting there was no carryover of FMB's previously established allowance for loan losses. The allowance for loan losses as a percentage of the total loan portfolio, including net loans at fair value from the FMB acquisition, was 1.20% at June 30, 2010, 1.19% at March 31, 2010 and 1.58% at June 30, 2009. The reduction in the allowance for loan losses as a percentage of loans compared to the prior year is related to the elimination of FMB's allowance for loan losses. The allowance for loan losses as a percentage of the total loan portfolio, adjusted for acquired loans, was 1.76% at June 30, 2010.

The Company's loan portfolio is comprised of \$951.2 million, or 33.7%, of amortizing commercial real estate loans, of which approximately 44.0% is owner-occupied real estate and which typically carries a lower risk of loss. While there continues to be industry concerns over possible softening in the commercial real estate sector, the Company's portfolio is not highly speculative or concentrated in large credits. In addition, \$508.7 million of the loan portfolio is concentrated in real estate construction loans, including raw land, land development, residential lots, speculative and presold residential construction and commercial construction loans (both owner-occupied and non-owner occupied). Of this amount, \$217.1 million, or 42.7%, represents land and lot loans; \$122.0 million, or 24.0%, represents land development loans; \$76.3 million, or 15.0%, represents speculative and presold residential construction loans; and \$93.3 million, or 18.3%, is commercial construction. The Company's real estate lending is conducted within its operating footprint in markets it understands and monitors.

Noninterest Income

On a linked quarter basis, noninterest income increased \$2.4 million, or 24.3%, to \$12.1 million from \$9.7 million at March 31, 2010. Other service charges and account fees increased \$821 thousand and include ATM interchange fees, debit card income and brokerage commissions. Gains on the sale of loans in the mortgage segment increased \$757 thousand and were driven by increased originations offset by increased loan loss related reserves and expenses. Other operating income increased \$622 thousand and related to a non-recurring reduction of a property improvement liability, higher trust revenue and other income. Service charges on deposit accounts increased \$210 thousand, primarily related to increased overdraft and returned check charges, checking account fees and ATM service charges.

For the three months ended June 30, 2010, noninterest income increased \$2.8 million, or 30.4%, to \$12.1 million from \$9.3 million in the same period in 2009. Other service charges and fees increased \$1.6 million, primarily due to debit card income, brokerage commissions and ATM income. Other operating income increased \$810 thousand primarily related to trust revenue, bank owned life insurance investment income and other income. Account service charges increased \$276 thousand, related to overdraft and returned check charges, checking account fees and fees on commercial and savings accounts. Gains on sales of other real estate owned increased \$40 thousand and gains on sales of loans in the mortgage segment increased \$65 thousand.

For the six months ended June 30, 2010, noninterest income increased \$5.2 million, or 31.5%, to \$21.8 million from \$16.6 million in the same period in 2009. Other service charges and fees increased \$2.5 million, primarily related to debit card income, ATM income and brokerage commissions. Gains on sales of loans in the mortgage segment increased \$1.1 million due to the contribution of newer branches originating loans at favorable margins, adjustments to loan fee and pricing policies and volume related revenue incentives. Other operating income increased \$1.0 million and primarily related to trust revenue, bank owned life insurance investment income and other income. Account service charges increased \$451 thousand, related to overdraft and returned check charges and fees on commercial and savings accounts. Gains on sales of other real estate owned increased \$98 thousand.

Table of Contents***Noninterest Expense***

On a linked quarter basis, noninterest expense decreased \$1.7 million, or 4.5%, to \$35.1 million from \$36.8 million for the three months ended June 30, 2010. Other operating expenses decreased \$4.3 million. Acquisition costs declined by \$6.0 million as the majority of these expenses were recognized in the first quarter of 2010. This was partially offset by higher amortization on acquired deposit intangible assets of \$516 thousand and higher ATM processing fees related to increased transaction volume. Other operating expenses also included higher operating expenses of \$580 thousand primarily related to the acquisition, higher professional fees of \$172 related to continuing problem loan work outs, foreclosure activity and underwriting fees in the mortgage segment. Also, included in other operating expenses were increased marketing and advertising costs of \$167 thousand related to television and print brand awareness campaigns for Union First Market Bank. Salaries and benefits expense increased \$2.0 million, primarily related to the acquisition and related salaries expense of \$1.6 million, higher profit sharing expense of \$221 thousand related to improving profitability, and higher commissions of \$393 thousand in the mortgage segment due to origination volume. Furniture and equipment expenses increased \$379 thousand due to higher depreciation and amortization expense related to acquired fixed assets and equipment service contracts. Occupancy costs increased \$236 thousand, primarily related to additional rental expense and operations of acquired branches. Excluding mortgage segment operations and acquisition related expenses in the first and second quarters, noninterest expense increased approximately \$3.7 million, or 14.1%.

For the three months ended June 30, 2010, noninterest expense increased \$12.7 million, or 57.3%, to \$35.1 million from \$22.4 million compared to the second quarter of 2009. Salaries and benefits increased \$6.5 million and were primarily due to increased salaries expense of \$4.0 million related to additional personnel as result of the acquisition, higher group insurance costs of \$604 thousand due to higher current year premiums and additional personnel. Also contributing to the increase was higher profit sharing expense of \$988 thousand due to improved profitability and higher incentive compensation costs of \$421 thousand. Commissions in the mortgage segment increase \$117 thousand, or 5.3%. Other operating expenses increased \$4.5 million. Included in other operating expenses was higher amortization on acquired deposit intangible assets of \$1.6 million, acquisition costs of \$479 thousand and higher ATM processing fees of \$230 thousand related to transaction volume. Other increases related to higher marketing and advertising expenses of \$856 thousand as part of brand awareness campaigns for the combined bank as Union First Market Bank. In addition, expenses to maintain the Company's portfolio of other real estate owned increased \$356 thousand and legal and professional fees increased \$241 thousand due to continuing problem loan work outs and foreclosure activity. Partially offsetting these increases in other operating expenses was a decrease in insurance expense of \$856 thousand, primarily due to a nonrecurring Federal Deposit Insurance Corporation (FDIC) special assessment of \$1.2 million incurred in the second quarter of 2009. Occupancy expenses increased \$1.1 million primarily related to additional rental expense and operations of acquired branches. Furniture and equipment expense increased \$619 thousand due to higher depreciation and amortization expense related to acquired fixed assets and equipment service contracts.

For the six months ended June 30, 2010, noninterest expense increased \$29.7 million, or 70.2%, to \$71.9 million from \$42.3 million for the six months ended June 30, 2010. Other operating expenses increased \$15.6 million. This increase included higher acquisition costs of \$7.1 million and amortization on acquired deposit intangible assets of \$2.6 million, higher marketing and advertising expenses of \$1.8 million related to television and print brand awareness campaigns for Union First Market Bank and higher communications expenses of \$1.2 million. In addition, loan expenses increased \$814 thousand due to maintenance of the Company's portfolio of other real estate owned and collection efforts on problem loans. Professional fees increased \$498 thousand primarily related to higher legal fees for continuing problem loan work outs and foreclosure activity. These increases were offset by lower insurance expense of \$191 thousand, a function of acquired deposits in the FMB acquisition and the nonrecurring FDIC special assessments incurred during the second quarter of 2009. Salaries and benefits expense increased \$11.3 million primarily due to higher salaries expense of \$7.2 million related principally to additional personnel from the FMB acquisition, higher group insurance costs of \$942 thousand due to higher current year premiums and additional personnel, higher profit sharing expense of \$1.6 million due to improved profitability and higher incentive compensation costs of \$655 thousand. Commissions in the mortgage segment increased \$626 thousand, or 16.6%. Occupancy costs increased \$2.0 million and primarily related to additional rental expense and operations of acquired branches. Furniture and equipment expense increased \$812 thousand due to higher depreciation and amortization expense related to acquired fixed assets and equipment service contracts.

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During the second quarter of 2010, the Company continued to incur additional costs (albeit at a lesser pace than the first quarter) related to the acquisition of FMB. Such costs include legal and accounting fees, lease and contract termination expenses, system conversion, integrating operations, and employee severances, which have been expensed as incurred. For the three and six months ended June 30, 2010, costs associated with the acquisition of First Market Bank were \$843 thousand and \$7.7 million, respectively, and are reported as a component of Other operating expenses within the Company's Condensed Consolidated Statements of Income. Total inception to date costs incurred as of June 30, 2010 were \$9.2 million. Total acquisition costs were initially estimated to be approximately \$10.8 million and are not expected to exceed that level.

Income Taxes

The provision for income taxes is based upon the results of operations, adjusted for the effect of certain tax-exempt income and non-deductible expenses. In addition, certain items of income and expense are reported in different periods for financial reporting and tax return purposes. The tax effects of these temporary differences are recognized currently in the deferred income tax provision or benefit. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the applicable enacted marginal tax rate.

The Company must also evaluate the likelihood that deferred tax assets will be recovered from future taxable income. If any such assets are not likely to be recovered, a valuation allowance must be recognized. The Company has determined that a valuation allowance is not required for deferred tax assets as of June 30, 2010. The assessment of the carrying value of deferred tax assets is based on certain assumptions, changes in which could have a material impact on the Company's financial statements.

The effective tax rate for the three and six months ended June 30, 2010 was 30.6% and 28.9% respectively, compared to -22.8% and 2.2%, respectively, for the same periods in 2009. The reduction in the effective tax rate in the prior year was principally related to lower income before tax with a similar amount of nontaxable municipal bond interest income in each period (i.e. nontaxable income represented a greater portion of total income).

SEGMENT INFORMATION

Community Banking Segment

On a linked quarter basis, net interest income after provision for loan losses, increased \$6.2 million, or 21.7%, to \$35.0 million compared to the most recent quarter, due principally to increased interest-earning assets related to the acquisition of FMB, the accretion of fair value adjustments from acquisition accounting and lower provision for loan losses. The net interest margin increased and was principally attributable to improvements in the cost of funds and increases in demand deposits. Improvements in the cost of funds were principally a result of lower costs related to certificates of deposits (higher rate certificates of deposit matured and new or renewed certificates repriced at lower rates).

Noninterest income increased \$1.6 million, or 29.8%, to \$7.0 million from \$5.4 million at March 31, 2010. The FMB acquisition is included in Company results for the five months since the Acquisition Date, including the full second quarter. Other service charges and account fees increased \$821 thousand and include ATM and debit card income and brokerage commissions. Other operating income increased \$622 thousand which included higher trust revenue and other income, partially related to a non-recurring reduction of a property improvement liability. Service charges on deposit accounts increased \$210 thousand and primarily related to overdraft and returned check charges, checking account fees and ATM income.

Noninterest expense decreased \$2.3 million, or 7.1%, to \$30.7 million from \$33.0 million compared to the prior quarter. The FMB acquisition is included in Company results for the five months since the Acquisition Date, including the full second quarter. Other operating expenses decreased \$4.4 million. Acquisition costs

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declined by \$6.0 million as the majority of these expenses were recognized in the first quarter of 2010. This was partially offset by higher amortization on acquired deposit intangible assets of \$516 thousand and higher ATM processing fees related to increased transaction volume. Other operating expenses also included higher operating expenses of \$549 thousand primarily related to the acquisition, higher professional fees of \$128 related to continuing problem loan work outs and foreclosure activity. Increased marketing and advertising expenses of \$152 thousand related to television and print brand awareness campaigns for Union First Market Bank. Salaries and benefits expense increased \$1.5 million, primarily related to the acquisition and related salaries costs of \$1.2 million, higher profit sharing expense of \$204 thousand related to improving profitability and higher group insurance costs of \$246 thousand. Furniture and equipment expenses increased \$363 thousand due to higher depreciation and amortization expense related to acquired fixed assets and equipment service contracts. Occupancy costs increased \$199 thousand, primarily related to additional rental expense and operations of acquired branches.

For the three months ended June 30, 2010, net interest income after provision for loan losses for the community bank segment increased \$21.6 million, or 161.2%, from \$13.4 million to \$35.0 million compared to the same period last year. This increase was principally attributable to increased interest-earning assets and demand deposits related to the acquisition of FMB as well as declines in costs of interest-bearing liabilities. Improvements in the cost of funds were principally a result of declining costs on certificates of deposit and money market accounts, fair value adjustments from acquisition accounting and lower costs related to FHLB borrowings.

Noninterest income increased \$2.8 million, or 66.7%, to \$7.0 million from \$4.2 million in the same period in 2009 and included the contribution of FMB. Of this increase, other service charges and fees increased \$1.6 million, primarily due to debit card income, brokerage commissions and ATM charges. Other operating income increased \$845 thousand primarily related to trust revenue of \$311 thousand, bank owned life insurance income and other income. Account service charges increased \$276 thousand, related to overdraft and returned check charges, checking account fees and fees on commercial and savings accounts. Gains on sales of other real estate owned increased \$40 thousand.

Noninterest expense increased \$12.1 million, or 64.9%, to \$30.7 million from \$18.6 million compared to the second quarter of 2009 and included the contribution of the FMB acquisition. Salaries and benefits increased \$6.1 million and were primarily due to increased salaries expense of \$3.8 million related to additional personnel as result of the acquisition, higher group insurance costs of \$556 thousand due to higher current year premiums and additional personnel. Also contributing to the increase was higher profit sharing expense of \$959 thousand due to improved profitability and higher incentive compensation costs of \$412 thousand. Other operating expenses increased \$4.3 million. Included in other operating expenses was higher amortization on acquired deposit intangible assets of \$1.6 million, acquisition costs of \$479 thousand and higher ATM processing fees of \$230 thousand related to transaction volume. Other increases related to higher marketing and advertising expenses of \$840 thousand as part of brand awareness campaigns for the combined bank as Union First Market Bank. In addition, expenses to maintain the Company's portfolio of other real estate owned increased \$334 thousand and legal and professional fees increased \$182 thousand due to continuing problem loan work outs and foreclosure activity. Partially offsetting these increases in other operating expenses was a decrease in insurance expense of \$864 thousand, primarily due to a nonrecurring FDIC special assessment of \$1.2 million incurred in the second quarter of 2009. Occupancy expenses increased \$1.1 million primarily related to additional rental expense and operations of acquired branches. Furniture and equipment expense increased \$571 thousand due to higher depreciation and amortization expense related to acquired fixed assets and equipment service contracts.

For the six months ended June 30, 2010, net interest income after provision for loan losses, increased \$36.1 million, or 130.3%, to \$63.8 million compared to the same period last year. This increase was principally attributable to declines in costs of interest-bearing liabilities and increased interest-earning assets and demand deposits related to the acquisition of FMB. Improvements in the cost of funds were principally a result of declining costs on certificates of deposit and money market accounts, fair value adjustments from acquisition accounting and lower costs related to FHLB borrowings.

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For the six months ended June 30, 2010, noninterest income increased \$4.2 million, or 51.4%, to \$12.3 million from \$8.1 million in the same period in 2009 and included the contribution of the FMB acquisition for the five months since Acquisition Date. Other service charges and fees increased \$2.5 million, primarily related to debit card income, ATM charges, and brokerage commissions. Other operating income increased \$1.1 million and primarily related to trust revenue, bank owned life insurance investment income and other income. Account service charges increased \$451 thousand, related to overdraft and returned check charges and fees on commercial and savings accounts. Gains on sales of other real estate owned increased \$98 thousand.

For the six months ended June 30, 2010, noninterest expense increased \$28.1 million, or 78.8%, to \$63.7 million from \$35.6 million for the six months ended June 30, 2010 and included the contribution of the FMB acquisition for five months since Acquisition Date. Other operating expenses increased \$15.3 million. This increase included higher acquisition costs of \$7.1 million and amortization on acquired deposit intangible assets of \$2.6 million, higher marketing and advertising expenses of \$1.8 million related to television and print brand awareness campaigns for Union First Market Bank and higher communication expenses of \$1.2 million. In addition, loan expenses increased \$766 thousand due to maintenance of the Company's portfolio of other real estate owned and collection efforts on problem loans. Professional fees increased \$418 thousand primarily related to higher legal fees for continuing problem loan work outs and foreclosure activity. These increases were offset by lower insurance expense of \$207 thousand, a function of acquired deposits in the FMB acquisition and the nonrecurring FDIC special assessments incurred during the second quarter of 2009. Salaries and benefits expense increased \$10.1 million primarily due to higher salaries expense of \$6.3 million related principally additional personnel from FMB, higher group insurance costs of \$875 thousand due to higher current year premiums and additional personnel, higher profit sharing expense of \$1.6 million due to improved profitability and higher incentive compensation costs of \$647 thousand. Occupancy costs increased \$1.9 million and primarily related to additional rental expense and operations of acquired branches. Furniture and equipment expense increased \$738 thousand due to higher depreciation and amortization expense related to acquired fixed assets and equipment service contracts.

Mortgage Segment

On a linked quarter basis, the mortgage segment net income for the second quarter increased \$217 thousand, or 37.5%, to \$796 thousand from \$579 thousand in the first quarter of 2010. Originations increased \$55.1 million from \$148.2 million to \$203.3 million, or 37.2%, from the most recent quarter. Gains on the sales of loans increased \$765 thousand, or 17.0%. Gains on the sale of loans were driven by increased originations offset by increased loan loss related reserves and expenses. Increased loan originations were stimulated by a low interest rate environment combined with the impending expiration of home buyer tax incentives and the usual seasonal housing market surge. As a result, refinanced loans represented 23% of originations during the second quarter and 30% year to date, but are expected to approach 50% of originations during the second half of the year based on current application pipeline data. Salary and benefit expenses increased \$467 thousand primarily related to volume driven commission expenses. Occupancy expenses increased \$37 thousand and furniture and equipment expenses increased \$16 thousand. Other operating expenses increased \$177 thousand, due primarily to higher underwriting fees and loan expenses, both related to origination volume.

For the three months ended June 30, 2010, the mortgage segment net income decreased \$369 thousand, to \$796 thousand, from \$1.2 million for the same quarter in 2009. Originations decreased \$15.2 million from \$218.6 million to \$203.4 million, or 6.9%, during the same period last year, yet gains on the sale of loans increased \$74 thousand, or 1.4%. Gains on the sale of loans were driven by the contribution of newer branches originating loans at favorable margins and adjustments to loan fee and pricing policies. Noninterest expenses increased \$771 thousand. Of this amount, salaries and benefits increased \$398 thousand primarily related to additional branch office and corporate support personnel in addition to increased commissions as a result of the higher loan revenue. Other operating expenses increased \$257 thousand principally due to increased underwriting costs related to loan origination volume and higher operating expenses including communications and office supplies for additional branch offices. Occupancy expenses increased \$69 thousand principally due to rental expenses of new branch locations. Furniture and equipment expense increased \$47 thousand, which included costs related to higher depreciation and equipment maintenance contracts.

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For the six months ended June 30, 2010, the mortgage segment net income decreased \$276 thousand, or 16.7%, to \$1.4 million from \$1.7 million in the same period of 2009. Originations decreased \$22.6 million from \$374.2 million to \$351.6 million, or 6.0%, during the same period last year, yet gains on the sale of loans increased \$1.1 million, or 12.9%. Gains on the sale of loans were driven by the contribution of newer branches originating loans at favorable margins, adjustments to loan fee and pricing policies and volume related revenue incentives. Noninterest expenses increased \$1.7 million. Of this amount, salaries and benefits increased \$1.1 million primarily related to increased commissions generated through higher loan revenue as well as additional branch office and corporate support personnel. Other operating expenses increased \$392 thousand principally due to increased underwriting costs and loan expenses in addition to higher operating expenses including communications and office supplies for additional branch offices. Occupancy expenses increased \$78 thousand principally due to rental expenses of new branch locations. Furniture and equipment expense increased \$74 thousand, which included costs related to higher depreciation and equipment maintenance contracts.

BALANCE SHEET

At June 30, 2010, total cash and cash equivalents were \$135.7 million, an increase of \$5.2 million on a linked quarter basis, and \$89.8 million and \$55.4 million from December 31, 2009 and June 30, 2009, respectively. At June 30, 2010, net loans were \$2.8 billion, a decrease of \$30.5 million from the prior quarter. The Company's mortgage segment increased loans held for sale by \$24.1 million from the prior quarter. Net loans increased \$942.0 million, or 51.1%, from December 31, 2009, and increased \$943.8, or 51.2%, million compared to June 30, 2009. Both of these period increases were principally the result of the acquired loan portfolio of FMB, which totaled \$981.5 million at acquisition. The Company's mortgage segment increased loans held for sale by \$20.4 million from December 31, 2009 and by \$10.7 million from June 30, 2009. At June 30, 2010, total assets were \$3.87 billion, an increase of \$24.5 million compared to the first quarter. Total assets increased \$1.3 billion from \$2.59 billion and \$1.3 billion from \$2.62 billion at December 31, 2009 and June 30, 2009, respectively, driven principally by the acquisition of FMB.

Total deposits increased \$23.5 million compared to the prior quarter. Total deposits increased \$1.2 billion, or 61.5%, from December 31, 2009, and \$1.1 billion, or 55.0%, from a year ago. Both of these period increases principally related to the acquired deposits of FMB, which totaled \$1.2 billion. Total borrowings, including repurchase agreements, decreased \$5.9 million on a linked quarter basis and \$37.8 million from December 31, 2009. Total borrowings increased \$5.7 million to \$328.2 million at June 30, 2010 from the same period a year ago. The Company's equity to assets ratio was 10.90% and 10.49% at June 30, 2010 and 2009, respectively. The Company's tangible common equity to assets ratio was 7.89% and 6.00% at June 30, 2010 and 2009, respectively.

Management remains focused on maintaining strong levels of liquidity and capital during this challenging environment and believes its sound risk management practices in underwriting and lending will enable the Company to weather successfully this period of economic uncertainty.

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Management monitors liquidity levels on a daily basis. Liquid assets include cash, interest-bearing deposits with banks, money market investments, Federal funds sold, loans held for sale, investment securities and loans maturing or repricing within one year. Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary through Federal funds lines with several correspondent banks, a line of credit with the FHLB and a corporate line of credit with a large correspondent bank. Management considers the Company's overall liquidity to be sufficient to satisfy its depositors' requirements and to meet its customers' credit needs.

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As of June 30, 2010, cash, interest-bearing deposits in other banks, money market investments, Federal funds sold, loans held for sale, investment securities and loans that mature within one year totaled \$1.6 billion, or 43.9%, of total earning assets. As of June 30, 2010, approximately \$1.3 billion, or 44.6%, of total loans are scheduled to mature within one year. In addition to deposits, the Company utilizes Federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, to fund the growth in its loan portfolio, securities purchases, and periodically, wholesale leverage transactions.

Loan Portfolio

The following table presents the Company's composition of loans, net of unearned income in dollar amounts and as a percentage of total gross loans (dollars in thousands) as of:

	June 30, 2010	% of Total Loans	December 31, 2009	% of Total Loans	June 30, 2009	% of Total Loans
Loans secured by real estate:						
Residential 1-4 family	\$ 433,362	15.4%	\$ 349,277	18.6%	\$ 298,053	15.9%
Commercial	866,588	30.7%	596,773	31.8%	555,782	29.7%
Construction, land development and other land loans	508,639	18.0%	307,726	16.4%	385,292	20.6%
Second mortgages	64,127	2.3%	34,942	1.9%	35,726	1.9%
Equity lines of credit	313,621	11.1%	182,449	9.7%	173,430	9.3%
Multifamily	84,648	3.0%	46,581	2.5%	39,327	2.1%
Farm land	27,680	1.0%	26,191	1.4%	39,262	2.1%
Total real estate loans	2,298,665	81.5%	1,543,939	82.4%	1,526,872	81.6%
Commercial Loans	172,658	6.1%	126,157	6.7%	134,765	7.2%
Consumer installment loans						
Personal	306,420	10.9%	148,811	7.9%	158,663	8.5%
Credit cards	14,828	0.5%	17,743	0.9%	16,011	0.9%
Total consumer installment loans	321,248	11.4%	166,554	8.9%	174,674	9.3%
All other loans	27,080	1.0%	37,574	2.0%	35,195	1.9%
Gross loans	\$ 2,819,651	100.0%	\$ 1,874,224	100.0%	\$ 1,871,506	100.0%

The mix of the Company's loan portfolio did not materially change as a result of the FMB acquisition. Equity loans, dealer loans and construction and development loans as a percentage of total loans increased slightly, while the residential 1-4 family percentage decreased slightly. As reflected in the loan table, at June 30, 2010, the largest component of the Company's loan portfolio consisted of real estate loans, concentrated in commercial, construction and residential 1-4 family. The risks attributable to these concentrations are mitigated by the Company's credit underwriting and monitoring processes, including oversight by a centralized credit administration function and credit policy and risk management committee, as well as seasoned bankers focusing their lending to borrowers with proven track records in markets with which the Company is familiar.

Approximately \$951.2 million, or 33.7%, of the Company's loan portfolio are amortizing commercial real estate loans. While there continue to be industry concerns over possible softening in the commercial real estate sector, the Company's portfolio is not highly speculative or concentrated in large credits and has not experienced significant deterioration in the current credit cycle. Approximately 44.8% of the Company's commercial real estate loans are owner-occupied and typically carry a lower risk of loss. In addition, \$508.7 million of the loan portfolio is concentrated in real estate construction loans, including raw land, land development, residential lots, speculative and presold residential construction and commercial construction loans (both owner-occupied and non-owner occupied). Of this amount, \$217.1 million, or 42.7%, represents land and lot loans; \$122 million, or 24%, represents land development loans; \$76.3 million, or 15%, represents speculative and presold residential construction loans and \$93.3 million, or 18.3%, is commercial construction. The Company's real estate lending is conducted within its operating footprint in markets it understands and monitors.

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The Company has two interest rate swap loan relationships as a result of the acquisition of FMB. Upon entering into interest rate swaps with borrowers to meet their financing needs, offsetting positions with counterparties were entered into in order to minimize interest rate risk. These back-to-back swaps qualify as financial derivatives with fair values reported in other assets and other liabilities. The Company had financial derivatives with a notional value of \$4.3 million and offsetting fair values of \$239 thousand recorded in other assets and other liabilities.

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Asset Quality

The Company's loan portfolio has a significant concentration in real estate loans. The composition, risk and performance of the Company's loan portfolio are reflective of the relatively stable markets in which it operates. During the current credit downturn residential acquisition and development lending and builder/construction lending have been scaled back as housing activity across the Company's markets declined. While this softening has negatively impacted delinquency and nonperforming asset levels, the collateralized nature of real estate loans serves to better protect the Company from losses.

During the quarter ended June 30, 2010, the Company continued to experience some deterioration in asset quality as the economy remained soft. While economic indicators suggest the recession has technically ended and there are signs of increased economic activity (including Virginia housing markets), the signals are somewhat mixed and there could be additional softening in asset quality in the near-term. The magnitude of any such softening is largely dependent upon any lagging impact on commercial real estate, the recovery of residential housing and the pace at which our local economies recover.

Asset quality remains a primary concern of the Company. Necessary resources continue to be devoted to the ongoing review of the loan portfolio and the workouts of problem assets to minimize any losses to the Company. The Company has in place a special assets loan committee, which includes the Company's Chief Executive Officer, Chief Credit Officer, and other senior lenders and credit officers that address significant potential problem loans, formulate strategies and develop action plans related to such assets. Management will continue to monitor delinquencies, risk rating changes, charge-offs, market trends and other indicators of risk in the Company's portfolio, particularly those tied to residential and commercial real estate, and adjust the allowance for loan losses accordingly. Historically, and particularly in the current economic environment, the Company seeks to work with its customers on loan collection matters while taking appropriate actions to improve the Company's position and minimize any losses. These loans are closely monitored and evaluated for collection with appropriate loss reserves established whenever necessary.

During the first quarter of 2010, the Company acquired the loan portfolio of FMB at a fair value discount of \$30.0 million (the discount represents expected credit losses, comparison to market rates and liquidity adjustments). The performing loan portfolio fair value estimate was \$960.7 million (net of a fair value discount of \$19.9 million), and the impaired loan portfolio fair value estimate was \$20.8 million (net of a fair value discount of \$10.1 million). During the current quarter, the Company recognized \$1.2 million in provision for loan losses related to the acquired FMB performing portfolio.

Loans obtained in connection with the FMB acquisition have been accounted for in accordance with ASC 805, *Business Combinations* and/or ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30) if the loan experienced deterioration of credit quality at the time of acquisition. Both require that acquired loans be recorded at fair value and prohibit the carryover of the related allowance for loan losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans. Because ASC 310-30 loans (i.e., impaired loans) have been recorded at fair value, such loans are not classified as nonaccrual even though some payments may be contractually past due. The carrying amount of such loans was \$17.4 million at June 30, 2010, or approximately 0.62% of total loans.

At June 30, 2010, nonperforming assets totaled \$77.3 million, an increase of \$13.9 million compared to March 31, 2010 and an increase of \$25.0 million compared to the same period a year ago. The increase compared to the most recent quarter principally related to increases in nonaccrual loans of \$10.6 million. These are related to stresses in the residential home builder market largely a result of the broader and extended economic slowdown. The net increase in nonaccrual loans was principally within the land (\$4.4 million), commercial real estate (\$3.6 million) and residential real estate (\$2.6 million) loans. At June 30, 2010, the coverage ratio of the allowance for loan losses to nonperforming loans was 69.42%, compared to 78.80% a year earlier and 88.72% in the most recent quarter.

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Nonperforming assets at June 30, 2010 included \$48.9 million in nonperforming loans as summarized in the table below. The following table reflects the balances and changes from the most recent quarter (dollars in thousands):

Nonperforming Loans	6/30/2010	3/31/2010	Change
Residential real estate loans (builder lines)	\$ 20,337	\$ 17,737	\$ 2,600
Commercial real estate loans	10,538	6,978	3,560
Land loans	12,115	7,730	4,385
Commercial and industrial	3,289	3,505	(216)
Land development	1,622	1,624	(2)
Other	1,010	762	248
Totals	\$ 48,911	\$ 38,336	\$ 10,575

Foreclosed properties have been adjusted to their fair values at the time of each foreclosure and any losses have been taken as loan charge-offs against the allowance for loan losses. Other real estate owned asset valuations are also evaluated at least quarterly and any necessary write down to fair value is recorded as impairment. No such write downs have been necessary in 2010. Included below in land development is \$8.7 million related to a residential community in the Northern Neck region of Virginia, which includes developed residential lots, a golf course and undeveloped land.

Additionally, nonperforming assets also included \$28.4 million in other real estate owned as summarized in the table below. The following table reflects the balances and changes from the most recent quarter (dollars in thousands):

Other Real Estate Owned	6/30/2010	3/31/2010	Change
Land development	\$ 11,339	\$ 11,321	\$ 18
Land	5,555	5,149	406
Residential real estate (builder lines)	8,553	6,302	2,251
Commercial real estate	1,927	1,290	637
Land held for development of branch sites	1,020	1,020	
Totals	\$ 28,394	\$ 25,082	\$ 3,312

For the quarter ended June 30, 2010, net charge-offs were \$4.0 million, or 0.57% of loans on an annualized basis, compared to \$1.5 million, or 0.21%, for the quarter ended March 31, 2010 and \$2.9 million, or 0.63%, in the same quarter last year. Net charge-offs in the current quarter included construction loans of \$2.6 million, commercial loans of \$446 thousand, home equity loans of \$389 thousand, consumer loans of \$186 thousand and other loans of \$379 thousand. At June 30, 2010, total past due loans were \$50.5 million, or 1.79%, of total loans, an increase from 1.49% a year ago, but down from 1.90% at March 31, 2010.

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The following table sets forth selected asset quality data and ratios (dollars in thousands) for the quarter ended:

	June 30, 2010	December 31, 2009	June 30, 2009
Nonaccrual loans	\$ 48,911	\$ 22,348	\$ 37,612
Foreclosed properties	27,374	21,489	13,642
Real estate investment	1,020	1,020	1,020
Total nonperforming assets	\$ 77,305	\$ 44,857	\$ 52,274
Balances			
Allowance for loan losses	\$ 33,956	\$ 30,484	\$ 29,639
Average loans, net of unearned income	2,671,272	1,873,606	1,870,455
Loans, net of unearned income	2,819,651	1,874,224	1,871,506
Ratios			
Allowance for loan losses to loans	1.20%	1.63%	1.58%
Allowance for loan losses to loans, adjusted for acquired loans	1.76%		
Allowance for loan losses to NPAs	43.92%	67.96%	56.70%
Allowance for loan losses to NPLs	69.42%	136.41%	78.80%
Nonperforming assets to loans & other real estate	2.71%	2.36%	2.77%
Net charge-offs to loans	0.57%	1.73%	0.63%

Capital Resources

Capital resources represent funds, earned or obtained, over which financial institutions can exercise greater or longer control in comparison with deposits and borrowed funds. The adequacy of the Company's capital is reviewed by management on an ongoing basis with reference to size, composition, and quality of the Company's resources consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses, yet allow management to effectively leverage its capital to maximize return to shareholders.

The Board of Governors of the Federal Reserve System (the Federal Reserve), the Office of the Comptroller of the Currency and the FDIC have adopted capital guidelines to supplement the existing definitions of capital for regulatory purposes and to establish minimum capital standards. Specifically, the guidelines categorize assets and off-balance sheet items into four risk-weighted categories. The minimum ratio of qualifying total assets is 8.0%, of which 4.0% must be Tier 1 capital, consisting of common equity, retained earnings and a limited amount of perpetual preferred stock, less certain intangible items. The Company had a total risk-based capital ratio of 14.09% and a Tier 1 risk-based capital ratio of 12.51% as of June 30, 2010. In addition, each of the Company's subsidiary banks had risk-based capital ratios exceeding the minimum requirements of well-capitalized as established by the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC. The Company's equity to asset ratio was 10.90% at June 30, 2010.

While the subsidiary banks' risk-based capital levels are considered well-capitalized by regulatory definition, a prolonged period of earnings at current levels and dividend payouts could negatively impact capital ratios. The Company has a capital planning and monitoring process in place as it strives to maintain its historical strong capital levels and remain well-capitalized.

As noted earlier, on February 1, 2010, the Company completed its acquisition of First Market Bank in an all stock transaction. In connection with the transaction, the Company issued a total of 7,477,273 common shares with an acquisition date fair value of \$96.1 million.

In September 2009, the Company completed a follow-on equity raise, which generated cash and capital of approximately \$58.8 million, net of underwriting discounts, commissions and estimated offering expenses, from the issuance of 4,725,000 shares of common stock at a price of \$13.25 per share.

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In December 2008, the Company issued to the U. S. Treasury 59,000 shares of the Company's Series A Preferred Stock having a liquidation preference of \$1,000 per share, for a total price of \$59 million. The issuance was made pursuant to the Treasury's Capital Purchase Program (CPP) under the Troubled Asset Relief Program. The Series A Preferred Stock paid a cumulative dividend at a rate of 5% per year during the first five years and thereafter at 9% per year. The transaction closed on December 19, 2008. At the time of issuance, the U. S. Treasury also received a warrant to purchase 422,636 shares of the Company's common stock at an initial per share exercise price of \$20.94 to expire 10 years from the issuance date. In November 2009, the Company redeemed the Series A Preferred Stock, by repaying, with accumulated dividends, the \$59 million it received in December 2008. Additionally, in December 2009, the Company entered into a Warrant Repurchase Letter Agreement (Warrant Repurchase) with the U. S. Treasury to repurchase a warrant to purchase 211,318 shares of the Company's common stock that was issued in connection with the Company's sale of Series A Preferred Stock. As a result of the Warrant Repurchase, the Company had no securities issued or outstanding to the U. S. Treasury and was no longer participating in the U. S. Treasury's CPP as of November 18, 2009.

Prior to being acquired by the Company, First Market Bank participated in the U.S. Treasury's CPP. In connection with the acquisition of First Market Bank, each share of Series B and Series C preferred stock of First Market Bank issued to the U.S. Treasury was converted into one share of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B. Despite the U.S. Treasury being the sole holder of the Company's Series B Preferred Stock, the Company is not considered a participant in the U.S. Treasury's CPP.

The Company's outstanding series of preferred stock resulted from the acquisition of First Market Bank. On February 6, 2009, First Market Bank issued and sold to the U. S. Treasury 33,900 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B and a warrant to purchase up to 1,695 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C. The U. S. Treasury immediately exercised the warrant for the entire 1,695 shares. In connection with the Company's acquisition, the board of directors established a series of preferred stock with substantially identical preferences, rights and limitations to the First Market Bank preferred stock. Pursuant to the closing of the acquisition, each share of First Market Bank Series B and Series C preferred stock was exchanged for one share of the Company's Series B preferred stock. The Series B preferred stock of the Company pays cumulative dividends to the U.S. Treasury at a rate of 5.19% per annum for the first five years and thereafter at a rate of 9.0% per annum. The 5.19% dividend rate is a blended rate comprised of the dividend rate of the 33,900 shares of First Market Bank 5% Fixed Rate Non-Cumulative Perpetual Preferred Stock and 1,695 shares of First Market Bank 9% Fixed Rate Non-Cumulative Perpetual Preferred Stock. The Series B preferred stock of the Company is non-voting and each share has a liquidation preference of \$1,000. The Company anticipates redemption of this capital issue during the fourth quarter of 2010, subject to regulatory approval.

In connection with its acquisitions of Prosperity Bank and Trust Company and Guaranty Financial Corporation the Company issued trust preferred capital notes to fund the cash portion of those acquisitions, collectively totaling \$58.5 million. The total of the trust preferred capital notes currently qualify for Tier 1 capital of the Company for regulatory purposes.

The following table summarizes the Company's regulatory capital and related ratios (dollars in thousands):

	June 30, 2010	December 31, 2009	June 30, 2009
Tier 1 capital	\$ 384,716	\$ 272,348	\$ 268,516
Tier 2 capital	48,603	25,374	25,790
Total risk-based capital	433,319	297,722	294,306
Risk-weighted assets	3,075,841	2,024,824	2,059,366
Capital ratios:			
Tier 1 risk-based capital ratio	12.51%	13.45%	13.04%
Total risk-based capital ratio	14.09%	14.70%	14.29%
Leverage ratio (Tier 1 capital to average adjusted assets)	10.24%	10.86%	10.53%
Stockholders' equity to assets	10.90%	10.90%	10.49%
Tangible common equity to tangible assets	7.89%	8.64%	6.00%

Table of Contents**NON-GAAP MEASURES**

In reporting the results as of June 30, 2010, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization.

These measures are a supplement to GAAP used to prepare the Company's financial statements and should not be viewed as a substitute for GAAP measures. In addition, the Company's non-GAAP measures may not be comparable to non-GAAP measures of other companies.

A reconciliation of these non-GAAP measures from their respective GAAP basis measures is presented in the following table (dollars in thousands, except share and per share amounts):

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net income	\$ 8,726	\$ 953	\$ 10,425	\$ 2,706
Plus: core deposit intangible amortization, net of tax	1,260	313	2,205	625
Plus: trademark intangible amortization, net of tax	65		109	
Cash basis operating earnings	10,051	1,266	12,739	3,331
Average assets	3,844,256	2,613,999	3,643,289	2,590,008
Less: average trademark intangible	1,082		935	
Less: average goodwill	57,566	56,474	57,155	56,474
Less: average core deposit intangibles	31,635	8,887	28,205	9,123
Average tangible assets	3,753,973	2,548,638	3,556,994	2,524,411
Average equity	416,117	275,794	402,994	276,171
Less: average trademark intangible	1,082		935	
Less: average goodwill	57,566	56,474	57,155	56,474
Less: average core deposit intangibles	31,635	8,887	28,205	9,123
Less: average preferred equity	34,260	56,258	28,371	56,204
Average tangible equity	291,574	154,175	288,328	154,370
Weighted average shares outstanding, diluted	25,913,471	13,615,294	24,583,186	13,609,625
Cash basis earnings per share, diluted	\$ 0.39	\$ 0.09	\$ 0.52	\$ 0.24
Cash basis return on average tangible assets	1.07%	0.20%	0.72%	0.27%
Cash basis return on average tangible equity	13.83%	3.29%	8.91%	4.35%

Table of Contents**ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. The Company's market risk is composed primarily of interest rate risk. The Asset and Liability Management Committee (ALCO) of the Company is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to this risk. The Company's Board of Directors reviews and approves the guidelines established by ALCO.

Interest rate risk is monitored through the use of three complementary modeling tools: static gap analysis, earnings simulation modeling, and economic value simulation (net present value estimation). Each of these models measures changes in a variety of interest rate scenarios. While each of the interest rate risk models has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in the Company, the distribution of risk along the yield curve, the level of risk through time, and the amount of exposure to changes in certain interest rate relationships. Static gap, which measures aggregate re-pricing values, is less utilized because it does not effectively measure the options risk impact on the Company and is not addressed here. Earnings simulation and economic value models, which more effectively measure the cash flow and optionality impacts, are utilized by management on a regular basis and are explained below.

EARNINGS SIMULATION ANALYSIS

Management uses simulation analysis to measure the sensitivity of net interest income to changes in interest rates. The model calculates an earnings estimate based on current and projected balances and rates. This method is subject to the accuracy of the assumptions that underlie the process, but it provides a better analysis of the sensitivity of earnings to changes in interest rates than other analyses, such as the static gap analysis discussed above.

Assumptions used in the model are derived from historical trends and management's outlook and include loan and deposit growth rates and projected yields and rates. Such assumptions are monitored and periodically adjusted as appropriate. All maturities, calls and prepayments in the securities portfolio are assumed to be reinvested in like instruments. Mortgage loans and mortgage backed securities prepayment assumptions are based on industry estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Different interest rate scenarios and yield curves are used to measure the sensitivity of earnings to changing interest rates. Interest rates on different asset and liability accounts move differently when the prime rate changes and are reflected in the different rate scenarios.

The Company uses its simulation model to estimate earnings in rate environments where rates ramp up or down around a most likely rate scenario, based on implied forward rates. The analysis assesses the impact on net interest income over a 12 month time horizon by applying 12-month rate ramps, with interest rates rising gradually, versus an immediate increase or shock in rates, of 100 basis points up to 200 basis points. The ramp down 200 basis points analysis is not meaningful as interest rates are at historic lows and cannot drop another 200 basis points. The model, under all scenarios, does not drop the index below zero. The following table represents the interest rate sensitivity on net interest income for the Company across the rate paths modeled for balances ended June 30, 2010 (dollars in thousands):

	Change In Net Interest Income	
	%	\$
Change in Yield Curve:		
+200 basis points	0.41%	656
+100 basis points	0.21%	336
Most likely rate scenario	0.00%	
-100 basis points	0.32%	511
-200 basis points	-0.19%	(299)

Table of Contents**ECONOMIC VALUE SIMULATION**

Economic value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Economic values are calculated based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The same assumptions are used in the economic value simulation as in the earnings simulation. The economic value simulation uses instantaneous rate shocks to the balance sheet where the earnings simulation uses rate ramps over 12 months. The following chart reflects the estimated change in net economic value over different rate environments using economic value simulation for the balances at the period ended June 30, 2010 (dollars in thousands):

	Change In Economic Value of Equity	
	%	\$
Change in Yield Curve:		
+200 basis points	0.69%	3,671
+100 basis points	1.63%	8,663
Most likely rate scenario	0.00%	
-100 basis points	-6.86%	(36,425)
-200 basis points	-13.37%	(71,012)

The down 200 basis points scenario is impacted largely by the low rate environment, where a 200 basis point shock to rates would take most rates on the yield curve to a floor of zero. While management considers this scenario highly unlikely, the natural floor increases the Company's sensitivity to rates down.

ITEM 4 - CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), which are designed to ensure that information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective at the reasonable assurance level. There was no change in the internal control over financial reporting that occurred during the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

PART II - OTHER INFORMATION**ITEM 1 - LEGAL PROCEEDINGS**

In the ordinary course of its operations, the Company is a party to various legal proceedings. Based on the information presently available, and after consultation with legal counsel, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business or the financial condition or results of operations of the Company.

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ITEM 1A - RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities None

(b) Use of Proceeds Not Applicable

(c) Issuer Purchases of Securities None

ITEM 6 - EXHIBITS

The following exhibits are filed as part of this Form 10-Q and this list includes the Exhibit Index:

Exhibit No.	Description
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

Union First Market Bankshares Corporation
(Registrant)

Date: August 9, 2010

By: /s/ G. WILLIAM BEALE
G. William Beale,
Chief Executive Officer

Date: August 9, 2010

By: /s/ D. ANTHONY PEAY
D. Anthony Peay,
Executive Vice President and Chief Financial Officer