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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: September 8, 2009
(Date of earliest event reported)

Union Bankshares Corporation
(Exact name of registrant as specified in its charter)

Virginia	0-20293	54-1598552
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

211 North Main Street
Post Office Box 446
Bowling Green, Virginia 22427
(Address of principal executive offices) (Zip Code)

(804) 633-5031
(Registrant's telephone number, including area code)

n/a
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

On March 30, 2009, Union Bankshares Corporation ("UBSH") entered into an Agreement and Plan of Reorganization, dated as of March 30, 2009, with First Market Bank, FSB ("FMB"), a privately held federal savings bank headquartered in Richmond, Virginia. FMB was formed in 1997 as a joint venture between National Commerce Bancorporation, a Tennessee bank holding company, and Ukrop's Supermarkets, Inc., a Virginia corporation ("Ukrop's Supermarkets"), to develop bank branch operations in Ukrop's Supermarkets' grocery stores. In 2006, SunTrust Banks, Inc., which had acquired National Commerce Bancorporation in 2004, sold its interest in FMB to Markel Corporation, an insurance holding company headquartered in Richmond, Virginia.

FMB currently operates 39 full-service branches, 25 of which are located in Ukrop's Supermarkets' grocery stores and the remainder are operated from free standing bank branch buildings. FMB operates 31 branches in the Richmond metropolitan area, four in Fredericksburg, Virginia, and two each in Roanoke and Williamsburg, Virginia. As of June 30, 2009, FMB had total consolidated assets of approximately $1.4 billion, total net loans of approximately $1.0 billion, total deposits of approximately $1.2 billion and shareholders' equity of approximately $125.1 million.

The merger agreement provides for the combination of the Company and FMB through the merger of FMB with and into a newly-formed interim bank subsidiary of the Company. After the merger, the continuing bank from the merger will operate as a Virginia-chartered bank subsidiary of UBSH under the name "First Market Bank" until such time as Union Bank and Trust Company, the largest banking subsidiary of UBSH, merges into the continuing bank. UBSH anticipate that the merger will be completed during the fourth quarter of this year. Completion of the merger is subject to certain customary conditions, including among others, approval of the shareholders of both UBSH and FMB and receipt of regulatory approvals.

Under the terms of the merger agreement, UBSH will issue up to approximately 7.5 million shares of its common stock in an all stock transaction. Holders of FMB common stock will receive 6,273.259 shares of UBSH common stock for each of their shares of FMB common stock outstanding on the effective date of the merger. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing. In addition, each share of FMB's Series A preferred stock will be converted into the number of shares of UBSH common stock that is equal to the quotient determined by dividing $100,000 (the stock's liquidation preference) by the 10-day average trading price of UBSH common stock as of the fifth business day before the closing, provided that average trading price will not be more than $16.89 or less than $12.89. UBSH will also issue 35,595 shares of its preferred stock to the U.S. Department of the Treasury in connection with its assumption of the preferred stock issued by FMB pursuant to the Capital Purchase Program of the Troubled Asset Relief Program.

This Current Report on Form 8-K contains the following information concerning FMB set forth in Exhibits 99.1 and 99.2: (i) Management's Discussion and Analysis of Financial Condition and Results of Operation of FMB in Exhibit 99.1; and (ii) certain historical financial statements of FMB in Exhibit 99.2.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Independent Registered Accounting Firm of McGladrey & Pullen, LLP
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operation of First Market Bank
99.2	Financial Statements of First Market Bank

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 hereunto duly authorized.

UNION BANKSHARES CORPORATION

/s/ D. Anthony Peay

D. Anthony Peay
Executive Vice President and
Chief Financial Officer

Date: September 8, 2009

EX-23.1

EX-23.1: CONSENT OF McGladrey Pullen, LLP
8-K Filed on 09/08/2009 - Period: 09/08/2009
File Number 0-20293

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No 333-156946 on Form S-3 of Union Bankshares Corporation) of our report dated March 25, 2009, relating to our audit of the consolidated financial statements of First Market Bank F.S.B. and its subsidiaries as of and for the years ended December 31, 2008 and 2007 and our report on internal control over financial reporting as of December 31, 2008 and our report dated March 18, 2008, relating to our audit of the consolidated financial statements of First Market Bank F.S.B. and its subsidiaries as of and for the years ended December 31, 2007 and 2006, included in this Current Report on Form 8-K.

McGladrey & Pullen, LLP

September 3, 2009
Richmond, Virginia

EX-99.1

EX-99.1: Management’s Discussion and analysis of Financial Condition and Results of Operation of First Market Bank
8-K Filled on 09/08/2009 - Period: 09/08/2009
File Number 0-20293

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF FIRST MARKET BANK

The following discussion is intended to assist readers in understanding the financial condition and results of operations of First Market Bank ("FMB"). The information contained in this section should be read in conjunction with the financial statements and the accompanying notes contained in Exhibit 99.2 to this Current Report on Form 8-K. The data presented for the three month and six month periods ended June 30, 2009 and 2008, are derived from the unaudited interim financial statements of FMB and include, in the opinion of FMB's management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the data for such periods.

Years Ended December 31, 2008 and 2007

RESULTS OF OPERATIONS

Net Income

Net income of $1.5 million recorded by FMB for the year ended December 31, 2008, reflected the overall deterioration of economic conditions, the Federal Open Market Committee of the Federal Reserve's sweeping interest rate reductions initiated over the course of the year, and the write-down of Federal Home Loan Mortgage Corporation ("Freddie Mac") preferred stock, purchased in April 2004, was recorded as an other-than-temporary-impairment ("OTTI") charge. The amount of the OTTI charge was $4.4 million, an after-tax impact on net income of $2.7 million, and it was due to the unprecedented move by the U. S. Treasury placing Freddie Mac, along with Fannie Mae, in conservatorship in mid-September, 2008.

The year over year decline of $6.7 million in net income from the $8.1 million recorded for 2007 was primarily attributable to the OTTI charge, compression of the net interest margin, and increased provision for loan losses, all driven by the extraordinary domestic and global events that occurred during 2008.

Net income for 2008 equates to a return on average assets of .11% and a return on average equity of 1.71%. These same ratios for 2007 were .66% and 10.35%, respectively.

Net Interest Income

Net interest income, which represents the principal source of earnings for FMB, is the amount by which interest income exceeds interest expense. The net interest margin is net interest income expressed as a percentage of average earning assets. Changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income, the net interest margin and net income.

The overriding factor affecting net interest income in 2008 was the overall economic crisis driven by a seemingly endless occurrence of stirring events and actions resulting in rate decreases of 400 basis points in the market, a credit crisis resulting from rapidly deteriorating asset values and confidence, inflation fears driven by skyrocketing oil prices only to be followed by deflation concerns resulting from global economic weakness and plunging oil prices. At the core of the 2008 economic crisis rests the instability of the financial industry, with the landscape unquestionably altered as century old institutions disappeared through merger, sale or bankruptcy, leading the U. S. Government to take extraordinary measures in an effort to stabilize the industry and the financial system through repeated capital infusions, rate adjustments and other corporate, as well as consumer, driven measures. These collective events, together with targeted Federal Funds rate cuts, placed considerable stress on deposit pricing and competition for those deposits, both of which had a meaningful impact on FMB's net interest margin.

For the year ended December 31, 2008, net interest income decreased by $1.5 million, or 3.6%, to $40.8 million compared to 2007. The decrease in net interest income, despite a 5.1% increase in average earning assets, highlighted the pricing and earning challenges of the rapidly falling rate environment experienced over the course of 2008. The net interest margin of 3.29% for 2008 was down 30 basis points from the prior year as funding cost reductions consistently lagged the lower loan yields that resulted from the volatile interest rate environment that persisted throughout the year. The average yield on the loan portfolio for 2008 declined by 119 basis points while the average rate paid on interest-bearing deposits reflected a 70 basis point reduction over the same period. The variable rate portion of the loan portfolio, approximately 45%, was subject to almost immediate re-pricing while less than 10% of the CD portfolio matured on a monthly basis during the same period. Adding further to the challenge was the sustained competitive market pressures within FMB's primary footprint that kept CD and money market deposit rates at levels considerably above the interest rate curve. The dramatic nature of the rate decreases during the year clearly compounded the interest sensitivity of FMB's earnings.

Provision for Loan Losses

During the fourth quarter of 2008, the official declaration that the current recession began in December 2007 was announced. This information along with other current and future economic indicators pointed to the potential for a lengthy and deep recession period. Unemployment rates increased dramatically during the latter part of the year, ending the year just above 7% nationally with projections of continued increases into 2010. Unemployment increased within FMB's footprint as well, fueled by the merger, downsizing and/or bankruptcy/liquidation of some of the area's major employers, along with the announced state budget shortfall and resulting projected cuts. The effects on the local economy and housing market, while not easily measurable, are unmistakable. During 2008 FMB experienced increases in loss or charge-off rates, delinquencies and nonperforming loans, by all indications a direct result of the economic downturn. While specific results by loan category varied, all categories were impacted. Net charge-offs of $1.2 million in 2007, or 0.12% of average loans, increased to $2.6 million in 2008, or 0.25% of average loans. Past due accounts increased from 0.44% of loans in December 2007 to 0.81% in December 2008. Nonaccrual loans of $2.3 million at December 2007 increased to $5.1 million at December 2008. Among other factors considered by management in determining the appropriate provision for loan losses for the year was the growth in loans, particularly in the commercial and construction loans secured by real estate portion of the portfolio. The increase in risk factors related to this segment that correspond closely with the economic downturn, such as uncertainties as to the future value of the underlying collateral that supports much of this portfolio, are key focal points of the ongoing analysis. The possibility of a prolonged economic slowdown within our geographic region and the negative impact it would potentially have on FMB's loan customers also has a bearing on management's judgment in determining the provision for loan losses and its effect on the allowance for loan losses. Accordingly, the provision for loan losses recorded for 2008 was $4.5 million. This compares to a 2007 provision of $1.6 million. Notwithstanding this historically high increase for FMB, management believes the relative strength of the loan portfolio is reflective of the effectiveness of the sound underwriting and risk management practices followed in the years that preceded the current period of economic uncertainty. Even though the overall credit quality of loan portfolio has held up relatively well over the past year, economic indicators continue to deteriorate, placing increasing emphasis on the adequacy of the allowance for loan losses. Consequently, the elevated provisions and resulting allowance for loan losses reflects the growth in the loans and increasing risks inherent in the portfolio as market conditions challenge every aspect of the economy.

Noninterest Income

For the year ended December 31, 2008, noninterest income decreased $4.6 million, or 38.0%, to $7.5 million from $12.0 million for 2007. Excluding the OTTI charge related to the Freddie Mac preferred stock holdings of $4.4 million, on a year over year basis noninterest income was essentially flat as the 2.4% increase in deposit service charges was offset by reduced broker commissions and trust income. Broker commissions dropped from prior year levels as concerns over declining home values and other economic fears led to contraction of investment activity by customers. Trust income also declined as tumbling stock prices negatively impacted trust asset values, a key revenue driver of FMB's trust operation.

Noninterest Expense

For the year ended December 31, 2008, noninterest expense increased $2.2 million, or 5.4%, to $42.3 million compared to the year ended December 31, 2007. Increases in personnel expense (salaries and benefits) of $2.5 million, or 12.3%, were attributable to higher staffing levels primarily resulting from branch expansion and normal compensation increases. General and administrative expense was up $694 thousand largely due to higher FDIC insurance premiums. Lower data processing expense, achieved in cooperation with FMB's technology outsourcing partner and other network savings initiatives, represented a $848 thousand reduction compared to the prior year.

BALANCE SHEET

Balance Sheet Overview

At December 31, 2008, total assets were $1.3 billion, an increase of $35.1 million, or 2.8%, over year-end 2007 total assets. Net loans increased $71.8 million, or 7.5% from December 31, 2007. The year over year increase in loan growth was spread among the consumer and commercial loan portfolios. Total investment securities declined by $41.0 million, or 19.3%, as portfolio principal paydowns were used to fund higher yielding loans. Total deposits increased $101.0 million, or 10.4%, from December 31, 2007. Increases in interest-bearing deposits of $107.8 million, largely driven by growth in money market accounts balances, accounted for majority of the year over year change in deposits, as consumer flight to safety from equity markets and some large financial institutions became market drivers. Additionally, pricing strategies implemented to effect a change in mix of FMB's deposits during the latter part of the year succeeded in lowering the level of higher priced time deposits by $4.9 million. As a result of the significant growth in deposits, short-term borrowed funds, principally federal funds purchased and FHLB advances were lowered by $71.0 million to $53.3 million at year-end 2008.

Loan Portfolio

As of December 31, 2008 compared to December 31, 2007, loans, net of unearned income increased $73.8 million, or 7.6%, to $1.0 billion from $969.9 million. Loan activity continued at a strong pace during much of the year as FMB sought to serve the credit needs of its customers, while at the same time remaining steadfast to its practice of following prudent underwriting standards and being mindful of the economic uncertainties that dominated much of the year and were expected to continue. At December 31, 2008, loans secured by real estate remain the largest category, comprising 57.5% of the total loan portfolio. At December 31, 2008, commercial and construction loans secured by real estate totaled $350.5 million, or 33.6%, of total loans and increased $40.0 million, or 12.9%, compared to year-end 2007. Home equity lines represent 11.8% of total loans, increasing $30.6 million, or 33.1% from year-end 2007.

Commercial business loan balances at December 31, 2008 decreased $10.5 million, or 4.3%, from the prior year, reducing this category composition of total loans to 22.3% by year-end 2008, primarily due to some sizeable paydowns or payoffs over the second half of the year. FMB's consumer loan portfolio consists principally of indirect automobile loans with loans to individuals for household, family and other personal expenditures accounting for remainder of the category. Consumer installment loans represented 20.1% of total loans at December 31, 2008, essentially flat in comparison to the prior year composition in spite of year over year growth of $10.0 million in balances.

The following table presents the composition of FMB's loans, net of unearned income and as a percentage of FMB's total gross loans as of December 31, (dollars in thousands):

	2008		2007		2006		2005		2004	
Mortgage loans on real estate:										
Residential 1-4 family	**$ 58,008**	**5.6%**	$ 59,084	6.1%	$ 71,991	8.1%	$ 50,205	6.5%	$ 47,928	6.8%
Commercial	**232,397**	**22.3%**	201,287	20.8%	167,645	18.8%	132,447	17.1%	121,922	17.2%
Construction	**118,092**	**11.3%**	109,252	11.3%	137,673	15.4%	98,821	12.8%	66,415	9.4%
Second mortgages	**37,703**	**3.6%**	39,625	4.1%	26,347	2.9%	12,863	1.7%	22,998	3.2%
Equity lines of credit	**122,975**	**11.8%**	92,381	9.5%	93,656	10.5%	113,280	14.7%	109,546	15.5%
Multifamily	**30,935**	**3.0%**	24,618	2.5%	16,936	1.9%	15,615	2.0%	18,933	2.7%
Total real estate loans	**600,110**	**57.5%**	526,247	54.3%	514,248	57.6%	423,231	54.8%	387,742	54.7%
Commercial loans	**232,701**	**22.3%**	243,165	25.1%	196,647	22.0%	170,774	22.1%	164,972	23.3%
Consumer installment loans	**209,894**	**20.1%**	199,916	20.6%	182,335	20.4%	178,636	23.1%	155,270	21.9%
All other loans	**997**	**0.1%**	593	0.1%	237	—	210	—	361	0.1%
Loans, net of unearned income	**$1,043,702**	**100.0%**	$969,921	100.0%	$893,467	100.0%	$772,851	100.0%	$708,345	100.0%

Asset Quality

An analysis of the loan portfolio is conducted on a regular basis and is used to help assess the sufficiency of the allowance for loan losses and to determine the necessary provision for loan losses. The volume of loan charge-offs in 2008 was markedly higher than any of the previous 10 years since FMB was formed and reflects the significant downturn in the economy over the past twelve to eighteen months. If the economy continues to be depressed, FMB could continue to see loan charge-offs at higher levels than those experienced in 2008, which would have a detrimental effect on future profitability. In general, the amount of the loan loss provision is determined by an evaluation of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, delinquency trends, underlying collateral values, the amount of actual losses charged to the reserve in a given period and assessment of present and anticipated economic conditions.

Net charge-offs were $2.6 million, or 0.25% of average loans for the year ended December 31, 2008, compared to net charge-offs of $1.2 million, or 0.12%, for the prior year. Net charge-offs for 2008 included commercial loan charge-offs of $1.4 million, and consumer, primarily indirect auto loan, charge-offs of $1.6 million.

To assist in the ongoing evaluation of risks inherent in the loan portfolio, we utilize a credit classification process whereby risk ratings are assigned to each commercial loan at the time of origination. Appropriate adjustments to the risk rating are made no less frequently than quarterly, should any change in the borrower's credit profile occur over the life of the loan that warrants such adjustment. Once a loans credit profile deteriorates to a level defined in FMB's loan policy, the loan is added to the bank's watch list. Loans in the regulatory classifications of Special Mention, Substandard, and Doubtful are accumulated by rating with risk factors applied to each of the classifications. The risk factors increase as the grade deteriorates. If management believes that, with respect to a specific loan, an impaired source of repayment, collateral impairment or a change in a debtor's financial condition presents a heightened risk of non-performance of a particular loan, a portion of the reserve may be specifically allocated to that individual loan. The aggregation of this loan by loan loss analysis comprises the specific reserve. Watch list loans are closely monitored and evaluated by loan administration and senior management who meet with the other commercial lenders on a regular basis to review past due loans, address significant potential problem loans and develop action plans related to such assets. The watch list is also reviewed by FMB's Audit Committee and Board of Directors at each of their meetings.

The allowance for loan losses represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance. The following table summarizes activity in the allowance for loan losses over the past five years ended December 31, (dollars in thousands):

	2008	2007	2006	2005	2004
Balance, beginning of period	**$11,596**	$11,128	$ 9,656	$9,185	$7,621
Loans charged-off:					
Commercial	**1,378**	567	108	283	297
Real estate	**—**	—	—	—	—
Consumer	**1,630**	924	551	589	450
Total loans charged-off	**3,008**	1,491	659	872	747
Recoveries:					
Commercial	**29**	20	78	248	125
Real estate	**—**	—	—	—	—
Consumer	**379**	315	413	178	85
Total recoveries	**408**	335	491	426	210
Net charge-offs	**2,600**	1,156	168	446	537
Provision for loan losses	**4,530**	1,624	1,640	917	2,101
Balance, end of period	**$13,526**	$11,596	$11,128	$9,656	$9,185
Allowance for loan losses to loans	**1.30%**	1.20%	1.25%	1.25%	1.30%
Net charge-offs to average loans	**0.25%**	0.12%	0.02%	0.06%	0.08%

The following table shows an allocation of the allowance for loan losses among loan categories based upon analysis of the loan portfolio's composition, historical loan loss experience and other factors, as well as, the ratio of the related outstanding loan balances to total loans as of December 31, (dollars in thousands).

	2008		2007		2006		2005		2004	
	$	% (1)	$	% (1)	$	% (1)	$	% (1)	$	% (1)
Commercial, financial and agriculture	**$ 4,643**	**22.3%**	$ 4,553	25.1%	$ 3,242	22.0%	$2,813	22.1%	$2,676	23.3%
Real estate construction	**1,867**	**11.3%**	1,384	11.3%	2,484	15.4%	2,155	12.8%	2,050	9.4%
Real estate mortgage	**5,040**	**46.2%**	3,741	42.9%	3,796	42.2%	3,294	42.0%	3,133	45.3%
Consumer & other	**1,976**	**20.2%**	1,918	20.7%	1,606	20.4%	1,394	23.1%	1,326	22.0%
Total	**$13,526**	**100.0%**	$11,596	100.0%	$11,128	100.0%	$9,656	100.0%	$9,185	100.0%

(1) *The percent represents the loan balance divided by total loans.*

The following table presents a five-year comparison of nonperforming assets as of December 31, (dollars in thousands):

	2008	2007	2006	2005	2004
Nonaccrual loans	**$ 5,143**	$ 2,314	$ 1,669	$ 2,563	$ 402
Foreclosed properties	**869**	450	518	—	—
Real estate investment	**—**	—	—	—	—
Total nonperforming assets	**$ 6,012**	$ 2,764	$ 2,187	$ 2,563	$ 402
Loans past due 90 days and accruing interest	**$ —**	$ —	$ —	$ 16	$ 482
Nonperforming assets to loans, foreclosed properties, and real estate investments	**0.58%**	0.28%	0.24%	0.33%	0.06%
Allowance for loan losses to nonaccrual loans	**263.00%**	501.12%	666.75%	376.75%	2284.83%

FMB's policy is for the accrual of interest on commercial and retail loans to be discontinued at the time the loan is 90 days delinquent, regardless of the degree to which the loan may be secured. Accordingly, the loan is then placed in nonaccrual status. At December 31, 2008, loans that were 90 days or more delinquent and classified as nonaccrual loans totaled $5.1 million. Included in the year-end nonaccrual loans total were two commercial loan credit relationships totaling $1.3 million that, based upon the information available at the time, were considered impaired due to the likelihood that the principal and interest payments due would not be collected in accordance with the terms of the respective loan agreements. The $5.1 million in nonaccrual loans at year end is concentrated in seven credit relationships totaling $4.4 million with the remaining in retail credits for automobiles, equity lines, and second mortgages. The largest component, $2.6 million in nonresidential commercial mortgage loans, consists of three relationships with collateral values totaling $3.6 million. An additional $1.0 million with collateral values of $1.3 million secured by first lien mortgages, and the remaining $778 thousand relates to two commercial relationships, the majority of which is backed by an SBA guarantee. Nonaccrual loans are reviewed by management on at least a quarterly basis with regards to payment status and underlying collateral. Visual property inspections are conducted on specific credits with revised third party appraisals obtained based on performance and economic conditions. The increase in nonaccrual loans is primarily attributable to the economic conditions and its affect on our customers. The increase in nonaccrual loans has contributed to the higher overall allowance for loan losses at December 31, 2008.

At December 31, 2008, total nonperforming assets including nonaccrual and foreclosed properties totaled $6.0 million, an increase of $3.2 million since December 31, 2007. The 2008 increases in nonperforming assets were largely related to commercial loans. The primary categories of the nonperforming loans at December 31, 2008 were commercial mortgage loans totaling $2.6 million, home equity loans and lines of credit totaling $1.1 million, and secured commercial loans totaling $779 thousand.

FMB measures impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan is considered impaired when it is probable that we will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect the ultimately collect all amounts due. A valuation allowance is maintained to the extent that the measure of the impaired loan is less than the recorded investment. The balance of impaired loans was $1.3 million and $1.1 million at December 31, 2008 and 2007, respectively, for which there was no specific valuation allowance at December 31, 2008 and a $200,000 specific valuation allowance at December 31, 2007. The average balance of impaired loans was $1.0 million for 2008, $1.2 million for 2007 and $2.4 million for 2006.

At year-end 2008, FMB had ten borrowers with balances totaling $18.0 million that management had classified as substandard. These loans will be closely monitored in light of prevailing economic conditions for indications of weakened source of repayment, collateral impairment, a change in the debtor's financial condition, as well as any other factors pointing to a heightened risk of nonperformance.

FMB did not realize any non-cash, other-than-temporary impairment charges during 2008 as a result of reductions in fair value below original cost of any investments in our investment portfolio, other than the write-down of Freddie Mac preferred stock discussed earlier under "Results of Operations—Net Income." However, we could be required to record future impairment charges on our investment securities if they suffer any declines in value that are considered other-than-temporary. Considerations used to determine other-than-temporary impairment status to individual holdings include the length of time the security has remained in an unrealized loss position, and the percentage of unrealized loss compared to the carrying cost of the security, dividend reduction or suspension, market analyst reviews and expectations, and other pertinent news that would affect expectations for recovery or further decline.

Capital Resources

Capital resources represent one of the fundamental sources of funds which financial institutions leverage to maximize return to shareholders. FMB's capital is reviewed by management on an ongoing basis with reference to the size, composition, and quality of its resources and consistency with regulatory requirements and industry standards. FMB management seeks to maintain its capital structure in a manner that will both assure an adequate level of capital is available to support anticipated asset growth and to absorb potential losses.

The Office of Thrift Supervision, FMB's primary regulator, along with the Federal Reserve and other bank regulatory agencies, 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. FMB had a ratio of total capital to risk-weighted assets of 10.92% and 10.69% at December 31, 2008 and 2007, respectively. FMB's ratio of Tier 1 capital to risk-weighted assets was 8.12% and 7.91% at December 31, 2008 and 2007, respectively, allowing it to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the fully phased-in capital requirements in 2008 and 2007.

The following summarizes FMB's regulatory capital and related ratios over the past two years ended December 31, (dollars in thousands):

	2008	2007
Tier I capital	**$ 90,034**	$ 82,751
Total capital	**121,060**	111,847
Risk-weighted assets	**1,108,771**	1,046,245
Adjusted total assets	**1,301,964**	1,266,393
Risk-based capital ratios:		
Tier I capital to risk-weighted assets:		
Actual	**8.12%**	7.91%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**6.00**	6.00
Total capital to risk-weighted assets:		
Actual	**10.92%**	10.69%
Regulatory minimum	**8.00**	8.00
Well capitalized under prompt corrective action provisions	**10.00**	10.00
Tier 1 capital to adjusted total assets:		
Actual	**6.92%**	6.53%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**5.00**	5.00

Commitments and Contingencies

In the normal course of business, FMB is a party to credit related financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contractual notional amounts of these instruments reflect the extent of the FMB's exposure to credit loss. FMB follows the same credit policies in making commitments as it does for on-balance sheet instruments. For more information pertaining to these commitments, reference Note 14 "Commitments and Contingencies" in the "Notes to the Consolidated Financial Statements" contained in FMB's audited consolidated financial statements beginning on page F-1 of this proxy statement.

RESULTS OF OPERATIONS

Net Income

Net income of $8.1 million for the year ended December 31, 2007 represented a decline of $1.5 million compared to the prior year and reflected the impact of the credit and housing market turmoil in the latter part of the year which culminated with actions by the Federal Reserve. While the genesis of the turmoil, the sub-prime housing markets, does not directly impact FMB's results of operations, the impact of the interest rate actions by the Federal Reserve negatively impacted the net interest margin and net interest income.

Net Interest Income

For the year ended December 31, 2007, net interest income remained essentially flat compared to the prior year. The net interest margin of 3.65% represented a 27 basis point decline from the 2006 margin of 3.92% as the 7.5% increase in earning assets was offset by the inability to offset reductions on earning asset yields with lower funding costs which were driven by competitive local deposit pricing.

Provision for Loan Losses

The provision for loan losses for 2007 of $1.6 million is even with prior year. Year to date net charge-offs of $1.2 million compared to net charge-offs of $168 thousand in 2006 and were concentrated in the latter part of the year coinciding with the beginning of the housing market downturn.

Noninterest Income

For the year ended December 31, 2007 noninterest income increased by $1.1 million to $12.0 million compared to prior year totals of $10.9 million. The 10.1% increase was attributed to increases in trust commissions, broker commissions and deposit service charges.

Noninterest Expense

For the year ended December 31, 2007 noninterest expense of $40.1 million increased by $3.8 million compared to the year ended December 31, 2006. The increase was due to planned branch growth initiatives as personnel expense (salaries and benefits) and property, plant and equipment expense increased $2.2 million and $523 thousand, respectively.

BALANCE SHEET

Balance Sheet Overview

At December 31, 2007, total assets were $1.3 billion, an increase of $52.6 million, or 4.3%, over year-end 2006 total assets. Total loans grew by $76.5 million or 8.6% with increases concentrated in consumer-dealer loans commercial and commercial mortgages. Investment securities decreased by $19.5 million as funds from pay downs, maturities and issuer calls were used to fund loan growth. Year end deposits decreased by $74.4 million, or 7.1%, largely due to time deposit run-off in a competitive rate environment. Total borrowings grew by $118.6 million as short term borrowings increased by $58.6 million and long term advances of $60 million were used to offset the deposit run-off and fund the loan growth.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended June 30, 2009 was $1.5 million, down $774 thousand from the $2.3 million recorded for the same prior year period. Lower overall funding costs and stabilization of loan yields resulted in higher net interest income by approximately $648 thousand. However, increased costs associated with new branches, higher provisions for loan losses and a 5% special FDIC assessment resulted in a decline year over year.

Net income for the first six months of 2009 equates to a return on average assets of 0.21% and a return on average equity of 2.50%. These same ratios for the first six months of 2008 were 0.36% and 5.37%, respectively.

Net Interest Income

For the six months ended June 30, 2009, net interest income increased $648 thousand, or 3.2%, to $20.6 million compared to the same prior year period. As mentioned earlier, a tapering of the volatility in loan yields experienced during the same period a year earlier combined with continued improvement in funding costs overall was the key driver of the improvement in net interest income over the comparable period. A key contributor to the improvement in funding costs during the first six months of 2009 was the maturing of approximately $182 million in CDs during the period at an average rate of 3.40%. Those maturing deposits along with additional CD volume, the combined total of which was approximately $209 million, were added at an average rate of 2.04% for a 136 basis point repricing improvement.

The net interest margin of 3.14% for the six months ended June 30, 2009 compares to 3.30% for the same prior year period. The yield on interest-earning assets and the rate paid on interest-bearing liabilities decreased by 112 basis points to 5.02% and 108 basis points to 2.27%, respectively, from the comparable prior year period. Loan yields fell by 91 basis points to 5.52% and interest-bearing deposit rates dropped by 109 basis points to 2.13% over the same period. The key determinant of the further compression in the net interest margin that occurred during the first six months of 2009 was the growth in Federal Funds sold. This growth resulted from the pace with which deposits and other sources of funds have outpaced or exceeded loan demand. The most significant other source of funds resulted from the early February 2009 issuance of preferred stock, for a total price of $33.9 million, pursuant to the U. S. Treasury's Capital Purchase Program under TARP. As mentioned, the level of deposit growth together with the TARP preferred stock sale proceeds exceeded loan demand, softened by the challenging economic conditions that persisted throughout the quarter. The timing of the receipt of the proceeds from the stock issuance together with market conditions during the quarter made it difficult to leverage the proceeds into loans or mortgage-backed securities at a pace that could have a meaningful positive impact on net interest earnings. Accordingly, overnight investment of the excess funds in Federal Funds sold at an average rate of 19 basis points during the period served to compress the net interest margin. Excluding the estimated impact of the TARP stock issuance proceeds, the yield on earning assets for the six month period would have been 5.26% versus 5.02%, and the net interest margin would have been 3.24%, or 10 basis points above the 3.14% recorded.

Provision for Loan Losses

The provision for loan losses for the six months ended June 30, 2009 of $2.4 million compares to a provision of $2.2 million for the same prior year period as net charge-offs increased from $1.0 million for the 2008 period to $1.9 million for the 2009 period. This represents a 90.7% increase in net charge-offs over the prior year, and an increase in net charge-offs as a percent of average loans to 0.36% compared to .19% for the 2008 period. The increase in the provision for loan losses and the current level of the allowance for loan losses primarily reflects the substantial increase in the level of nonperforming assets over the first six months of the year, management's continued concern about the uncertainty in the economy and its related stress on borrowers, uncertainties as to the future value of the underlying collateral that secures much of the loan portfolio, net charge-offs, delinquency trends and the uncertainties that exist with regard to other credit risk factors that FMB considers in assessing the adequacy of the allowance for loan losses. The allowance for loan losses as a percentage of the loan portfolio was 1.40% at June 30, 2009, compared to 1.23% and 1.30% for the periods ending June 30, 2008 and December 31, 2008, respectively.

Noninterest Income

For the six months ended June 30, 2009, noninterest income was $6.0 million, practically unchanged from the comparable period of 2008. Current period service charges on deposits increased by $196 thousand, while reduced gains on sales of securities and other income for the period declined by $119 thousand.

Noninterest Expense

For the six months ended June 30, 2009, noninterest expense was $22.3 million, an increase of $2.0 million, or 9.9%, from the same period of 2008. Personnel costs, due to year over year growth in new branches and normal compensation increases, accounted for the majority of the increase as this expense category rose $587 thousand. Together, occupancy and equipment expense increased $288 thousand, largely due to the new branches mentioned. The remaining other operating expense categories combined for a net increase of $1.1 million which was attributed to the FDIC assessment of $660 thousand and merger related costs of $501 thousand.

BALANCE SHEET

Balance Sheet Overview

At June 30, 2009, total assets were $1.4 billion compared to $1.3 billion at June 30, 2008. Net loans decreased $37.9 million, or 3.7%, from June 30, 2008. The year over year decrease in loans was spread among all loan categories with the exception of equity lines. Total cash and cash equivalents increased $117.3 million from $33.0 million at June 30, 2008. This increase represented additional liquidity from deposit growth and from a portion of the proceeds from the issuance of FMB's Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B and Series C to the U. S. Treasury under the TARP Capital Purchase Program (see Capital Resources discussion that follows below). Since February 2009, a portion of these funds has been used to fund new loans and purchase mortgage-backed securities, with the remainder generally invested in Federal Funds sold in order to maintain liquidity for anticipated lending activity.

Deposits increased $176.5 million, or 17.4%, from a year ago primarily due to increases in interest-bearing demand deposits, principally money market accounts. FMB's short-term borrowings, primarily overnight advances from the Federal Home Loan Bank of Atlanta, were reduced from $137.6 million at June 30, 2008 to $42.2 million at June 30, 2009. FMB's equity to assets ratio was 8.69% and 6.29% at June 30, 2009 and 2008, respectively.

Like other community banks, FMB has not been spared all of the effects of the national, as well as local, weakening in economic conditions. Accordingly, management has remained focused on maintaining adequate levels of liquidity and capital during this challenging environment and believes its sound risk management practices followed in underwriting and lending will enable it to withstand successfully this period of economic uncertainty.

Loan Portfolio

As of June 30, 2009, net loans decreased to $996 million, a decrease of $37.9 million from $1.0 billion as of June 30, 2008. While loan activity has continued, the pace of growth has moderated in light of current economic conditions. At June 30, 2009, loans secured by real estate remain the largest category, comprising 58.3% of the total loan portfolio.

The following table presents the composition of FMB's loans, net of unearned income and as a percentage of FMB's total gross loans as of June 30, (dollars in thousands):

	2009		2008	
Mortgage loans on real estate:				
Residential 1-4 family	**$ 55,661**	**5.5%**	$ 57,556	5.5%
Commercial	**228,245**	**22.6%**	215,584	20.6%
Construction	**112,245**	**11.1%**	126,827	12.1%
Second mortgages	**32,509**	**3.2%**	39,758	3.8%
Equity lines of credit	**127,825**	**12.7%**	109,267	10.5%
Multifamily	**32,294**	**3.2%**	27,751	2.7%
Total real estate loans	**588,779**	**58.3%**	576,743	55.2%
Commercial loans	**226,135**	**22.4%**	257,813	24.6%
Consumer installment loans	**194,701**	**19.3%**	211,874	20.2%
All other loans	**336**	**—**	182	—
Loans, net of unearned income	**$1,009,951**	**100.0%**	$1,046,612	100.0%

Asset Quality

Asset quality certainly remains an industry-wide concern as declining real estate activity, employment losses, bankruptcies and challenging economic conditions continued during the first six months of 2009. These issues are impacting the markets in which FMB operates, mainly by slowing recovery of real estate and other lending activities and adding to the general economic uncertainty facing businesses and consumers. The risk and performance of FMB's loan portfolio are reflective of the relatively stable markets in which it operates. While these markets have experienced moderate economic activity, in management's opinion they remain in notably better condition than those of well-publicized markets in other states located in the far west, such as Arizona and California, and in the southeast such as Florida and parts of Georgia. FMB does not lend and does not have loan loss exposure in these parts of the country. FMB's loan portfolio also does not include any exposure to subprime mortgage loans.

FMB did experience deterioration in asset quality during the quarter, and current economic circumstances suggest there may be additional softening in the near-term. Because FMB's real estate related loans make up approximately 58% of its loan portfolio at June 30, 2009, management recognizes the level of concentration that exists in real estate loans. Accordingly, residential acquisition and development lending and builder/construction lending have been scaled back as housing activity across the FMB's footprint has declined, but at the same time, FMB continues to work with its builder customers to assist them in their efforts to manage through this difficult real estate environment. While the softening of economic activity negatively impacts delinquency and nonperforming asset levels, the collateralized nature of real estate loans serves to better protect FMB from loss over the long-term.

Management continues to monitor delinquencies, market trends, changes in risk ratings, charge-offs and other indicators of risk in FMB's portfolio, particularly those tied to residential real estate. Adjustments deemed prudent and appropriate are made to the allowance for loan losses as a result. Required resources are devoted to the ongoing review of the loan portfolio and problem assets to minimize any loss to FMB.

Net charge-offs were $1.9 million or 0.36% of loans on an annualized basis, for the six months ended June 30, 2009, compared to net charge-offs of $972 thousand, or 0.19%, in the same period last year. Net charge-offs in the current period included consumer loan related net charge-offs, primarily indirect auto loans, of $816 thousand and commercial loan net charge-offs of $1.0 million.

At June 30, 2009, nonperforming assets totaled $20.7 million, an increase of $18.0 million from a year earlier. The increase was almost solely due to increases in nonaccrual loans, principally related to commercial loans. Foreclosed properties increased $1.3 million to $1.7 million as of the end of the current period as compared to the June 30, 2008 level. Nonperforming loans are closely monitored and evaluated for collection with appropriate loss reserves established whenever necessary.

The allowance for loan losses represents an amount that, in our judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance. The following table summarizes activity in the allowance for loan losses over the periods ended June 30, (dollars in thousands):

	2009	2008
Balance, beginning of period	**$13,526**	$11,596
Loans charged-off:		
Commercial	**1,472**	327
Real estate	**—**	—
Consumer	**1,075**	845
Total loans charged-off	**2,547**	1,172
Recoveries:		
Commercial	**434**	2
Real estate	**—**	—
Consumer	**259**	198
Total recoveries	**693**	200
Net charge-offs	**1,854**	972
Provision for loan losses	**2,420**	2,200
Balance, end of period	**$14,092**	$12,824
Allowance for loan losses to loans	**1.40%**	1.23%
Net charge-offs to average loans	**0.36%**	0.19%

The following table shows an allocation of the allowance for loan losses among loan categories based upon analysis of the loan portfolio's composition, historical loan loss experience and other factors, as well as, the ratio of the related outstanding loan balances to total loans as of June 30, (dollars in thousands).

	2009		2008	
	$	% (1)	$	% (1)
Commercial, financial and agriculture	**$ 4,399**	**22.4%**	$ 4,827	24.6%
Real estate construction	**2,683**	**11.1%**	1,799	12.1%
Real estate mortgage	**5,152**	**47.2%**	4,579	43.1%
Consumer & other	**1,858**	**19.3%**	1,619	20.2%
Total	**$14,092**	**100.0%**	$12,824	100.0%

(1) The percent represents the loan balance divided by total loans.

The following table presents a comparison of nonperforming assets as of June 30, (dollars in thousands):

	2009	2008
Nonaccrual loans	**$18,929**	$ 2,242
Foreclosed properties	**1,747**	450
Real estate investment	**—**	—
Total nonperforming assets	**$20,676**	$ 2,692
Loans past due 90 days and accruing interest	**$ —**	$ —
Nonperforming assets to loans, foreclosed properties, and real estate investments	**2.04%**	0.26%
Allowance for loan losses to nonaccrual loans	**74.45%**	571.99%

At June 30, 2009, loans that were 90 days or more delinquent and classified as nonaccrual loans totaled $18.9 million. Included in the period-end nonaccrual loans total were eight commercial loan credit relationships totaling $10.2 million that, based upon the information available at the time, were considered impaired due to the likelihood that the principal and interest payments due would not be collected in accordance with the terms of the respective loan agreements. The $18.9 million in nonaccrual loans at period end is primarily concentrated in nine borrowing relationships totaling $17.8 million with the remaining in retail loans for automobiles, home equity lines, and second mortgages. The largest component, $5.4 million in residential construction loans, consists of three relationships secured by real estate valued at $6.4 million. The largest of these three relationships, at $4.2 million, relates to a residential construction company that declared bankruptcy during the second quarter of 2009. The borrower is working with management and petitioning the bankruptcy court to improve the bank's collateral position and thereby reduce or mitigate loss to the bank. The increased probability of loss that may result from the borrower's bankruptcy filing was evaluated during our SFAS 114 analysis as of June 30, 2009, resulting in a $1.0 million specific valuation reserve being established. Nonresidential commercial mortgage loans totaling $4.6 million secured by real estate valued at $6.1 million, commercial loans totaling $3.7 million secured primarily by marketable securities valued at $1.6 million, and commercial loans totaling $2.3 million secured by first liens on real estate valued at $2.6 million account for the majority of the remaining nonaccrual balance. The increase in nonaccrual loans is primarily attributable to the economic conditions and its affect on our customers. The increase in nonaccrual loans has contributed to the higher overall allowance for loan losses at June 30, 2009.

Total nonperforming assets including nonaccrual and foreclosed properties at June 30, 2009, totaled $20.7 million, an increase of $14.7 million since December 31, 2008. The 2009 increases in nonperforming assets were largely related to commercial loans placed in nonaccrual status. The primary components of the nonperforming loans at June 30, 2009 were nonaccrual commercial loans totaling $17.8 million, nonaccrual home equity loans and lines of credit totaling $832 thousand, nonaccrual automobile loans totaling $250 thousand and foreclosed properties totaling $1.8 million.

FMB measures impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan is considered impaired when it is probable that we will be unable to collect all interest and principal payments as scheduled in the loan agreement. We do not consider a loan impaired during a period of delay in payment if we expect to ultimately collect all amounts due. A valuation allowance is maintained to the extent that the measure of the impaired loan is less than the recorded investment. The balance of impaired loans was $10.2 million and $667 thousand at June 30, 2009 and 2008, respectively, for which there was a $1.2 million specific valuation allowance at June 30, 2009 and no specific valuation allowance at June 30, 2008. The average balance of impaired loans was $5.1 million for the 2009 period and $789 thousand for the 2008 period.

At June 30, 2009, FMB had fourteen borrowers with balances totaling $14.9 million that management had classified as substandard. These loans are being closely monitored in light of prevailing economic conditions for indications of weakened source of repayment, collateral impairment, a change in the debtor's financial condition, as well as any other factors pointing to a heightened risk of nonperformance.

Capital Resources

FMB had a ratio of total capital to risk-weighted assets of 13.86% and 10.22% at June 30, 2009 and 2008, respectively. FMB's ratio of Tier 1 capital to risk-weighted assets was 11.14% and 7.52% at June 30, 2009 and 2008, respectively, allowing it to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the minimum requirements of "well-capitalized" as established by the regulatory agencies.

In February 2009, FMB issued 33,900 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B, having a liquidation preference of $1,000 per share, and 1,695 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C, to the U. S. Treasury for a total sales price of $33.9 million. The issuance was made pursuant to the U. S. Treasury's Capital Purchase Program under TARP. The Series B preferred stock pays a non-cumulative dividend at a rate of 5% per year during the first five years and thereafter at 9% per year. The Series C preferred stock pays a non-cumulative dividend at a rate of 9% per year. The transaction closed on February 6, 2009.

The following summarizes FMB's regulatory capital and related ratios over the periods ended June 30, (dollars in thousands):

	2009	2008
Tier I capital	**$ 124,271**	$ 84,403
Total capital	**154,638**	114,728
Risk-weighted assets	**1,115,982**	1,122,641
Adjusted total assets	**1,439,467**	1,318,468
Risk-based capital ratios:		
Tier I capital to risk-weighted assets:		
Actual	**11.14%**	7.52%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**6.00**	6.00
Total capital to risk-weighted assets:		
Actual	**13.86%**	10.22%
Regulatory minimum	**8.00**	8.00
Well capitalized under prompt corrective action provisions	**10.00**	10.00
Tier 1 capital to adjusted total assets:		
Actual	**8.63%**	6.40%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**5.00**	5.00

EX-99.2

EX-99.2: FINANCIAL STATEMENTS OF FIRST MARKET BANK
8-K Filed on 09/08/2009 - Period: 09/08/2009
File Number 0-20293

INDEX TO FMB FINANCIAL STATEMENTS

Audited Financial Statements

Unaudited Financial Statements

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
First Market Bank, F.S.B.
Richmond, Virginia

We have audited the accompanying consolidated balance sheets of First Market Bank, F.S.B. and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Market Bank, F.S.B. and its subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the internal control over financial reporting of First Market Bank, F.S.B. and its subsidiaries as of December 31, 2008 and our report dated March 25, 2009, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

McGladrey & Pullen, LLP

Richmond, Virginia
March 25, 2009

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
First Market Bank, F.S.B.
Richmond, Virginia

We have examined management's assertion, included in the accompanying Report of Management – Internal Control Over Financial Reporting, that First Market Bank, F.S.B. maintained effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First Market Bank, F.S.B.'s management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management – Internal Control Over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards required that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and *(c)* provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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

In our opinion, management's assertion that First Market Bank, F.S.B. maintained effective internal control over financial reporting as of December 31, 2008, is fairly stated, in all material respects, based upon the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets and related statements of income, stockholders' equity, and cash flows of First Market Bank, F.S.B. and our report dated March 25, 2009 expressed an unqualified opinion.

We were not engaged to, and we have not performed any procedures with respect to management's assertion regarding compliance with laws and regulations included in the accompanying Report of Management. Accordingly, we do not express any opinion, or any other form of assurance, on management's assertion regarding compliance with laws and regulations.

This report is intended solely for the information and use of the board of directors and management of First Market Bank, F.S.B. and the Office of Thrift Supervision and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Richmond, Virginia
March 25, 2009

First Market Bank, F.S.B. and Subsidiaries

Consolidated Balance Sheets
December 31, 2008 And 2007

	2008	2007
Assets		
Cash and due from banks	**$ 29,563,633**	$ 30,921,957
Interest-bearing deposits in other banks	**1,308,481**	2,693,283
Cash and cash equivalents	**30,872,114**	33,615,240
Securities available-for-sale, at fair value	**143,935,500**	149,149,478
Securities held-to-maturity (fair value $27,596,778 and $62,746,218 for 2008 and 2007, respectively)	**27,128,753**	62,896,029
Federal Home Loan Bank stock, at cost	**6,513,500**	7,408,300
Loans, net of deferred loan fees	**1,043,702,290**	969,921,353
Allowance for loan losses	**(13,525,893)**	(11,595,844)
Net loans	**1,030,176,397**	958,325,509
Premises and equipment, net	**24,390,149**	18,871,198
Accrued interest receivable	**4,103,214**	5,180,870
Deferred tax asset, net	**8,343,943**	6,604,079
Bank-owned life insurance	**14,916,674**	14,125,943
Other assets	**9,162,225**	8,263,444
Total assets	**$ 1,299,542,469**	$ 1,264,440,090
Liabilities And Stockholders' Equity		
Liabilities:		
Deposits:		
Demand deposits:		
Noninterest-bearing	**$ 163,766,663**	$ 164,257,077
Interest-bearing	**385,012,001**	277,260,376
Savings	**33,664,182**	35,006,855
Time deposits:		
Less than $100,000	**332,395,889**	339,597,588
Greater than or equal to $100,000	**160,226,413**	157,965,837
Total deposits	**1,075,065,148**	974,087,733
Short-term borrowed funds	**53,262,715**	124,315,784
Long-term debt	**77,500,000**	77,500,000
Accrued interest payable	**1,566,395**	1,935,350
Accrued expenses and other liabilities	**2,770,864**	4,880,776
Total liabilities	**1,210,165,122**	1,182,719,643
Commitments and contingencies (Notes 6 and 14)		
Stockholders' equity:		
Preferred stock, $100,000 par value; 100 shares authorized and issued	**10,000,000**	10,000,000
Common stock, $0.01 par value; 1,068.262 shares authorized and issued	**11**	10
Additional paid-in capital	**22,732,237**	16,732,238
Retained earnings	**57,364,780**	56,805,503
Accumulated other comprehensive loss	**(719,681)**	(1,817,304)
Total stockholders' equity	**89,377,347**	81,720,447
Total liabilities and stockholders' equity	**$ 1,299,542,469**	$ 1,264,440,090

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

First Market Bank, F.S.B. and Subsidiaries

Consolidated Statements Of Income
Years Ended December 31, 2008 And 2007

	2008	2007
Interest and dividend income:		
Interest and fees on loans	**$ 64,688,179**	$ 69,196,594
Interest and dividends on investment securities:		
U.S. Government agencies and corporations	**8,192,839**	10,067,360
State and municipal securities	**165,305**	148,744
Other securities	**152,997**	268,881
Interest-bearing deposits in other banks	**45,874**	133,308
Total interest and dividend income	**73,245,194**	79,814,887
Interest expense:		
Deposits	**26,226,174**	29,426,364
Short-term borrowed funds	**2,524,667**	5,389,480
Long-term debt	**3,671,966**	2,656,503
Total interest expense	**32,422,807**	37,472,347
Net interest income	**40,822,387**	42,342,540
Provision for loan losses	**4,530,000**	1,624,000
Net interest income after provision for loan losses	**36,292,387**	40,718,540
Noninterest income:		
Service charges on deposit accounts	**7,643,495**	7,465,579
Gain on sale of securities	**95,922**	—
Other-than-temporary impairment of securities	**(4,429,260)**	—
Other	**4,149,191**	4,562,482
Total noninterest income	**7,459,348**	12,028,061
Noninterest expense:		
Personnel	**22,518,679**	20,060,366
Occupancy	**4,684,062**	4,536,553
Equipment	**2,116,588**	2,393,725
Marketing and advertising	**1,354,410**	1,566,699
Data processing	**4,556,328**	5,404,297
Telecommunications	**633,089**	530,722
Legal and professional fees	**1,234,380**	1,084,692
Printing and office supplies	**586,006**	627,966
General and administrative	**4,637,871**	3,943,689
Total noninterest expense	**42,321,413**	40,148,709
Income before income taxes	**1,430,322**	12,597,892
Income tax (benefit) expense	**(28,955)**	4,465,735
Net income	**$ 1,459,277**	$ 8,132,157

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

First Market Bank, F.S.B. and Subsidiaries

Consolidated Statements Of Stockholders' Equity
Years Ended December 31, 2008 And 2007

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity and Comprehensive Income
	Shares	Amount	Shares	Amount				
Balance, December 31, 2006	100	$10,000,000	1,000	$ 10	$16,732,238	$49,573,346	$ (3,044,313)	$73,261,281
Dividends declared on preferred stock	—	—	—	—	—	(900,000)	—	(900,000)
Comprehensive income:								
Net income	—	—	—	—	—	8,132,157	—	8,132,157
Net change in fair value of available-for-sale securities, net of tax expense of $726,624	—	—	—	—	—	—	1,141,305	1,141,305
Change in fair value of interest rate swap derivative	—	—	—	—	—	—	85,704	85,704
Total comprehensive income	—	—	—	—	—	—	—	9,359,166
Balance, December 31, 2007	100	$10,000,000	1,000	$ 10	$16,732,238	$56,805,503	$ (1,817,304)	$81,720,447
Issuance of common stock	**—**	**—**	**68.262**	**1**	**5,999,999**	**—**	**—**	**6,000,000**
Dividends declared on preferred stock	**—**	**—**	**—**	**—**	**—**	**(900,000)**	**—**	**(900,000)**
Comprehensive income:								
Net income	**—**	**—**	**—**	**—**	**—**	**1,459,277**	**—**	**1,459,277**
Net change in fair value of available-for-sale securities, net of tax expense of $726,689	**—**	**—**	**—**	**—**	**—**	**—**	**1,141,403**	**1,141,403**
Change in fair value of interest rate swap derivative	**—**	**—**	**—**	**—**	**—**	**—**	**(43,780)**	**(43,780)**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,556,900**
Balance, December 31, 2008	**100**	**$10,000,000**	**1,068.262**	**$ 11**	**$22,732,237**	**$57,364,780**	**$ (719,681)**	**$89,377,347**

	2008	2007
Disclosure of reclassification amount:		
Unrealized holding gains arising during the period, net of income tax expense of $2,421,668 in 2008 and $0 in 2007	**$ 3,803,690**	$—
Loss reclassification adjustment for losses included in net earnings, net of income tax benefit of $1,694,979 in 2008 and $0 in 2007	**(2,662,287)**	—
	$ 1,141,403	$—

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

First Market Bank, F.S.B. and Subsidiaries

Consolidated Statements Of Cash Flows
Years Ended December 31, 2008 And 2007

	2008	2007
Cash Flows From Operating Activities:		
Net income	**$ 1,459,277**	$ 8,132,157
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion, net	**2,845,549**	3,100,992
Provision for loan losses	**4,530,000**	1,624,000
Loss on disposal of premises and equipment	**—**	10,660
Deferred income taxes	**(2,466,553)**	(974,765)
Realized gain on sales/calls of investment securities	**(95,922)**	—
Loss on other-than-temporary impairment of securities	**4,429,260**	—
Increase in bank-owned life insurance	**(790,731)**	(767,204)
Changes in operating assets and liabilities:		
Accrued interest receivable	**1,077,656**	189,921
Other assets	**(1,318,229)**	(335,935)
Accrued interest payable	**(368,955)**	(415,732)
Other liabilities	**(2,109,912)**	324,428
Net cash provided by operating activities	**7,191,440**	10,888,522
Cash Flows From Investing Activities:		
Net originations of loans	**(75,961,440)**	(77,610,291)
Proceeds from sales of Federal Home Loan Bank stock	**4,297,500**	2,793,100
Proceeds from maturities and issuer calls of securities held-to-maturity	**35,744,530**	2,933,521
Proceeds from maturities and issuer calls of securities available-for-sale	**65,018,943**	21,686,797
Purchases of securities available-for-sale	**(62,256,354)**	(250,000)
Purchases of premises and equipment	**(8,399,391)**	(4,196,988)
Purchases of Federal Home Loan Bank stock	**(3,402,700)**	(5,175,000)
Net cash used in investing activities	**(44,958,912)**	(59,818,861)
Cash Flows From Financing Activities:		
Net increase (decrease) in deposits	**100,977,415**	(74,404,431)
Net increase (decrease) in short-term borrowed funds	**(71,053,069)**	58,620,242
Net increase in long-term debt	**—**	60,000,000
Proceeds from issuance of common stock	**6,000,000**	—
Cash dividends paid on preferred stock	**(900,000)**	(900,000)
Net cash provided by financing activities	**35,024,346**	43,315,811
Net decrease in cash and cash equivalents	**(2,743,126)**	(5,614,528)
Cash and cash equivalents at beginning of year	**33,615,240**	39,229,768
Cash and cash equivalents at end of year	**$ 30,872,114**	$ 33,615,240
Supplemental Disclosure of Cash Flow Information		
Interest paid during the year	**$ 32,791,762**	$ 37,888,079
Income taxes paid during the year	**$ 4,550,000**	$ 5,460,000
Transfer of loans to repossessed assets	**$ 419,448**	$ —

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

Note 1. Nature of Banking Operations and Significant Accounting Policies

Nature of operations: First Market Bank, F.S.B. (the Bank), a federally chartered stock savings bank, began operating November 4, 1997, and provides banking services to the Virginia market. For the period January 1, 2007 through September 29, 2008, the Bank was 49% owned by Ukrop's Thrift Holdings, Inc., 40.1% owned by Markel Corporation, 4.45% owned each by James E. Ukrop and Robert S. Ukrop, and 2% owned by Ukrop's Services, LC. On September 30, 2008, the Bank issued 68.262 shares of Class A common stock for $6.0 million. Markel Corporation was issued 34.131 shares and certain members of the Ukrop family were issued shares totaling 34.131 shares. For the period September 30, 2008 through December 31, 2008, the Bank was 45.87% owned by Ukrop's Thrift Holdings, Inc., 40.72% owned by Markel Corporation, 4.17% owned each by James E. Ukrop and Robert S. Ukrop, 3.20% owned by certain members of the Ukrop family, and 1.87% owned by Ukrop's Services, L.C.

The Bank provides a wide array of financial services for consumers and businesses through its branches located in the Richmond metropolitan area, Fredericksburg, Roanoke and Williamsburg markets. In addition to these activities, the Bank generates noninterest income by sales of personal trust and asset management products and services, and other nondeposit investment services.

The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory agencies.

Basis of presentation: The consolidated financial statements include the accounts and results of operations of the Bank and its subsidiaries, FM Mortgage Holdings, LLC, First Market Advisors, Inc., First Market Title, Inc., and First Market Insurance Agency, Inc. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. All significant intercompany transactions and accounts have been eliminated in consolidation.

A summary of the Bank's significant accounting policies follows:

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly sensitive to significant change relate to the determination of the allowance for loan losses, fair value of investments and the valuation of deferred tax assets.

Cash, cash equivalents and cash flows: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks as well as time deposits in other banks and include cash items in process of clearing, all of which mature within ninety days. Cash flows from loans, federal funds purchased and sold, short-term borrowed funds and deposits are reported net.

The Bank maintains amounts due from banks that, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Investment securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of the deferred tax effect.

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Unrealized gains and losses reflect the difference between fair market value and amortized cost of the individual securities as of the reporting date.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses: The Bank’s allowance for loan losses is the amount considered adequate to absorb probable losses within the loan portfolio based on management’s evaluation of the size and current risk characteristics of the portfolio.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available or as economic conditions change.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Off-balance-sheet credit related financial instruments: In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Interest rate swap agreements: For asset/liability management purposes, the Bank uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Such derivatives are used as part of the asset/liability management process and are linked to specific assets or liabilities, and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period.

The Bank utilizes interest rate swap agreements to convert a portion of its variable-rate debt to a fixed-rate (cash flow hedge), and to convert a portion of its fixed-rate loans to a variable-rate (fair value hedge). Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

Under Statement of Financial Accounting Standards (SFAS) No. 133, the gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income (loss) and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Bank to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

In accordance with SFAS No. 133, hedges of variable-rate debt are accounted for as cash flow hedges, with changes in fair value recorded in derivative assets or liabilities and other comprehensive income (loss). The net settlement (upon close out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt. Hedges of fixed-rate loans are accounted for as fair value hedges, with changes in fair value recorded in derivative assets or liabilities and loan interest income. The net settlement (upon close out or termination) that offsets changes in the value of the loans adjusts the basis of the loans and is deferred and amortized to loan interest income over the life of the loans. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately as non-interest income.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flows statement in the same category as the cash flows of the items being hedged.

<u>Bank premises and equipment</u>: Land is carried at cost. Bank premises and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

<u>Valuation of long-lived assets</u>: The Bank accounts for the valuation of long-lived assets under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

<u>Transfers of financial assets</u>: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

<u>Income taxes</u>: Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

<u>Trust assets and fees</u>: Assets of the trust department, other than trust cash on deposit at the Bank, are not included in these consolidated financial statements because they are not assets of the Bank. Trust fees are recognized in income using the accrual method.

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements: In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Bank has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Bank will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Bank to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations and has not yet determined if the adoption of FIN 48 will have a material effect on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Bank adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal year beginning January 1, 2009. The Bank is currently assessing the potential effect of the adoption of the remaining provisions of SFAS No. 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, with early adoption available in certain circumstances. The Company adopted SFAS 159 effective January 1, 2008. The Company decided not to report any existing financial assets or liabilities at fair value that are not already reported, thus the adoption of this statement did not have a material impact on the consolidated financial statements.

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "*Business Combinations*" ("SFAS 141(R)"). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first year that begins after December 15, 2008. The adoption of this statement will impact the Company's accounting for and reporting of any acquisitions completed after January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "*Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51*" ("SFAS 160"). The Standard will significantly change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008, with early adoption prohibited. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161,*Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*(SFAS No. 161). SFAS No. 161 requires additional disclosures about the objectives of using derivative instruments, the method by which the derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and the effect of derivative instruments and related hedged items on financial position, financial performance, and cash flows. SFAS No. 161 also requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or the Bank's quarter ended March 31, 2009. As this pronouncement is only disclosure-related, it will not have an impact on the financial position and results of operations.

Note 2. Restrictions on Cash and Due From Banks

The Bank may be required to maintain average cash balances on hand or with the Federal Reserve Bank. These reserve balances amounted to $0 at December 31, 2008 and 2007.

Note 3. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity:				
December 31, 2008:				
U.S. Government agencies and corporations	**$ 7,519,073**	**$ 357,824**	**$ —**	**$ 7,876,897**
Mortgage-backed securities	**15,324,093**	**359,365**	**—**	**15,683,458**
State and municipal securities	**3,253,381**	**—**	**(37,108)**	**3,216,273**
Corporate debt securities	**1,032,206**	**—**	**(212,056)**	**820,150**
	$ 27,128,753	**$ 717,189**	**$ (249,164)**	**$ 27,596,778**
December 31, 2007:				
U.S. Government agencies and corporations	$ 41,292,064	$ 18,762	$ (21,904)	$ 41,288,922
Mortgage-backed securities	17,315,406	—	(249,438)	17,065,968
State and municipal securities	3,252,312	90,956	—	3,343,268
Corporate debt securities	1,036,247	11,813	—	1,048,060
	$ 62,896,029	$ 121,531	$ (271,342)	$ 62,746,218

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
December 31, 2008:				
U.S. Government agencies and corporations	**$ 8,848,155**	**$ 172,920**	**$ (107,784)**	**$ 8,913,291**
Mortgage-backed securities	**135,875,399**	**2,201,355**	**(3,181,840)**	**134,894,914**
Corporate debt securities	**408,914**	**—**	**(281,619)**	**127,295**
	$ 145,132,468	**$ 2,374,275**	**$ (3,571,243)**	**$ 143,935,500**
December 31, 2007:				
U.S. Government agencies and corporations	$ 56,701,520	$ 79,502	$ (1,334,395)	$ 55,446,627
Mortgage-backed securities	94,299,805	124,129	(1,904,463)	92,519,471
Corporate debt securities	1,213,213	—	(29,833)	1,183,380
	$ 152,214,538	$ 203,631	$ (3,268,691)	$ 149,149,478

At December 31, 2008 and 2007, securities with a carrying amount of $105,720,973 and $104,520,585, respectively, were pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

Note 3. Investment Securities (Continued)

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2008 follows:

	Securities Held-to-Maturity		Securities Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ —	$ —	$ —	$ —
Over 1 year through 5 years	7,519,073	7,876,897	—	—
After 5 years through 10 years	—	—	7,481,298	7,637,022
Over 10 years	4,285,587	4,036,423	1,775,771	1,403,564
Mortgage-backed securities	15,324,093	15,683,458	135,875,399	134,894,914
	$ 27,128,753	$ 27,596,778	$ 145,132,468	$ 143,935,500

(Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay some obligations with or without call or prepayment penalties.)

For the years ended December 31, 2008 and 2007, proceeds from sales and calls of securities available-for-sale amounted to $43,118,222 and $0, respectively, and gross realized gains amounted to $71,994 and $0, respectively. For the years ended December 31, 2008 and 2007, proceeds from calls of securities intended to be held-to-maturity amounted to $33,803,000 and $0, respectively, and gross realized gains amounted to $23,928 and $0, respectively.

Note 3. Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2008 Continuous Unrealized Losses Existing for:					
	Fair Value	Less than 12 Months	Fair Value	More than 12 Months	Fair Value	Total Unrealized Losses
Securities available-for-sale:						
U.S. Government agencies and corporations	**$ 49,201**	**$ (107,784)**	**$ —**	**$ —**	**$ 49,201**	**$ (107,784)**
Mortgage-backed securities	**18,998,828**	**(2,661,415)**	**14,182,774**	**(520,425)**	**33,181,602**	**(3,181,840)**
Corporate debt securities	**—**	**—**	**127,295**	**(281,619)**	**127,295**	**(281,619)**
	$ 19,048,029	**$ (2,769,199)**	**$ 14,310,069**	**$ (802,044)**	**$ 33,358,098**	**$ (3,571,243)**
Securities held-to-maturity:						
State and municipal securities	**$ 3,216,273**	**$ (37,108)**	**$ —**	**$ —**	**$ 3,216,273**	**$ (37,108)**
Corporate debt securities	**820,150**	**(212,056)**	**—**	**—**	**820,150**	**(212,056)**
	$ 4,036,423	**$ (249,164)**	**$ —**	**$ —**	**$ 4,036,423**	**$ (249,164)**

	December 31, 2007 Continuous Unrealized Losses Existing for:					
	Fair Value	Less than 12 Months	Fair Value	More than 12 Months	Fair Value	Total Unrealized Losses
Securities available-for-sale:						
U.S. Government agencies and corporations	$ 3,253,650	$ (1,332,595)	$ 9,993,800	$ (1,800)	$ 13,247,450	$ (1,334,395)
Mortgage-backed securities	—	—	69,737,127	(1,904,463)	69,737,127	(1,904,463)
Corporate debt securities	1,183,380	(29,833)	—	—	1,183,380	(29,833)
	$ 4,437,030	$ (1,362,428)	$ 79,730,927	$ (1,906,263)	$ 84,167,957	$ (3,268,691)
Securities held-to-maturity:						
U.S. Government agencies and corporations	$ —	$ —	$ 9,290,162	$ (21,904)	$ 9,290,162	$ (21,904)
Mortgage-backed securities	—	—	17,065,968	(249,438)	17,065,968	(249,438)
	$ —	$ —	$ 26,356,130	$ (271,342)	$ 26,356,130	$ (271,342)

Note 3. Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the following primary relevant factors (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the continued ability of the issuer to maintain payment of the coupon or dividend, (4) adverse market, or other significant factors, and (5) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2008, there were $14,310,069 of individual securities that had been in a continuous loss position for more than 12 months. Additionally, these securities had an unrealized loss of $802,044 and primarily consisted of mortgage-backed securities. Since the declines in fair value were attributable to changes in market interest rates, not in estimated cash flows or credit quality, no other-than-temporary impairment was recorded at December 31, 2008.

In September 2008, the United States Department of the Treasury, the Federal Reserve and the Federal Housing Finance Agency (FHFA) announced that the Federal Home Loan Mortgage Corporation (Freddie Mac) would be placed under conservatorship, eliminating dividend payments on its common and preferred stock and giving management control to its regulator, the FHFA. Subsequent to this announcement, the market price of the Freddie Mac preferred stock owned by the Bank declined significantly and based on the closing price of the securities on September 30, 2008, the Bank had an unrealized loss in these securities of $4,429,260. This amount was charged to earnings as an other-than temporary impairment loss.

Preferred stocks are considered to be capital assets for federal income tax purposes and losses on capital assets ordinarily can only be offset against capital gains on corporate tax returns. However, the Emergency Economic Stability Act passed and signed into law on October 3, 2008, included a provision which allowed qualified financial institutions to deduct the Freddie Mac loss as ordinary rather than capital loss. A reduction in the income tax provision and a similar deferred tax asset in the amount of $1,722,982 was recorded.

Note 4. Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) system, the Bank is required to maintain an investment in capital stock of the FHLB in an amount equal to .20% of its total assets as of December 31st of the prior year (up to a maximum of $25 million), plus 4.5% of its outstanding FHLB advances (of which up to 2% of the Bank’s required investment can be utilized from the excess capital stock ownership of other FHLB members). The Bank’s investment is carried at cost.

Note 5. Loans

A summary of the balances of loans at December 31 follows:

	2008	2007
Commercial	**$ 131,466,966**	$ 129,168,547
Construction	**533,260,393**	492,769,850
Consumer	**377,842,814**	346,850,252
	1,042,570,173	968,788,649
Deferred loan fees and costs	**1,132,117**	1,132,704
Loans, net of deferred loan fees	**1,043,702,290**	969,921,353
Allowance for loan losses	**(13,525,893)**	(11,595,844)
Net loans	**$ 1,030,176,397**	$ 958,325,509

An analysis of allowance for loan losses follows:

	2008	2007
Balance at beginning of year	**$11,595,844**	$11,128,212
Provision for loan losses	**4,530,000**	1,624,000
Recoveries of amounts previously charged off	**408,377**	335,254
Amounts charged off	**(3,008,328)**	(1,491,622)
Balance at end of year	**$13,525,893**	$11,595,844

Note 5. Loans (Continued)

The following is a summary of information pertaining to impaired and nonaccrual loans at December 31:

	2008	2007
Impaired loans without a valuation allowance	**$ 1,332,334**	$ —
Impaired loans with a valuation allowance	**—**	1,083,681
Total impaired loans	**$ 1,332,334**	$ 1,083,681
Valuation allowance related to impaired loans	**$ —**	$ 200,000
Total nonaccrual loans	**$ 5,143,000**	$ 2,314,000
Total loans past due ninety days or more and still accruing	**$ —**	$ —

	2008	2007
Average investment in impaired loans	**$ 1,016,590**	$ 1,250,063
Interest income recognized on impaired loans	**$ —**	$ 97,251
Interest income recognized on a cash basis on impaired loans	**$ —**	$ 21,892

No additional funds are committed to be advanced in connection with impaired loans.

Note 6. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31 follows:

	2008	2007
Land and buildings	**$ 15,167,340**	$ 8,559,021
Equipment	**8,554,209**	10,124,748
Leasehold improvements	**10,964,478**	10,655,265
Furniture	**9,066,463**	7,582,846
Construction in progress	**1,639,034**	2,537,035
	45,391,524	39,458,915
Less accumulated depreciation	**(21,001,375)**	(20,587,717)
Premises and equipment, net	**$ 24,390,149**	$ 18,871,198

Depreciation expense for the years ended December 31, 2008 and 2007 amounted to $2,880,440 and $3,124,220, respectively.

Contractual commitments to construct branch facilities at December 31, 2008 and 2007 totaled $0 and $758,755, respectively.

Note 6. Premises and Equipment (Continued)

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2008, pertaining to banking premises and equipment, future minimum lease payments under various operating leases were as follows:

Years Ending December 31,	
2009	$ 3,355,200
2010	3,374,970
2011	3,290,863
2012	2,602,052
2013	2,609,830
Thereafter	23,637,367
Total minimum lease payments	$ 38,870,282

The leases contain options to extend for periods from 5 to 20 years. The cost of such renewals is not included above. Total rent expense for the years ended December 31, 2008 and 2007 amounted to $3,085,112 and $3,033,903, respectively.

Note 7. Deposits

At December 31, 2008, the scheduled maturities of time deposits were as follows:

Years Ending December 31,	
2009	$ 401,492,004
2010	53,819,020
2011	11,559,584
2012	22,965,682
2013	2,786,012
Thereafter	—
	$ 492,622,302

Note 8. Borrowings

Securities sold under agreements to repurchase:

Securities sold under agreements to repurchase, which are classified as secured borrowings, totaled $53,176,715 and $72,815,784 at December 31, 2008 and 2007, respectively, and generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of underlying securities.

Note 8. Borrowings (Continued)

Federal Home Loan Bank advances:

At December 31, 2008 and 2007, the Bank had $60,000,000 and $81,000,000, respectively, of FHLB advances outstanding. The advances are collateralized by certain residential and commercial mortgage loans and investment securities. The weighted average interest rate on advances during 2008 and 2007 were 4.23% and 4.99%, respectively. Scheduled maturities of FHLB advances as of December 31, 2008 are as follows:

Years Ending December 31,	
2009	$ —
2010	60,000,000
2011	—
2012	—
2013	—
Thereafter	—
	$ 60,000,000

Federal funds purchased:

The Bank has unsecured federal funds lines of credit from correspondent banking relationships, which can provide up to $79,500,000 in liquidity. At December 31, 2008 and 2007, $86,000 and $30,500,000, respectively, in federal funds lines of credit borrowings were outstanding.

Subordinated debt securities:

In March, 2006, the Bank issued $17,500,000 aggregate principal amount of Subordinated Debt Securities that mature on April 7, 2016 (the Debt Securities). The Debt Securities bear interest, reset quarterly, equal to LIBOR plus 1.45%. The indenture provides for redemption of the Debt Securities after April 7, 2007 and thereafter equal to the percentage of the principal amount of the Debt Securities as specified below plus, in each case, unpaid interest accrued thereon to the redemption date:

Redemption during the 12-month period beginning April 7,	Percentage of Principal Amount
2009	102%
2010	101%
Therafter	100%

As currently defined by federal bank regulators, the Debt Securities qualify as Tier 2 capital

Note 9. Income Taxes

The components of income tax expense in the consolidated statements of income were as follows:

	2008	2007
Current:		
Federal	**$ 1,961,185**	$4,587,052
State	**476,413**	853,448
Deferred:		
Federal	**(2,182,483)**	(879,426)
State	**(284,070)**	(95,339)
Total income tax (benefit) expense	**$ (28,955)**	$4,465,735

The reasons for the differences between the statutory federal and state income tax rates are summarized as follows:

	2008	2007
Computed "expected" tax expense	**$ 500,613**	$4,409,262
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal tax benefit	**25,599**	459,403
Tax-exempt interest	**(71,238)**	(100,427)
Nondeductible expenses	**44,394**	43,713
Bank-owned life insurance	**(276,756)**	(268,521)
Tax credits	**(77,695)**	(77,695)
Reversal of overaccrual of income taxes	**(173,872)**	—
	$ (28,955)	$4,465,735

The components of the net deferred tax asset at December 31 as follows:

	2008	2007
Deferred tax assets:		
Loans, principally due to allowance for loan losses	**$ 5,261,572**	$4,510,783
Premises and equipment, principally due to differences in depreciation	**712,402**	927,704
Unrealized loss on available-for-sale securities	**465,620**	1,192,309
Other-than-temporary impairment on securities	**1,722,982**	—
Other	**927,884**	787,244
Total gross deferred tax assets	**9,090,460**	7,418,040
Deferred tax liabilities:		
Deferred loan fees and costs	**(440,394)**	(440,622)
Investments, principally due to investment income recognition	**(306,123)**	(373,339)
Total gross deferred tax liabilities	**(746,517)**	(813,961)
Net deferred tax asset	**$ 8,343,943**	$6,604,079

Note 10. Series A Preferred Stock

As of December 31, 2008 and 2007,100 shares of Series A 9% Non-Cumulative Preferred Stock, par value $100,000 per share, were outstanding (Series A Preferred).

Series A Preferred Stockholder's Rights:

Dividends: The holders of Series A Preferred are entitled to receive, when and if declared by the Board of Directors, a non-cumulative quarterly cash dividend at the annual rate of $9,000 per share, or 9% of the stated value of $100,000 per share.

Liquidation: Upon any liquidation of the Bank, the holders of the Series A Preferred are entitled to receive, before any distribution of assets is made to the common stockholders, an amount equal to the sum of $100,000 per share plus the then-current quarterly dividend, whether or not declared, but without accumulation of unpaid dividends for prior dividend periods.

Voting: The holders of Series A Preferred are entitled, voting as a separate class, to elect one director to the Board of Directors. The Bank may not, without an affirmative vote of the holders of at least a majority of the Series A Preferred stockholders, voting as a separate class, (i) create or increase the authorized number of shares of any class or series of stock having a preference senior to the shares of Series A Preferred, or (ii) change the preferences, qualifications, privileges, limitations, restrictions or special or relative rights granted to or imposed upon the shares of Series A Preferred.

Optional redemption: The Series A Preferred is not redeemable prior to March 31, 2011.

Conversion: In the event the Bank was to effect an initial public offering of any class of common stock, holders of Series A Preferred have the right to elect to convert all, or any portion, of their shares into shares of the class of common stock to be offered and sold based on the liquidation price of the shares to be converted and a conversion price equal to 94% of the actual sale price per share offered to the public in the initial public offering. Upon consummation of an initial public offering, any shares of Series A Preferred that remain outstanding will cease to be convertible.

Note 11. Related Party Transactions

The Bank has, in the ordinary course of business, entered into lending transactions with directors and executive officers of the Bank and their affiliates. Management believes these transactions were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present any other unfavorable features. At December 31, 2008 and 2007, the Bank had loans to directors and executive officers of approximately $5,515,000 and $5,275,000, respectively.

Note 11. Related Party Transactions (Continued)

The Bank leases office and certain retail branch space from companies owned by certain directors of the Bank, either directly or indirectly. Details of the principal operating leases with related parties as of December 31, 2008 are as follows:

Name of Related Party	Description of Lease	Date of Lease	Term	Basic Annual Rental Amount	Future Minimum Rental Amounts
Family Holdings, L.C.	Corporate offices - Maywill	10/01/2004	7 years	$ 547,560	$ 7,118,280
Family Holdings, L.C.	Corporate offices - Westmoreland	02/26/2004	10 years	156,076	843,302
Ukrop's Super Markets, Inc.	In-store branches	03/28/2006	10 years	1,136,196	11,361,960

Rent incurred and paid to these related parties was $1,805,097 and $1,786,944 for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease payments to these related parties as of December 31, 2008, are as follows:

Years Ending December 31,	
2009	$ 1,839,832
2010	1,844 514
2011	1,849,337
2012	1,854,304
2013	1,859,421
Thereafter	10,076,134
Total minimum lease payments	$ 19,323,542

The leases contain options to extend for periods from 5 to 20 years. The cost of such renewals is not included above.

First Market Bank has entered into certain loan participation agreements with Evanston Insurance Company ("Evanston"), a subsidiary of Markel Corporation, whereby an undivided interest in the underlying loans has been transferred from the Bank to Evanston. The outstanding balance relative to these loan participation agreements totaled $25,098,808 and $18,741,959 at December 31, 2008 and 2007, respectively.

Note 12. Employee Benefit Plans

The Bank has a 401(k) plan whereby substantially all employees participate in the plan. The plan is a deferred compensation plan, commonly referred to as a 401(k) plan whereby an employee may contribute a portion of their compensation, subject to regulatory limitations. For the years ending December 31, 2008 and 2007, the Bank made matching contributions equal to 100% of each participating employee's contribution made up to 3% of compensation (as defined in the plan), plus a matching contribution of 50% for each participating employee's contribution made between 3% and 5% of compensation (as defined in the plan), resulting in a total matching contribution of up to 4% of an employee's annual compensation. The Bank made additional discretionary contributions to eligible employees equal to 1% of compensation for the years ending December 31, 2008 and 2007. The Bank's matching and discretionary contributions for 2008 and 2007 were approximately $794,000 and $651,000, respectively.

The Supplemental Executive Retirement Plan (SERP) was adopted effective January 1, 2007, for the purpose of supplementing the retirement benefits payable under the Bank's tax-qualified plans for certain of its key executives. The Plan is intended to satisfy the requirements of Code Section 409A and Treasury Regulations thereunder. Participation in the SERP is determined by the Board of Directors. The Bank's contributions to the SERP for the years ended December 31, 2008 and 2007 totaled approximately $30,000 and $25,000, respectively.

Note 13. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2008, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as*well capitalized* under the regulatory framework for prompt corrective action. To be categorized as *well capitalized*, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2008 and 2007 are presented in the following table:

	2008	2007
Tier I capital	**$ 90,034,000**	$ 82,751,000
Total capital	**121,060,000**	111,847,000
Risk-weighted assets	**1,108,771,000**	1,046,245,000
Adjusted total assets	**1,301,964,000**	1,266,393,000
Risk-based capital ratios:		
Tier I capital to risk-weighted assets:		
Actual	**8.12%**	7.91%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**6.00**	6.00
Total capital to risk-weighted assets:		
Actual	**10.92%**	10.69%
Regulatory minimum	**8.00**	8.00
Well capitalized under prompt corrective action provisions	**10.00**	10.00
Tier 1 capital to adjusted total assets:		
Actual	**6.92%**	6.53%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**5.00**	5.00

Note 13. Minimum Regulatory Capital Requirements (Continued)

Dividend restriction:

The approval of the Bank's regulatory agencies is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years. The Bank did not pay dividends in excess of these amounts during the years ended December 31, 2008 and 2007.

Note 14. Commitments and Contingencies

Credit extension commitments:

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual notional amount of those commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2008	2007
Commitments to grant loans	**$ 320,468,894**	$ 332,170,700
Standby letters of credit and financial guarantees written	**19,540,335**	17,892,153
	$ 340,009,229	$ 350,062,853

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary, by the Bank upon extension of credit is based on management's credit evaluation of the counterparty.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit and financial guarantees written are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Essentially all letters of credit have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

Litigation:

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

Note 15. Concentrations of Credit

Substantially all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Such customers are generally depositors of the Bank. As of December 31, 2008 and 2007, all of the Bank's municipal securities were issued by municipalities or localities outside of the Commonwealth of Virginia. The concentrations of credit by type of loan are set forth in Note 5. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 16. Fair Value Measurements

Effective January 1, 2008, the Bank adopted SFAS No. 157,*Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a framework for measuring fair value, creates a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the markets in which the assets are traded, and the transparency and reliability of the assumptions or other inputs used to determine the fair value of an asset or liability as of the measurement date. The three levels are defined 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 for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in less active markets, and model-based valuation techniques and appraisals for which significant assumptions can be derived from or corroborated by observable data in the market.

Level 3: Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Under SFAS No. 157, we group assets at fair value based upon prices obtained from the markets in which the assets are typically traded and the reliability of assumptions used to determine fair value. The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities generally include exchange traded equities and preferred stocks, and highly liquid U.S. Treasury securities. Level 2 securities generally include U.S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow analysis. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities may be classified within Level 3 of the valuation hierarchy. At December 31, 2008, all of the Bank's securities are considered to be within Level 1 or Level 2 of the valuation hierarchy.

Note 16. Fair Value Measurements (Continued)

Derivative Instruments

The fair value of derivative instruments was provided by valuation experts. At December 31, 2008, the total of the Bank's interest rate collar was recorded at its fair value and accordingly the derivative was classified within Level 2 of the valuation hierarchy.

Fair Value on a Recurring Basis

The table below sets forth the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Total	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	$ 143,935,500	$ 49,201	$ 143,886,299	$ —
Derivative instrument	13,519	—	13,519	—
	$ 143,949,019	$ 49,201	$ 143,899,818	$ —

Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and liabilities measured at fair value on a nonrecurring basis include the following:

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. During 2008, the Bank did not record any specific valuation allowances related to impaired loans.

The table below sets forth the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2008:

	Total	Level 1	Level 2	Level 3
Impaired loans	$1,332,334	$ —	$1,332,334	$ —
	$1,332,334	$ —	$1,332,334	$ —

Note 16. Fair Value Measurements (Continued)

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The estimated fair value approximates carrying value for cash and cash equivalents, accrued interest and the cash surrender value of life insurance policies. The methodologies for other financial assets and financial liabilities are discussed below:

<u>Cash and cash equivalents</u>: The carrying amounts of cash and short-term instruments approximate fair value.

<u>Securities</u>: Fair values for securities, excluding Federal Home Loan Bank (FHLB) stock, are based on quoted market prices. The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

<u>Loans receivable</u>: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for mortgage loans and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

<u>Deposits</u>: The fair values disclosed for demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

<u>Short-term borrowed funds</u>: The carrying amounts of federal funds purchased and borrowings under repurchase agreements approximate their fair values.

<u>Subordinated debt</u>: The fair value of the subordinated debt is estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

<u>Accrued interest</u>: The carrying amounts of accrued interest approximate fair value.

<u>Off-balance-sheet credit-related instruments</u>: Fair values for the Bank's off-balance-sheet credit-related instruments statement (loan commitments) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. The fair value for such commitments is nominal.

Note 16. Fair Value Measurements (Continued)

The year-end estimated fair values of financial instruments were as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 30,872,114**	**$ 30,872,114**	$ 33,615,240	$ 33,615,240
Securities	**171,064,253**	**171,532,278**	212,045,507	211,895,696
Federal Home Loan Bank stock	**6,513,500**	**6,513,500**	7,408,300	7,408,300
Loans receivable, net	**1,030,176,397**	**1,028,664,000**	958,325,509	968,038,000
Accrued interest receivable	**4,103,214**	**4,103,214**	5,180,870	5,180,870
Financial liabilities:				
Deposits	**1,075,065,148**	**1,082,583,000**	974,087,733	935,571,000
Short-term borrowed funds	**53,262,715**	**53,262,715**	124,315,784	124,315,784
Long-term debt	**77,500,000**	**79,336,000**	77,500,000	76,272,000
Accrued interest payable	**1,566,395**	**1,566,395**	1,935,350	1,935,350

Note 17. Subsequent Event

On February 6, 2009, the Bank entered into a Letter Agreement with the United States Department of Treasury (Treasury), pursuant to which it issued 33,900 shares of the Bank’s Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B (the Preferred Stock) and 1,695 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C (the Warrant Preferred Stock) for a total price of $33,900,000. Both issuances have a liquidation preference of $1,000 per share. The issuance was made pursuant to the Treasury’s Capital Purchase Program under the Troubled Asset Relief Program. The Preferred Stock pays a non-cumulative dividend at a rate of 5% per year during the first five years and thereafter at 9%. The Warrant Preferred Stock pays a non-cumulative dividend at a rate of 9% per year during its 10-year term. The transaction closed on February 6, 2009.

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Audit Committee
First Market Bank, F.S.B.
Richmond, Virginia

We have audited the accompanying consolidated balance sheets of First Market Bank, F.S.B. and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Market Bank, F.S.B. and its subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Richmond, Virginia
March 18, 2008

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

First Market Bank, F.S.B. and Subsidiaries

Consolidated Balance Sheets
December 31, 2007 And 2006

	2007	2006
Assets		
Cash and due from banks	**$ 30,921,957**	$ 37,053,696
Interest-bearing deposits in other banks	**2,693,283**	2,176,072
Cash and cash equivalents	**33,615,240**	39,229,768
Securities available-for-sale, at fair value	**149,149,478**	168,664,171
Securities held-to-maturity (fair value approximates $62,746,218 and $63,968,528 for 2007 and 2006, respectively)	**62,896,029**	65,860,497
Federal Home Loan Bank stock, at cost	**7,408,300**	5,026,400
Loans	**969,921,353**	893,467,430
Allowance for loan losses	**(11,595,844)**	(11,128,212)
Net loans	**958,325,509**	882,339,218
Premises and equipment, net	**18,871,198**	17,809,090
Accrued interest receivable	**5,180,870**	5,370,791
Deferred tax asset, net	**6,604,079**	6,355,938
Bank-owned life insurance	**14,125,943**	13,358,739
Other assets	**8,263,444**	7,841,805
Total assets	**$ 1,264,440,090**	$ 1,211,856,417
Liabilities And Stockholders' Equity		
Liabilities:		
Deposits:		
Demand deposits:		
Noninterest-bearing	**$ 164,257,077**	$ 186,947,422
Interest-bearing	**277,260,376**	279,506,757
Savings	**35,006,855**	40,457,513
Time deposits :		
Less than $100,000	**339,597,588**	360,905,691
Greater than or equal to $100,000	**157,965,837**	180,674,781
Total deposits	**974,087,733**	1,048,492,164
Short-term borrowed funds	**124,315,784**	65,695,542
Long-term debt	**77,500,000**	17,500,000
Accrued interest payable	**1,935,350**	2,351,082
Accrued expenses and other liabilities	**4,880,776**	4,556,348
Total liabilities	**1,182,719,643**	1,138,595,136
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $100,000 par value; 100 shares authorized and issued	**10,000,000**	10,000,000
Common stock, $0.01 par value; 1,000 shares authorized and issued	**10**	10
Additional paid-in capital	**16,732,238**	16,732,238
Retained earnings	**56,805,503**	49,573,346
Accumulated other comprehensive loss	**(1,817,304)**	(3,044,313)
Total stockholders' equity	**81,720,447**	73,261,281
Total liabilities and stockholders' equity	**$ 1,264,440,090**	$ 1,211,856,417

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

First Market Bank, F.S.B. and Subsidiaries

Consolidated Statements Of Income
Years Ended December 31, 2007 And 2006

	2007	2006
Interest and dividend income:		
Interest and fees on loans	**$ 69,196,594**	$ 59,780,570
Interest and dividends on investment securities:		
U.S. Government agencies and corporations	**10,067,360**	10,933,054
State and municipal securities	**148,744**	148,523
Other securities	**268,881**	264,987
Interest-bearing deposits in other banks	**133,308**	226,635
Total interest income	**79,814,887**	71,353,769
Interest expense:		
Deposits	**29,426,364**	24,677,160
Short-term borrowed funds	**5,389,480**	3,464,938
Long-term debt	**2,656,503**	910,016
Total interest expense	**37,472,347**	29,052,114
Net interest income	**42,342,540**	42,301,655
Provision for loan losses	**1,624,000**	1,640,000
Net interest income after provision for loan losses	**40,718,540**	40,661,655
Noninterest income:		
Service charges on deposit accounts	**7,465,579**	7,271,541
Gain on sale of securities	—	7,902
Other	**4,562,482**	3,576,564
Total noninterest income	**12,028,061**	10,856,007
Noninterest expense:		
Personnel	**20,060,366**	17,884,656
Occupancy	**4,536,553**	3,962,327
Equipment	**2,393,725**	2,445,372
Marketing and advertising	**1,566,699**	1,404,922
Data processing	**5,404,297**	5,233,873
Telecommunications	**530,722**	369,614
Legal and professional fees	**1,084,692**	1,035,324
Printing and office supplies	**627,966**	631,713
General and administrative	**3,943,689**	3,358,736
Total noninterest expense	**40,148,709**	36,326,537
Income before income taxes	**12,597,892**	15,191,125
Income tax expense	**4,465,735**	5,590,580
Net income	**$ 8,132,157**	$ 9,600,545

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

First Market Bank, F.S.B. and Subsidiaries

Consolidated Statements Of Stockholders' Equity
Years Ended December 31, 2007 And 2006

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity and Comprehensive Income
	Shares	Amount	Shares	Amount				
Balance, December 31, 2005	—	$ —	1,000	$ 10	$ 44,999,990	$40,647,801	$ (3,617,417)	$ 82,030,384
Repurchase of common stock	—	—	(490)	(4.90)	(82,698,627)	—	—	(82,699,127)
Issuance of common and preferred stock	100	10,000,000	490	4.90	54,999,995	—	—	65,000,495
Stock issuance costs	—	—	—	—	(569,120)	—	—	(569,120)
Dividends declared on preferred stock	—	—	—	—	—	(675,000)	—	(675,000)
Comprehensive income:								
Net income	—	—	—	—	—	9,600,545	—	9,600,545
Net change in fair value of available-for-sale securities, net of reclassification adjustments and tax benefit of $382,485	—	—	—	—	—	—	600,768	600,768
Change in fair value of interest rate swap derivative	—	—	—	—	—	—	(27,664)	(27,664)
Total comprehensive income	—	—	—	—	—	—	—	10,173,649
Balance, December 31, 2006	100	10,000,000	1,000	10	16,732,238	49,573,346	(3,044,313)	73,261,281
Dividends declared on preferred stock	—	—	—	—	—	**(900,000)**	—	**(900,000)**
Comprehensive income:								
Net income	—	—	—	—	—	**8,132,157**	—	**8,132,157**
Net change in fair value of available-for-sale securities, net of tax benefit of $726,624	—	—	—	—	—	—	**1,141,305**	**1,141,305**
Change in fair value of interest rate swap derivative	—	—	—	—	—	—	**85,704**	**85,704**
Total comprehensive income	—	—	—	—	—	—	—	**9,359,166**
Balance, December 31, 2007	**100**	**$10,000,000**	**1,000**	**$ 10**	**$ 16,732,238**	**$56,805,503**	**$ (1,817,304)**	**$ 81,720,447**

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

First Market Bank, F.S.B. and Subsidiaries

Consolidated Statements Of Cash Flows
Years Ended December 31, 2007 And 2006

	2007	2006
Cash Flows From Operating Activities		
Net income	**$ 8,132,157**	$ 9,600,545
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion, net	**3,100,992**	3,181,840
Provision for loan losses	**1,624,000**	1,640,000
Loss on disposal of premises and equipment	**10,660**	47,052
Gain on sales of securities	**—**	(7,902)
Deferred income taxes	**(974,765)**	(476,045)
Stock dividends from Federal Home Loan Bank	**—**	(157,300)
Increase in bank-owned life insurance	**(767,204)**	(718,242)
Changes in operating assets and liabilities:		
Accrued interest receivable	**189,921**	(772,432)
Other assets	**(335,935)**	(627,904)
Accrued interest payable	**(415,732)**	309,223
Other liabilities	**324,428**	463,821
Net cash provided by operating activities	**10,888,522**	12,482,656
Cash Flows From Investing Activities		
Net originations of loans	**(77,610,291)**	(120,784,175)
Proceeds from sales of Federal Home Loan Bank stock	**2,793,100**	2,295,000
Proceeds from maturities and issuer calls of securities held-to-maturity	**2,933,521**	3,267,509
Proceeds from sales of securities available-for-sale	**—**	9,417,145
Proceeds from maturities and issuer calls of securities available-for-sale	**21,686,797**	84,185,801
Purchases of securities available-for-sale	**(250,000)**	(86,421,875)
Purchases of premises and equipment	**(4,196,988)**	(4,768,099)
Purchases of Federal Home Loan Bank stock	**(5,175,000)**	(1,956,000)
Net cash used in investing activities	**(59,818,861)**	(114,764,694)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	**(74,404,431)**	60,733,143
Net increase in short-term borrowed funds	**58,620,242**	32,652,259
Net increase in long-term debt	**60,000,000**	17,500,000
Proceeds from issuance of common and preferred stock	**—**	64,999,995
Repurchase of common stock	**—**	(82,698,627)
Payment of debt issuance costs	**—**	(569,120)
Cash dividends paid on preferred stock	**(900,000)**	(675,000)
Net cash provided by financing activities	**43,315,811**	91,942,650
Net decrease in cash and cash equivalents	**(5,614,528)**	(10,339,388)
Cash and cash equivalents at beginning of year	**39,229,768**	49,569,156
Cash and cash equivalents at end of year	**$ 33,615,240**	$ 39,229,768
Supplemental Disclosure of Cash Flow Information		
Interest paid during the year	**$ 37,888,079**	$ 28,742,891
Income taxes paid during the year	**$ 5,460,000**	$ 5,969,000

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

Note 1. Nature of Banking Operations and Significant Accounting Policies

Nature of operations: First Market Bank, F.S.B. (the Bank), a federally chartered stock savings bank, began operating November 4, 1997 and provides banking services to the Virginia market. Until March 31, 2006, the Bank was 49% owned by Ukrop's Thrift Holdings, Inc., 49% owned by SunTrust Banks, Inc. (STI), and 2% owned by Ukrop's Services, LC in a joint venture. On March 31, 2006, after obtaining approval from the Office of Thrift Supervision, a corporate reorganization of ownership of the Bank occurred. Under the terms of the reorganization, the Bank repurchased for approximately \$82.7 million all of the common stock owned by STI. The repurchase was funded by raising \$65.0 million in capital through the issuance and sale of shares of Class A Common Stock and Series A Preferred Stock, and \$17.5 million in subordinated debt. For the period March 31, 2006 through December 31, 2007, the Bank was 49% owned by Ukrop's Thrift Holdings, Inc., 40.1% owned by Markel Corporation, 4.45% owned each by James E. Ukrop and Robert S. Ukrop, and 2% owned by Ukrop's Services, LC.

The Bank provides a wide array of financial services for consumers and businesses through its branches located in the Richmond metropolitan area, Fredericksburg, Roanoke and Williamsburg markets. In addition to these activities, the Bank generates noninterest income by sales of personal trust and asset management products and services, and other nondeposit investment services.

The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory agencies.

Basis of presentation: The consolidated financial statements include the accounts and results of operations of the Bank and its subsidiaries, FM Mortgage Holdings, LLC, First Market Advisors, Inc., First Market Title, Inc., and First Market Insurance Agency, Inc. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. All significant intercompany transactions and accounts have been eliminated in consolidation.

A summary of the Bank's significant accounting policies follows:

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly sensitive to significant change relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash, cash equivalents and cash flows: For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks as well as time deposits in other banks and include cash items in process of clearing, all of which mature within ninety days. Cash flows from loans, federal funds purchased and sold, short-term borrowed funds and deposits are reported net.

The Bank maintains amounts due from banks that, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Investment securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of the deferred tax effect.

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Unrealized gains and losses reflect the difference between fair market value and amortized cost of the individual securities as of the reporting date.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses: The Bank's allowance for loan losses is the amount considered adequate to absorb probable losses within the loan portfolio based on management's evaluation of the size and current risk characteristics of the portfolio.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available or as economic conditions change.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Off-balance-sheet credit related financial instruments: In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Interest rate swap agreements: For asset/liability management purposes, the Bank uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Such derivatives are used as part of the asset/liability management process and are linked to specific assets or liabilities, and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period.

The Bank utilizes interest rate swap agreements to convert a portion of its variable-rate debt to a fixed-rate (cash flow hedge), and to convert a portion of its fixed-rate loans to a variable-rate (fair value hedge). Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

Under Statement of Financial Accounting Standards (SFAS) No. 133, the gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income (loss) and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Bank to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

Beginning January 1, 2001, in accordance with SFAS No. 133, hedges of variable-rate debt are accounted for as cash flow hedges, with changes in fair value recorded in derivative assets or liabilities and other comprehensive income (loss). The net settlement (upon close out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt. Hedges of fixed-rate loans are accounted for as fair value hedges, with changes in fair value recorded in derivative assets or liabilities and loan interest income. The net settlement (upon close out or termination) that offsets changes in the value of the loans adjusts the basis of the loans and is deferred and amortized to loan interest income over the life of the loans. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately as non-interest income.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flows statement in the same category as the cash flows of the items being hedged.

Bank premises and equipment: Land is carried at cost. Bank premises and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Valuation of long-lived assets: The Bank accounts for the valuation of long-lived assets under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

Transfers of financial assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income taxes: Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Trust assets and fees: Assets of the trust department, other than trust cash on deposit at the Bank, are not included in these consolidated financial statements because they are not assets of the Bank. Trust fees are recognized in income using the accrual method.

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48),*Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of retained earnings. Additional disclosures about the amounts of such liabilities will be required also. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007. The Bank will be required to adopt FIN 48 in its 2008 annual financial statements. Management has not assessed the impact of FIN 48 on its consolidated financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

At its September 2006 meeting, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04,*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 or Accounting Principles Board Opinion ("APB") No. 12, *Omnibus Opinion – 1967.* The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 31, 2007. The adoption of EITF 06-04 is not expected to have a material impact on the Bank's financial position, results of operation and cash flows.

In June 2006, the EITF released Issue 06-05,*Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance.* On September 7, 2006, the EITF concluded that a policyholder should consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract. Amounts that are recoverable by the policyholder at the discretion of the insurance company should be excluded from the amount that could be realized. Amounts that are recoverable by the policyholder in periods beyond one year from the surrender of the policy should be discounted utilizing an appropriate rate of interest. The effective date of EITF 06-05 is for fiscal years beginning after December 15, 2006. The adoption of EITF 06-05 did not have a material impact on the Bank's financial position, results of operation and cash flows.

In March 2007, the FASB issued Emerging Issues Task Force Issue No. 06-10,*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). EITF 06-10 provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company does not expect the adoption of EITF 06-10 effective January 1, 2008 to have a material effect on its results of operations, financial position or liquidity.

In September 2006, the FASB issued SFAS No. 157,*Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position FAS 157-2(FSP FAS 157-2) that delays, by one year, the effective date of SFAS 157 for the majority of non-financial assets and non-financial liabilities. The Company is still required to adopt SFAS 157 as of January 1, 2008 for

Note 1. Nature of Banking Operations and Significant Accounting Policies (Continued)

certain assets and liabilities of its Financial Services operations. The Company is currently evaluating the effects of SFAS 157 and FSP FAS 157-2 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159,*The Fair Value Option for Financial Assets and Financial Liabilities (including an amendment of SFAS No. 115)* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of this statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities at their respective fair values without having to apply complex hedge accounting provisions. An early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, *Fair Value Measurements.* The choice by an entity to adopt early must be made within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued interim financial statements. The Bank elected not to early adopt SFAS No. 159.

Note 2. Restrictions on Cash and Due From Banks

The Bank may be required to maintain average cash balances on hand or with the Federal Reserve Bank. At December 31, 2007 and 2006, these reserve balances amounted to $0 and $2,695,000, respectively.

Note 3. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity:				
December 31, 2007:				
U.S. Government agencies and corporations	**$ 41,292,064**	**$ 18,762**	**$ (21,904)**	**$ 41,288,922**
Mortgage-backed securities	**17,315,406**	**—**	**(249,438)**	**17,065,968**
State and municipal securities	**3,252,312**	**90,956**	**—**	**3,343,268**
Corporate debt securities	**1,036,247**	**11,813**	**—**	**1,048,060**
	$ 62,896,029	**$ 121,531**	**$ (271,342)**	**$ 62,746,218**
December 31, 2006:				
U.S. Government agencies and corporations	$ 41,280,636	$ —	$ (1,337,926)	$ 39,942,710
Mortgage-backed securities	19,552,958	—	(631,454)	18,921,504
State and municipal securities	3,251,283	81,790	—	3,333,073
Corporate debt securities	1,775,620	910	(5,289)	1,771,241
	$ 65,860,497	$ 82,700	$ (1,974,669)	$ 63,968,528

Note 3. Investment Securities (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
December 31, 2007:				
U.S. Government agencies and corporations	**$ 56,701,520**	**$ 79,502**	**$ (1,334,395)**	**$ 55,446,627**
Mortgage-backed securities	**94,299,805**	**124,129**	**(1,904,463)**	**92,519,471**
Corporate debt securities	**1,213,213**	**—**	**(29,833)**	**1,183,380**
	$ 152,214,538	**$ 203,631**	**$ (3,268,691)**	**$ 149,149,478**
December 31, 2006:				
U.S. Government agencies and corporations	$ 57,323,322	$ 961	$ (1,192,290)	$ 56,131,993
Mortgage-backed securities	113,583,147	57,264	(3,794,511)	109,845,900
Corporate debt securities	2,690,691	—	(4,413)	2,686,278
	$ 173,597,160	$ 58,225	$ (4,991,214)	$ 168,664,171

At December 31, 2007 and 2006, securities with a carrying amount of $104,520,585 and $84,883,084, respectively, were pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2007 follows:

	Securities Held- to-Maturity		Securities Available- for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ 1,997,936	$ 1,998,360	$ 2,613,732	$ 2,619,383
Over 1 year through 5 years	24,988,195	25,003,500	40,594,740	40,623,331
After 5 years through 10 years	14,305,933	14,287,062	8,156,804	8,190,427
Over 10 years	4,288,559	4,391,328	6,549,457	5,196,866
Mortgage-backed securities	17,315,406	17,065,968	94,299,805	92,519,471
	$ 62,896,029	$ 62,746,218	$ 152,214,538	$ 149,149,478

(Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay some obligations with or without call or prepayment penalties.)

For the years ended December 31, 2007 and 2006, proceeds from sales of securities available-for-sale amounted to $0 and $9,417,145, respectively, gross realized gains amounted to $0 and $18,154, respectively, and gross realized losses amounted to $0 and $10,252, respectively. There were no sales of held-to-maturity securities during 2007 and 2006.

Note 3. Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2007 and 2006, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2007 Continuous Unrealized Losses Existing for:					
	Fair Value	Less than 12 Months	Fair Value	More than 12 Months	Fair Value	Total Unrealized Losses
Securities available-for-sale:						
U.S. Government agencies and corporations	**$ 3,253,650**	**$ (1,332,595)**	**$ 9,993,800**	**$ (1,800)**	**$ 13,247,450**	**$ (1,334,395)**
Mortgage-backed securities	**—**	**—**	**69,737,127**	**(1,904,463)**	**69,737,127**	**(1,904,463)**
Corporate debt securities	**1,183,380**	**(29,833)**	**—**	**—**	**1,183,380**	**(29,833)**
	$ 4,437,030	**$ (1,362,428)**	**$ 79,730,927**	**$ (1,906,263)**	**$ 84,167,957**	**$ (3,268,691)**
Securities held-to-maturity:						
U.S. Government agencies and corporations	**$ —**	**$ —**	**$ 9,290,162**	**$ (21,904)**	**$ 9,290,162**	**$ (21,904)**
Mortgage-backed securities	**—**	**—**	**17,065,968**	**(249,438)**	**17,065,968**	**(249,438)**
	$ —	**$ —**	**$ 26,356,130**	**$ (271,342)**	**$ 26,356,130**	**$ (271,342)**

	December 31, 2006 Continuous Unrealized Losses Existing for:					
	Fair Value	Less than 12 Months	Fair Value	More than 12 Months	Fair Value	Total Unrealized Losses
Securities available-for-sale:						
U.S. Government agencies and corporations	$ 9,066,432	$ (11,948)	$ 46,564,601	$ (1,180,342)	$ 55,631,033	$ (1,192,290)
Mortgage-backed securities	2,877,789	(3,581)	99,475,012	(3,790,930)	102,352,801	(3,794,511)
Corporate debt securities	2,686,278	(4,413)	—	—	2,686,278	(4,413)
	$ 14,630,499	$ (19,942)	$ 146,039,613	$ (4,971,272)	$ 160,670,112	$ (4,991,214)
Securities held-to-maturity:						
U.S. Government agencies and corporations	$ —	$ —	$ 39,942,710	$ (1,337,926)	$ 39,942,710	$ (1,337,926)
Mortgage-backed securities	—	—	18,921,504	(631,454)	18,921,504	(631,454)
Corporate debt security	729,981	(5,289)	—	—	729,981	(5,289)
	$ 729,981	$ (5,289)	$ 58,864,214	$ (1,969,380)	$ 59,594,195	$ (1,974,669)

Note 3. Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007 and 2006, 22 and 41 individual securities, respectively, have unrealized losses with an aggregate depreciation of less than 2% and 4%, respectively, of the Bank's amortized cost basis. The unrealized losses are all related to the change in market interest rates and not to the credit quality of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4. Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) system, the Bank is required to maintain an investment in capital stock of the FHLB in an amount equal to .20% of its total assets as of December 31st of the prior year (up to a maximum of $25 million), plus 4.5% of its outstanding FHLB advances (of which up to 2% of the Bank's required investment can be utilized from the excess capital stock ownership of other FHLB members). No ready market exists for the FHLB stock and it has no quoted market value; therefore, cost approximates market at December 31, 2007 and 2006.

Note 5. Loans

A summary of the balances of loans at December 31 follows:

	2007	2006
Commercial	**$ 129,168,547**	$ 129,521,701
Construction	**492,769,850**	436,017,575
Consumer	**346,850,252**	326,757,569
	968,788,649	892,296,845
Deferred loan fees and costs	**1,132,704**	1,170,585
Allowance for loan losses	**(11,595,844)**	(11,128,212)
Net loans	**$ 958,325,509**	$ 882,339,218

An analysis of allowance for loan losses follows:

	2007	2006
Balance at beginning of year	**$ 11,128,212**	$ 9,655,579
Provision for loan losses	**1,624,000**	1,640,000
Recoveries of amounts previously charged off	**335,254**	491,110
Amounts charged off	**(1,491,622)**	(658,477)
Balance at end of year	**$ 11,595,844**	$ 11,128,212

Note 5. Loans (Continued)

The following is a summary of information pertaining to impaired and nonaccrual loans at December 31:

	2007	2006
Impaired loans without a valuation allowance	**$ —**	$ 2,860,879
Impaired loans with a valuation allowance	**1,083,681**	71,061
Total impaired loans	**$ 1,083,681**	$ 2,931,940
Valuation allowance related to impaired loans	**$ 200,000**	$ 71,061
Total nonaccrual loans	**$ 2,314,000**	$ 1,669,403
Total loans past-due ninety days or more and still accruing	**$ —**	$ 905

	2007	2006
Average investment in impaired loans	**$ 1,250,063**	$ 2,414,000
Interest income recognized on impaired loans	**$ 97,251**	$ 279,201
Interest income recognized on a cash basis on impaired loans	**$ 21,892**	$ 211,283

No additional funds are committed to be advanced in connection with impaired loans.

Note 6. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31 follows:

	2007	2006
Land and buildings	**$ 8,559,021**	$ 7,705,004
Equipment	**10,124,748**	9,748,520
Leasehold improvements	**10,655,265**	10,232,633
Furniture	**7,582,846**	6,642,091
Construction in progress	**2,537,035**	963,073
	39,458,915	35,291,321
Less accumulated depreciation	**(20,587,717)**	(17,482,231)
Premises and equipment, net	**$ 18,871,198**	$ 17,809,090

Depreciation expense for the years ended December 31, 2007 and 2006 amounted to $3,124,220 and $3,206,941, respectively.

Contractual commitments to construct branch facilities at December 31, 2007 and 2006 totaled $758,755 and $731,009, respectively.

Note 6. Premises and Equipment (Continued)

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2007, pertaining to banking premises and equipment, future minimum lease payments under various operating leases were as follows:

Years Ending December 31,	
2008	$ 3,168,550
2009	3,175,414
2010	3,185,309
2011	3,104,876
2012	2,416,066
Thereafter	22,009,732
Total minimum lease payments	$ 37,059,947

The leases contain options to extend for periods from 5 to 20 years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2007 and 2006 amounted to $3,033,903 and $2,454,844, respectively.

Note 7. Deposits

At December 31, 2007, the scheduled maturities of time deposits were as follows:

Years Ending December 31,	
2008	$ 398,025,994
2009	89,942,578
2010	4,789,581
2011	189,064
2012	1,918,964
Thereafter	2,697,244
	$ 497,563,425

Note 8. Borrowings

Securities sold under agreements to repurchase:

Securities sold under agreements to repurchase, which are classified as secured borrowings, totaled $72,815,784 and $46,417,844 at December 31, 2007 and 2006, respectively, and generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of underlying securities.

Note 8. Borrowings (Continued)

Federal Home Loan Bank advances:

At December 31, 2007 and 2006 the Bank had $81 million and $0, respectively, of FHLB advances outstanding. The advances are collateralized by certain residential and commercial mortgage loans and investment securities. The weighted average interest rate on advances during 2007 and 2006 were 4.99% and 5.41%, respectively. Scheduled maturities of FHLB advances as of December, 31 2007 are as follows:

Years Ending December 31,	
2008	$ 21,000,000
2009	—
2010	60,000,000
2011	—
2012	—
Thereafter	—
	$ 81,000,000

Federal funds purchased:

The Bank has unsecured federal funds lines of credit from correspondent banking relationships, which can provide up to $65,000,000 in liquidity. At December 31, 2007 and 2006, $30,500,000 and $19,277,698, respectively, in federal funds lines of credit borrowings were outstanding.

Subordinated debt securities:

In March, 2006, the Bank issued $17,500,000 aggregate principal amount of Subordinated Debt Securities that mature on April 7, 2016 (the “Debt Securities”). The Debt Securities bear interest, reset quarterly, equal to LIBOR plus 1.45%. The indenture provides for redemption of the Debt Securities after April 7, 2007 and thereafter equal to the percentage of the principal amount of the Debt Securities as specified below plus, in each case, unpaid interest accrued thereon to the redemption date:

Redemption during the 12-month period beginning April 7,	Percentage of Principal Amount
2008	103%
2009	102%
2010	101%
2011	100%
2012	100%
Thereafter	100%

As currently defined by federal bank regulators, the Debt Securities qualify as Tier 2 capital.

Note 9. Income Taxes

The components of income tax expense in the consolidated statements of income were as follows:

	2007	2006
Current:		
Federal	**$4,587,052**	$5,090,912
State	**853,448**	975,713
Deferred:		
Federal	**(879,426)**	(432,942)
State	**(95,339)**	(43,103)
Total income tax expense	**$4,465,735**	$5,590,580

The reasons for the differences between the statutory federal and state income tax rates are summarized as follows:

	2007	2006
Computed “expected” tax expense	**$4,409,262**	$5,316,894
Increase (decrease) in income taxes resulting from:		
State income taxes, net of federal tax benefit	**459,403**	561,364
Tax-exempt interest	**(100,427)**	(101,671)
Nondeductible expenses	**43,713**	33,975
Bank-owned life insurance	**(268,521)**	(251,385)
Tax credits	**(77,695)**	(77,695)
Other, net	**—**	109,098
	$4,465,735	$5,590,580

The components of the net deferred tax asset at December 31 as follows:

	2007	2006
Deferred tax assets:		
Loans, principally due to allowance for loan losses	**$4,510,783**	$4,328,874
Premises and equipment, principally due to differences in depreciation	**927,704**	279,373
Unrealized loss on available-for-sale securities	**1,192,309**	1,918,933
Other	**787,244**	624,511
Total gross deferred tax assets	**7,418,040**	7,151,691
Deferred tax liabilities:		
Deferred loan fees and costs	**(440,622)**	(455,358)
Investments, principally due to investment income recognition	**(373,339)**	(340,395)
Total gross deferred tax liabilities	**(813,961)**	(795,753)
Net deferred tax asset	**$6,604,079**	$6,355,938

Note 10. Series A Preferred Stock

As of December 31, 2007 and 2006, 100 shares of Series A 9% Non-Cumulative Preferred Stock, par value $100,000 per share, were outstanding (Series A Preferred).

Series A Preferred Stockholder's Rights:

Dividends: The holders of Series A Preferred are entitled to receive, when and if declared by the Board of Directors, a non-cumulative quarterly cash dividend at the annual rate of $9,000 per share, or 9% of the stated value of $100,000 per share.

Liquidation: Upon any liquidation of the Bank, the holders of the Series A Preferred are entitled to receive, before any distribution of assets is made to the common stockholders, an amount equal to the sum of $100,000 per share plus the then-current quarterly dividend, whether or not declared, but without accumulation of unpaid dividends for prior dividend periods.

Voting: The holders of Series A Preferred are entitled, voting as a separate class, to elect one director to the Board of Directors. The Bank may not, without an affirmative vote of the holders of at least a majority of the Series A Preferred stockholders, voting as a separate class, (i) create or increase the authorized number of shares of any class or series of stock having a preference senior to the shares of Series A Preferred, or (ii) change the preferences, qualifications, privileges, limitations, restrictions or special or relative rights granted to or imposed upon the shares of Series A Preferred.

Optional redemption: The Series A Preferred is not redeemable prior to March 31, 2011.

Conversion: In the event the Bank was to effect an initial public offering of any class of common stock, holders of Series A Preferred have the right to elect to convert all, or any portion, of their shares into shares of the class of common stock to be offered and sold based on the liquidation price of the shares to be converted and a conversion price equal to 94% of the actual sale price per share offered to the public in the initial public offering. Upon consummation of an initial public offering, any shares of Series A Preferred that remain outstanding will cease to be convertible.

Note 11. Related Party Transactions

The Bank has, in the ordinary course of business, entered into lending transactions with directors and executive officers of the Bank and their affiliates. Management believes these transactions were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present any other unfavorable features. At December 31, 2007 and 2006, the Bank had loans to directors and executive officers of approximately $5,275,000 and $4,963,000, respectively.

Note 11. Related Party Transactions (Continued)

The Bank leases office and certain retail branch space from companies owned by certain directors of the Bank, either directly or indirectly. Details of the principal operating leases with related parties as of December 31, 2007 are as follows:

Name of Related Party	Description of Lease	Date of Lease	Term	Basic Annual Rental Amount	Future Minimum Rental Amounts
Family Holdings, L.C.	Corporate offices – Maywill	10/01/2004	7 years	$ 541,767	$ 7,584,738
Family Holdings, L.C.	Corporate offices – Westmoreland	02/26/2004	10 years	151,530	994,832
Ukrop's Super Markets, Inc.	In-store branches	03/28/2006	10 years	1,106,000	12,166,000

Rent incurred and paid to these related parties was $1,786,944 and $1,436,980 for the years ended December 31, 2007 and 2006, respectively.

Future minimum lease payments to these related parties as of December 31, 2007, are as follows:

Years Ending December 31,	
2008	$ 1,799,297
2009	1,803,843
2010	1,808,525
2011	1,813,348
2012	1,818,315
Thereafter	11,702,242
Total minimum lease payments	$ 20,745,570

The leases contain options to extend for periods from 5 to 20 years. The cost of such rentals is not included above.

First Market Bank has entered into certain loan participation agreements with Evanston Insurance Company ("Evanston"), a subsidiary of Markel Corporation, whereby an undivided interest in the underlying loans has been transferred from the Bank to Evanston. The outstanding balance relative to these loan participation agreements totaled $18,741,959 and $6,986,017 for the years ended December 31, 2007 and 2006, respectively.

Note 12. Employee Benefit Plans

The Bank has a 401(k) plan whereby substantially all employees participate in the plan. The plan is a deferred compensation plan, commonly referred to as a 401(k) plan whereby an employee may contribute a portion of their compensation, subject to regulatory limitations. For the years ending December 31, 2007 and 2006, the Bank made matching contributions equal to 100% of each participating employee's contribution made up to 3% of compensation (as defined in the plan), plus a matching contribution of 50% for each participating employee's contribution made between 3% and 5% of compensation (as defined in the plan), resulting in a total matching contribution of up to 4% of an employee's annual compensation. The Bank made additional discretionary contributions to eligible employees equal to 1% of compensation for the years ending December 31, 2007 and 2006. The Bank's matching and discretionary contributions for 2007 and 2006 were approximately $651,000 and $617,000, respectively.

The Supplemental Executive Retirement Plan (SERP) was adopted effective January 1, 2007, for the purpose of supplementing the retirement benefits payable under the Bank's tax-qualified plans for certain of its key executives. The Plan is intended to satisfy the requirements of Code Section 409A and Treasury Regulations thereunder. Participation in the SERP is determined by the Board of Directors. The Bank's contributions to the SERP for the year ended December 31, 2007 totaled $24,576.

Note 13. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2007, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as*well capitalized* under the regulatory framework for prompt corrective action. To be categorized as *well capitalized,* the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 are presented in the following table:

	2007	2006
Tier I capital	**$ 84,324,000**	$ 76,305,000
Total capital	**113,420,000**	104,933,000
Risk-weighted assets	**1,046,277,000**	968,556,000
Adjusted total assets	**1,266,481,000**	1,216,622,000
Risk-based capital ratios:		
Tier I capital to risk-weighted assets:		
Actual	**8.06%**	7.88%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**6.00**	6.00
Total capital to risk-weighted assets:		
Actual	**10.84%**	10.83%
Regulatory minimum	**8.00**	8.00
Well capitalized under prompt corrective action provisions	**10.00**	10.00
Tier 1 capital to adjusted total assets:		
Actual	**6.66%**	6.27%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**5.00**	5.00

Note 13. Minimum Regulatory Capital Requirements (Continued)

Dividend restriction:

The approval of the Bank's regulatory agencies is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years. The Bank did not pay dividends in excess of these amounts during the years ended December 31, 2007 and 2006.

Note 14. Commitments and Contingencies

Credit extension commitments:

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual notional amount of those commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2007 and 2006, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2007	2006
Commitments to grant loans	**$ 332,170,700**	$ 354,663,927
Standby letters of credit and financial guarantees written	**17,892,153**	21,213,879
	$ 350,062,853	$ 375,877,806

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary, by the Bank upon extension of credit is based on management's credit evaluation of the counter-party.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit and financial guarantees written are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Essentially all letters of credit have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

Litigation:

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

Note 15. Concentrations of Credit

Substantially all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Such customers are generally depositors of the Bank. As of December 31, 2007 and 2006, all of the Bank's municipal securities were issued by municipalities or localities outside of the Commonwealth of Virginia. The concentrations of credit by type of loan are set forth in Note 5. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 16. Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107, *Disclosure About Fair Value of Financial Instruments,* excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

The estimated fair values of the Bank's financial instruments at December 31, were as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 33,615,240**	**$ 33,615,240**	$ 39,229,768	$ 39,229,768
Securities	**212,045,507**	**211,895,696**	234,524,668	232,632,699
Federal Home Loan Bank stock	**7,408,300**	**7,408,300**	5,026,400	5,026,400
Loans receivable, net	**958,325,509**	**974,364,000**	882,339,218	877,824,000
Accrued interest receivable	**5,180,870**	**5,180,870**	5,370,791	5,370,791
Financial liabilities:				
Deposits	**974,087,733**	**935,571,000**	1,048,492,164	995,315,000
Short-term borrowed funds	**124,315,784**	**124,315,784**	65,695,542	65,695,542
Long-term debt	**77,500,000**	**76,272,000**	17,500,000	17,504,000
Accrued interest payable	**1,935,350**	**1,935,350**	2,351,082	2,351,082

Note 16. Fair Value of Financial Instruments (Continued)

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

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair value.

Securities: Fair values for securities, excluding Federal Home Loan Bank (FHLB) stock, are based on quoted market prices. The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for mortgage loans and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits: The fair values disclosed for demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowed funds: The carrying amounts of federal funds purchased and borrowings under repurchase agreements approximate their fair values.

Subordinated debt: The fair value of the subordinated debt is estimated using discounted cash flow analysis based on the Bank’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet credit-related instruments: Fair values for the Bank’s off-balance-sheet credit-related instruments statement (loan commitments) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standings. The fair value for such commitments is nominal.

First Market Bank, F.S.B. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30 2009 (Unaudited)	June 30 2008 (Unaudited)
Assets		
Cash and due from banks	**$ 26,593,599**	$ 31,786,660
Interest-bearing deposits in other banks	**123,818,702**	1,289,179
Cash and cash equivalents	**150,412,301**	33,075,839
Securities available-for-sale, at fair value	**203,862,307**	146,665,138
Securities held-to-maturity	**22,495,804**	36,628,575
Federal Home Loan Bank stock, at cost	**6,578,500**	7,679,500
Loans, net of deferred loan fees	**1,009,950,786**	1,046,612,493
Allowance for loan losses	**(14,092,489)**	(12,824,292)
Net loans	**995,858,297**	1,033,788,201
Premises and equipment, net	**23,407,502**	22,385,823
Accrued interest receivable	**4,016,097**	4,392,265
Deferred tax asset, net	**7,294,209**	7,333,316
Bank-owned life insurance	**15,177,320**	14,401,420
Other assets	**10,091,148**	9,456,938
Total assets	**$ 1,439,193,485**	$ 1,315,807,015
Liabilities And Stockholders' Equity		
Liabilities:		
Deposits:		
Demand deposits:		
Noninterest-bearing	**$ 179,608,112**	$ 176,736,717
Interest-bearing	**409,454,696**	292,960,854
Savings	**36,161,001**	37,289,412
Time deposits:		
Less than $100,000	**360,849,227**	336,970,123
Greater than or equal to $100,000	**202,806,423**	168,411,753
Total deposits	**1,188,879,459**	1,012,368,859
Short-term borrowed funds	**42,239,932**	137,570,027
Long-term debt	**77,500,000**	77,500,000
Accrued interest payable	**1,404,009**	1,611,138
Accrued expenses and other liabilities	**4,038,143**	4,056,670
Total liabilities	**1,314,061,543**	1,233,106,694
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, Series A 9% Non-Cumulative, $100,000 par value; 100 shares authorized and issued	**10,000,000**	10,000,000
Preferred stock, Series B Non-Cumulative Perpetual, $10 par value; $1,000 liquidation value, 33,900 shares authorized and issued	**339,000**	—
Preferred stock, Series C Non-Cumulative Perpetual, $.01 par value; 1,695 shares authorized and issued	**17**	—
Common stock, $0.01 par value; 1,068.262 shares authorized and issued	**11**	10
Additional paid-in capital	**57,988,220**	16,732,238
Retained earnings	**57,542,900**	58,612,416
Discount on preferred stock, Series B	**(1,853,028)**	—
Premium on preferred stock, Series C	**274,267**	—
Accumulated other comprehensive (gain) loss	**840,555**	(2,644,343)
Total stockholders' equity	**125,131,942**	82,700,321
Total liabilities and stockholders' equity	**$ 1,439,193,485**	$ 1,315,807,015

See accompanying notes to condensed consolidated financial statements.

First Market Bank, F.S.B. and Subsidiaries
Condensed Consolidated Statements Of Income
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Interest and dividend income:				
Interest and fees on loans	**$ 14,235,553**	$ 15,925,508	**$ 28,467,851**	$ 32,674,398
Interest and dividends on investment securities:				
U.S. Government agencies and corporations	**2,180,241**	2,017,717	**4,176,400**	4,061,514
State and municipal securities	**97,694**	44,042	**141,941**	81,822
Other securities	**7,567**	68,755	**15,130**	137,724
Interest-bearing deposits in other banks	**49,311**	10,632	**78,697**	34,225
Total interest and dividend income	**16,570,366**	18,066,654	**32,880,019**	36,989,683
Interest expense:				
Deposits	**5,104,712**	6,587,962	**10,479,922**	13,535,358
Short-term borrowed funds	**123,739**	611,828	**151,186**	1,637,495
Long-term debt	**800,958**	876,314	**1,604,352**	1,820,342
Total interest expense	**6,029,409**	8,076,104	**12,235,460**	16,993,195
Net interest income	**10,540,957**	9,990,550	**20,644,559**	19,996,488
Provision for loan losses	**1,245,000**	1,130,000	**2,420,000**	2,200,000
Net interest income after provision for loan losses	**9,295,957**	8,860,550	**18,224,559**	17,796,488
Noninterest income:				
Service charges on deposit accounts	**2,045,425**	1,945,109	**3,939,883**	3,743,384
Gain on sale of securities	**715**	35,968	**773**	83,504
Other	**1,016,563**	1,029,487	**2,051,761**	2,088,412
Total noninterest income	**3,062,703**	3,010,564	**5,992,417**	5,915,300
Noninterest expense:				
Personnel	**6,009,273**	5,787,957	**11,388,671**	10,801,327
Occupancy	**1,251,753**	1,163,976	**2,484,240**	2,304,679
Equipment	**579,318**	523,631	**1,148,175**	1,040,121
Marketing and advertising	**165,245**	265,761	**483,187**	677,263
Data processing	**1,072,290**	1,179,340	**2,160,027**	2,317,321
Telecommunications	**156,360**	171,851	**305,189**	313,935
Legal and professional fees	**319,995**	252,139	**596,587**	509,526
Printing and office supplies	**111,632**	148,115	**268,136**	285,177
General and administrative	**2,345,174**	1,022,232	**3,478,134**	2,060,670
Total noninterest expense	**12,011,040**	10,515,002	**22,312,346**	20,310,019
Income before income taxes	**347,620**	1,356,112	**1,904,630**	3,401,769
Income tax expense	**56,692**	435,825	**421,252**	1,144,856
Net income	**$ 290,928**	$ 920,287	**$ 1,483,378**	$ 2,256,913

See accompanying notes to condensed consolidated financial statements.

First Market Bank, F.S.B. and Subsidiaries
Condensed Consolidated Statements Of Cash Flows
Six Months Ended June 30, 2009 and 2008
(Unaudited)

	2009	2008
Cash Flows From Operating Activities:		
Net income	**$ 1,483,378**	$ 2,256,913
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion, net	**1,670,444**	1,380,583
Provision for loan losses	**2,420,000**	2,200,000
Realized gain on sales/calls of investment securities	**(773)**	(83,521)
Increase in bank-owned life insurance	**(260,646)**	(275,477)
Changes in operating assets and liabilities:		
Accrued interest receivable	**87,117**	788,605
Other assets	**(940,588)**	(1,128,132)
Accrued interest payable	**(162,386)**	(324,212)
Other liabilities	**1,036,334**	(824,106)
Net cash provided by operating activities	**5,332,880**	3,990,653
Cash Flows From Investing Activities:		
Net originations of loans	**31,898,100**	(77,662,692)
Proceeds from maturities and issuer calls of securities held-to-maturity	**4,613,938**	26,266,402
Proceeds from maturities and issuer calls of securities available-for-sale	**21,353,820**	54,260,588
Purchases of securities available-for-sale	**(78,733,810)**	(53,310,406)
Purchases of premises and equipment	**(593,193)**	(4,898,115)
Purchases of Federal Home Loan Bank stock	**(65,000)**	(271,200)
Net cash used in investing activities	**(21,526,145)**	(55,615,423)
Cash Flows From Financing Activities:		
Net increase in deposits	**113,814,311**	38,281,126
Net (decrease) in short-term borrowed funds	**(11,022,783)**	13,254,243
Proceeds from issuance of preferred stock	**33,900,000**	—
Cash dividends paid on preferred stock	**(958,076)**	(450,000)
Net cash provided by financing activities	**135,733,452**	51,085,369
Net increase in cash and cash equivalents	**119,540,187**	(539,401)
Cash and cash equivalents at beginning of period	**30,872,114**	33,615,240
Cash and cash equivalents at end of period	**$150,412,301**	$ 33,075,839
Supplemental Disclosure of Cash Flow Information		
Interest paid	**$ 15,205,864**	$ 17,317,407
Income taxes paid	**$ 975,000**	$ 1,400,000
Transfer of loans to repossessed assets	**$ 877,514**	$ —

See accompanying notes to condensed consolidated financial statements.

Note 1. Accounting Policies

The consolidated financial statements include the accounts of First Market Bank, F.S.B. and its subsidiaries ("FMB"). 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 FMB's 2008 Audited Financial Statements. If needed, certain previously reported amounts have been reclassified to conform to current period presentation.

Note 2. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. FMB adopted SFAS 157 on January 1, 2008. The FASB approved a one-year deferral for the implementation of the Statement for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FMB adopted the provisions of SFAS 157 for nonfinancial assets and liabilities as of January 1, 2009 without a material impact on the consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 addresses the determination of fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the objective of fair value measurement as set forth in SFAS No. 157, e.g., to reflect how much an asset would be sold for in an orderly transaction (the exit price, as opposed to a distressed or forced transaction) at the date of the financial statements and under current market conditions. It specifically reaffirms the need to use judgment in ascertaining if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of FSP FAS 157-4 had an immaterial effect on its fair value estimates.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the FSP amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009 and the required disclosures are provided in Note 7. Fair Value Measurements.

Note 3. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity:				
June 30, 2009:				
U.S. Government agencies and corporations	**$ 4,995,451**	**$ 231,098**	**$ —**	**$ 5,226,549**
Mortgage-backed securities	**13,216,162**	**347,370**	**—**	**13,563,532**
State and municipal securities	**3,253,929**	**5,516**	**(26,828)**	**3,232,617**
Corporate debt securities	**1,030,262**	**—**	**(200,402)**	**829,860**
	$ 22,495,804	**$ 583,984**	**$ (227,230)**	**$ 22,852,558**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
June 30, 2009:				
U.S. Government agencies and corporations	**$ 7,817,864**	**$ 531,778**	**$ (34,302)**	**$ 8,315,340**
Mortgage-backed securities	**187,221,623**	**3,394,163**	**(2,091,480)**	**188,524,306**
State and municipal securities	**6,981,957**	**10,919**	**(108,308)**	**6,884,568**
Corporate debt securities	**416,192**	**—**	**(278,099)**	**138,093**
	$ 202,437,636	**$ 3,936,860**	**$ (2,512,189)**	**$ 203,862,307**

At June 30, 2009, securities with a carrying amount of $95,915,977 were pledged to secure public deposits, repurchase agreements, and for other purposes required or permitted by law.

The amortized cost and fair value of investment securities by contractual maturity at June 30, 2009 follows:

	Securities Held-to-Maturity		Securities Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ —	$ —	$ —	$ —
Over 1 year through 5 years	4,995,451	5,226,550	—	—
After 5 years through 10 years	—	—	6,910,879	7,427,784
Over 10 years	4,284,191	4,062,477	8,305,134	7,772,124
Mortgage-backed securities	13,216,162	13,563,531	187,221,623	188,662,399
	$ 22,495,804	**$ 22,852,558**	**$ 202,437,636**	**$ 203,862,307**

Information pertaining to securities with gross unrealized losses at June 30, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	June 30, 2009 Continuous Unrealized Losses Existing for:					
	Fair Value	Less than 12 Months	Fair Value	More than 12 Months	Fair Value	Total Unrealized Losses
Securities available-for-sale:						
U.S. Government agencies and corporations	**$ 122,683**	**$ (34,302)**	**$ —**	**$ —**	**$ 122,683**	**$ (34,302)**
Mortgage-backed securities	**40,717,267**	**(322,678)**	**12,724,893**	**(1,768,802)**	**53,442,160**	**(2,091,480)**
Corporate debt securities	**—**	**—**	**138,093**	**(278,100)**	**138,093**	**(278,100)**
	$ 40,839,950	**$ (356,980)**	**$ 12,862,985**	**$ (2,046,902)**	**$ 53,702,935**	**$ (2,403,882)**
Securities held-to-maturity:						
State and municipal securities	**$ 1,963,763**	**$ (26,829)**	**$ —**	**$ —**	**$ 1,963,763**	**$ (26,829)**
Corporate debt securities	**—**	**—**	**829,860**	**(200,402)**	**829,860**	**(200,402)**
	$ 1,963,763	**$ (26,829)**	**$ 829,860**	**$ (200,402)**	**$ 2,793,623**	**$ (227,230)**

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the following primary relevant factors (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the continued ability of the issuer to maintain payment of the coupon or dividend, (4) adverse market, or other significant factors, and (5) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2009, there were $13,692,845 of individual securities that had been in a continuous loss position for more than 12 months. Additionally, these securities had an unrealized loss of $2,247,304 and primarily consisted of mortgage-backed securities. In April 2009, FASB issued Staff Position ("FSP") FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments ("FSP FAS 115-2 and FAS 124-2") that amended other-than-temporary impairment ("OTTI") guidance 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 exist: the entity intends to sell the security, it is more likely than not that the entity 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. As of June 30, 2009, we have not recognized OTTI on any debt securities. Our adoption of FSP No. 115-2 and FAS 124-2 did not have a material impact on our financial condition or results of operations.

Note 4. Loans

A summary of the balances of loans at June 30 follows:

	2009	2008
Commercial	**$ 129,742,016**	$ 139,563,468
Construction	**520,605,343**	535,986,712
Consumer	**358,537,577**	369,932,629
	1,008,884,936	1,045,482,809
Deferred loan fees and costs	**1,065,850**	1,129,684
Allowance for loan losses	**(14,092,489)**	(12,824,292)
Net loans	**$ 995,858,297**	$1,033,788,201

An analysis of allowance for loan losses at June 30 follows:

	2009	2008
Balance at beginning of year	**$ 13,525,893**	$ 11,595,844
Provision for loan losses	**2,420,000**	2,200,000
Recoveries of amounts previously charged off	**693,260**	199,929
Amounts charged off	**(2,546,664)**	(1,171,481)
Balance at end of quarter	**$ 14,092,489**	$ 12,824,292

The following is a summary of information pertaining to impaired and nonaccrual loans at June 30:

	2009	2008
Impaired loans without a valuation allowance	**$ 3,913,931**	$ 667,301
Impaired loans with a valuation allowance	**6,263,817**	—
Total impaired loans	**$ 10,177,747**	$ 667,301
Valuation allowance related to impaired loans	**$ 1,225,000**	$ —
Total nonaccrual loans	**$ 18,929,971**	$ 2,242,006
Total loans past due ninety days or more and still accruing	**$ —**	$ —

	2009	2008
Average investment in impaired loans	**$ 5,100,156**	$ 789,428
Interest income recognized on impaired loans	**$ 36,389**	$ —
Interest income recognized on a cash basis on impaired loan	**$ 17,175**	$ —

Note 5. Minimum Regulatory Capital Requirements

Capital resources represent one of the fundamental sources of funds which financial institutions leverage to maximize return to shareholders. FMB's capital is reviewed by management on an ongoing basis with reference to the size, composition, and quality of the Bank's resources and consistency with regulatory requirements and industry standards. Management seeks to maintain FMB's capital structure in a manner that will both assure an adequate level of capital is available to support anticipated asset growth and to absorb potential losses.

The Office of Thrift Supervision, FMB's primary regulator, along with the Federal Reserve and other bank regulatory agencies, has 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. FMB had a ratio of total capital to risk-weighted assets of 13.86% and 10.22% on June 30, 2009 and 2008, respectively. The Bank's ratio of Tier 1 capital to risk-weighted assets was 11.14% and 7.52% at June 30, 2009 and 2008, respectively, allowing the Bank to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the minimum requirements of "well-capitalized" as established by the regulatory agencies.

In February, 2009, FMB issued 33,900 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B ("Preferred Stock") having a liquidation preference of $1,000 per share, and 1,695 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C ("Warrant Preferred"), for a total price of $33.9 million. The issuance was made pursuant to the United States Department of the Treasury's Capital Purchase Program under the Troubled Asset Relief Program. The Preferred Stock pays a non-cumulative dividend at a rate of 5% per year during the first five years and thereafter at 9% per year. The Warrant Preferred pays a non-cumulative dividend at a rate of 9% per year. The transaction closed on February 6, 2009.

The following summarizes the Company's regulatory capital and related ratios over the periods ended June 30:

	2009	2008
Tier I capital	**$ 124,271,207**	$ 84,402,514
Total capital	**154,638,696**	114,726,806
Risk-weighted assets	**1,115,982,472**	1,122,641,499
Adjusted total assets	**1,439,467,206**	1,318,468,162
Risk-based capital ratios:		
Tier I capital to risk-weighted assets:		
Actual	**11.14%**	7.52%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**6.00**	6.00
Total capital to risk-weighted assets:		
Actual	**13.86%**	10.22%
Regulatory minimum	**8.00**	8.00
Well capitalized under prompt corrective action provisions	**10.00**	10.00
Tier 1 capital to adjusted total assets:		
Actual	**8.63%**	6.40%
Regulatory minimum	**4.00**	4.00
Well capitalized under prompt corrective action provisions	**5.00**	5.00

Note 6. 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, 2009 and 2008, the Company had outstanding loan commitments approximating $299.6 million and $350.2 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 $20.3 million and $15.7 million at June 30, 2009 and 2008, respectively.

Note 7. Fair Value Measurements

Effective January 1, 2008, FMB adopted SFAS No. 157,*Fair Value Measurements* ("SFAS 157"), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a framework for measuring fair value, creates a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the markets in which the assets are traded, and the transparency and reliability of the assumptions or other inputs used to determine the fair value of an asset or liability as of the measurement date. The three levels are defined 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 for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in less active markets, and model-based valuation techniques and appraisals for which significant assumptions can be derived from or corroborated by observable data in the market.

Level 3: Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Under SFAS No. 157, we group assets at fair value based upon prices obtained from the markets in which the assets are typically traded and the reliability of assumptions used to determine fair value. The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities generally include exchange traded equities and preferred stocks, and highly liquid U.S. Treasury securities. Level 2 securities generally include U.S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow analysis. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities may be classified within Level 3 of the valuation hierarchy. At June 30 2009, all of FMB's securities are considered to be within Level 1 or Level 2 of the valuation hierarchy.

Fair Value on a Recurring Basis

The table below sets forth the balances of any assets or liabilities measured at fair value on a recurring basis as of June 30, 2009:

	Total	Level 1	Level 2	Level 3
Available-for-sale securities	$ 203,862,307	$ 122,683	$ 203,739,624	$ —
	$ 203,862,307	$ 122,683	$ 203,739,624	$ —

Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, assets whose fair value was recognized to be below cost at the end of the period).

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

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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, which may be in the form of real estate, marketable securities or other assets. The majority of FMB's collateral with respect to impaired loans at June 30, 2009 is real estate. When the fair value of the collateral is based on an observable market price or a current appraised value, the impaired loan is recorded as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the impaired loan is recorded as nonrecurring Level 3.

The table below sets forth the balances of any assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2009:

	Total	Level 1	Level 2	Level 3
Impaired loans	$10,177,747	$ —	$10,177,747	$ —
	$10,177,747	$ —	$10,177,747	$ —

FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, is effective for interim periods ending after June 15, 2009. This guidance amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments ("SFAS No. 107"), to require disclosure about fair value of financial instruments for interim periods. SFAS No. 107 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 FMB. The methodologies for other financial assets and financial liabilities are discussed below:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate their fair values.

Securities: For fair value methodologies used see discussion above.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits: The fair values disclosed for demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values of fixed-maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowed funds: The carrying amount of short-term borrowings approximate their fair values.

Long-term debt: The fair value of long-term debt 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.

Off-balance-sheet credit-related instruments: Fair values for FMB's off-balance-sheet credit-related instruments statement (loan commitments) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. The fair value for such commitments is nominal.

The period-end estimated fair values of financial instruments were as follows:

	June 30, 2009	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 150,412,301	$ 150,412,301
Securities	226,358,111	226,714,865
Federal Home Loan Bank stock	6,578,500	6,578,500
Loans receivable, net	995,858,297	993,719,275
Accrued interest receivable	4,016,097	4,016,097
Financial liabilities:		
Deposits	1,188,879,459	1,196,792,034
Short-term borrowed funds	42,239,932	42,239,932
Long-term debt	77,500,000	79,613,700
Accrued interest payable	1,404,009	1,404,009

Note 8. Subsequent Events

In accordance with SFAS No. 165, we have evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and notes thereto have taken place through the date these financial statements were issued (August __, 2009) and we have determined that there are no such subsequent events to report.