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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2011

OR

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

Commission File Number: 0-20293

UNION FIRST MARKET BANKSHARES CORPORATION
(Exact name of registrant as specified in its charter)

VIRGINIA **(State or other jurisdiction of incorporation or organization)**	**54-1598552** **(I.R.S. Employer Identification No.)**

111 Virginia Street
Suite 200
Richmond, Virginia 23219
(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

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

The number of shares of common stock outstanding as of August 2, 2011 was 26,047,097

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PART I - FINANCIAL INFORMATION
Item 1 - Financial Statements

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share amounts)

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)	June 30, 2010 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	$ 61,465	$ 58,951	$ 56,385
Interest-bearing deposits in other banks	1,583	1,449	77,375
Money market investments	27	158	177
Other interest-bearing deposits	—	—	1
Federal funds sold	159	595	1,796
Total cash and cash equivalents	63,234	61,153	135,734
Securities available for sale, at fair value	591,060	572,441	556,926
Loans held for sale	50,420	73,974	74,722
Loans, net of unearned income	2,859,569	2,837,253	2,819,651
Less allowance for loan losses	39,631	38,406	33,956
Net loans	2,819,938	2,798,847	2,785,695
Bank premises and equipment, net	91,601	90,680	92,010
Other real estate owned	36,935	36,122	28,394
Core deposit intangibles, net	23,658	26,827	30,698
Goodwill	59,400	57,567	57,567
Other assets	115,278	119,636	112,453
Total assets	$3,851,524	$3,837,247	$3,874,199
LIABILITIES			
Noninterest-bearing demand deposits	$ 520,511	$ 484,867	$ 514,301
Interest-bearing deposits:			
NOW accounts	378,511	381,512	352,060
Money market accounts	842,135	783,431	746,529
Savings accounts	175,709	153,724	151,050
Time deposits of $100,000 and over	505,993	563,375	589,213
Other time deposits	660,194	703,150	742,321
Total interest-bearing deposits	2,562,542	2,585,192	2,581,173
Total deposits	3,083,053	3,070,059	3,095,474
Securities sold under agreements to repurchase	77,324	69,467	77,829
Other short-term borrowings	2,900	23,500	35,000
Trust preferred capital notes	60,310	60,310	60,310
Long-term borrowings	155,136	154,892	155,082
Other liabilities	29,685	30,934	28,197
Total liabilities	3,408,408	3,409,162	3,451,892
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Preferred stock, $10.00 par value, $1,000 liquidation value, shares authorized 500,000; issued and outstanding, 35,595 shares for all periods.	35,595	35,595	35,595
Common stock, $1.33 par value, shares authorized 36,000,000; issued and outstanding, 26,043,633 shares, 26,004,197 shares, and 25,933,516 shares, respectively.	34,569	34,532	34,451
Surplus	186,177	185,763	184,681
Retained earnings	178,125	169,801	161,726
Discount on preferred stock	(1,048)	(1,177)	(1,302)
Accumulated other comprehensive income	9,698	3,571	7,156
Total stockholders' equity	443,116	428,085	422,307
Total liabilities and stockholders' equity	$3,851,524	$3,837,247	$3,874,199

See accompanying notes to condensed consolidated financial statements.

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest and dividend income:				
Interest and fees on loans	**$ 42,332**	$ 44,269	**$ 84,335**	$ 82,663
Interest on Federal funds sold	**—**	3	**—**	15
Interest on deposits in other banks	**28**	15	**33**	23
Interest and dividends on securities:				
Taxable	**3,627**	3,503	**7,257**	7,042
Nontaxable	**1,769**	1,532	**3,523**	2,897
Total interest and dividend income	**47,756**	49,322	**95,148**	92,640
Interest expense:				
Interest on deposits	**6,166**	7,837	**12,850**	15,100
Interest on Federal funds purchased	**—**	—	**7**	14
Interest on short-term borrowings	**211**	663	**372**	1,261
Interest on long-term borrowings	**1,756**	1,255	**3,496**	2,538
Total interest expense	**8,133**	9,755	**16,725**	18,913
Net interest income	**39,623**	39,567	**78,423**	73,727
Provision for loan losses	**4,500**	3,955	**10,800**	8,956
Net interest income after provision for loan losses	**35,123**	35,612	**67,623**	64,771
Noninterest income:				
Service charges on deposit accounts	**2,216**	2,381	**4,274**	4,552
Other service charges, commissions and fees	**3,351**	3,136	**6,275**	5,451
Gains (losses) on securities transactions, net	**—**	5	**(16)**	24
Gains on sales of loans	**4,303**	5,248	**9,271**	9,739
Gains (losses) on sales of other real estate and bank premises, net	**(791)**	5	**(1,090)**	44
Other operating income	**884**	1,326	**1,796**	2,030
Total noninterest income	**9,963**	12,101	**20,510**	21,840
Noninterest expenses:				
Salaries and benefits	**17,580**	17,403	**35,234**	32,818
Occupancy expenses	**2,668**	2,871	**5,422**	5,506
Furniture and equipment expenses	**1,679**	1,781	**3,341**	3,183
Other operating expenses	**13,945**	13,093	**26,642**	30,441
Total noninterest expenses	**35,872**	35,148	**70,639**	71,948
Income before income taxes	**9,214**	12,565	**17,494**	14,663
Income tax expense	**2,394**	3,839	**4,480**	4,238
Net income	**$ 6,820**	$ 8,726	**$ 13,014**	$ 10,425
Dividends paid and accumulated on preferred stock	**462**	462	**924**	765
Accretion of discount on preferred stock	**65**	50	**129**	101
Net income available to common shareholders	**$ 6,293**	$ 8,214	**$ 11,961**	$ 9,559
Earnings per common share, basic	**$ 0.24**	$ 0.32	**$ 0.46**	$ 0.39
Earnings per common share, diluted	**$ 0.24**	$ 0.32	**$ 0.46**	$ 0.39

See accompanying notes to condensed consolidated financial statements.

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UNION FIRST MARKET BANKSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Dollars in thousands, except share amounts)
(Unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Discount on Preferred Stock	Accumu-lated Other Compre-hensive Income	Compre-hensive Income	Total
Balance - December 31, 2009	$ —	$24,462	$ 98,136	$155,047	$ —	$ 4,443		$282,088
Comprehensive income:								
Net income				10,425			$10,425	10,425
Interest rate swap (cash flow hedge)							(1,444)	
Unrealized holding gains arising during the period (net of tax, $2,246)							4,173	
Reclassification adjustment for gains included in net income (net of tax, $8)							(16)	
Other comprehensive income (net of tax, $2,238)						2,713	2,713	2,713
Total comprehensive income							$13,138	
Issuance of Common Stock (7,477,273 shares)		9,945	86,137					96,082
Dividends on Common Stock ($.12 per share)				(3,110)				(3,110)
Issuance of Preferred Stock	35,595				(1,403)			34,192
Dividends on Preferred Stock				(535)				(535)
Accretion of discount on Preferred Stock				(101)	101			—
Issuance of Common Stock under Dividend Reinvestment Plan (9,846 shares)		13	170					183
Issuance of Common Stock under Incentive Stock Option Plan (4,541 shares)		6	11					17
Vesting of Restricted Stock under Stock Incentive Plan (14,334 shares)		25	(25)					—
Stock-based compensation expense			252					252
Balance - June 30, 2010	$35,595	$34,451	$184,681	$161,726	$ (1,302)	$ 7,156		$422,307
Balance - December 31, 2010	$35,595	$34,532	$185,763	$169,801	$ (1,177)	$ 3,571		$428,085
Comprehensive income:								
Net income - 2011				13,014			$13,014	13,014
Interest rate swap (cash flow hedge)							(999)	
Unrealized holding gains arising during the period (net of tax, $3,830)							7,116	
Reclassification adjustment for losses included in net income (net of tax, $6)							10	
Other comprehensive income (net of tax, $3,836)						6,127	6,127	6,127
Total comprehensive income							$19,141	
Dividends on Common Stock ($.14 per share)				(3,637)				(3,637)
Tax benefit from exercise of stock awards			1					1
Dividends on Preferred Stock				(924)				(924)
Accretion of discount on Preferred Stock				(129)	129			—
Issuance of common stock under Dividend Reinvestment Plan (9,747 shares)		13	147					160
Issuance of common stock under Stock Incentive Plan (6,450 shares)		8	47					55
Vesting of restricted stock under Stock Incentive Plan (12,243 shares)		16	(16)					—
Stock-based compensation expense			235					235
Balance - June 30, 2011	$35,595	$34,569	$186,177	$178,125	$ (1,048)	$ 9,698		$443,116

See accompanying notes to condensed consolidated financial statements.

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UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Dollars in thousands)
(Unaudited)

	2011	2010
Operating activities:		
Net income	$ 13,014	$ 10,425
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization of bank premises and equipment	3,312	3,168
Amortization, net	3,182	2,837
Provision for loan losses	10,800	8,956
Decrease (increase) in loans held for sale, net	23,554	(20,442)
Losses (gains) on the sale of investment securities	16	(24)
Losses (gains) on sales of other real estate owned and premises, net	1,090	(44)
Stock-based compensation expense	235	252
Decrease in other assets	3,852	318
(Decrease) increase in other liabilities	(1,249)	3,606
Net cash and cash equivalents provided by operating activities	57,806	9,052
Investing activities:		
Purchases of securities available for sale	(72,737)	(91,429)
Proceeds from sales of securities available for sale	2,174	103,836
Proceeds from maturities, calls and paydowns of securities available for sale	58,730	53,048
Net decrease in loans	30,469	21,003
Sales of bank premises and equipment and OREO, net	4,564	3,140
Cash paid in branch acquisition	(26,437)	—
Cash received in acquisitions	230	137,460
Net cash and cash equivalents (used in) provided by investing activities	(3,007)	227,058
Financing activities:		
Net increase in noninterest - bearing deposits	31,278	48,962
Net decrease in interest-bearing deposits	(67,153)	(78,175)
Net decrease in short-term borrowings	(12,743)	(112,922)
Net increase (decrease) in long-term borrowings	244	(707)
Cash dividends paid - common stock	(3,637)	(3,110)
Cash dividends paid - preferred stock	(924)	(535)
Tax benefit from the exercise of equity-based awards	1	—
Proceeds from the issuance of common stock	215	200
Net cash and cash equivalents used in financing activities	(52,719)	(146,287)
Increase in cash and cash equivalents	2,081	89,823
Cash and cash equivalents at beginning of the period	61,153	45,911
Cash and cash equivalents at end of the period	$ 63,234	$ 135,734
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	$ 16,928	$ 18,294
Income taxes	2,464	3,143
Supplemental Schedule of Noncash Activities		
Unrealized gains on securities available for sale	$ 10,052	$ 6,395
Unrealized loss on cash flow hedge	(999)	(1,444)
Transfer of loans to other real estate owned, net	8,546	9,627
Common stock issued for acquisition	—	96,083
Preferred stock issued for acquisition	—	34,192
Transactions related to acquisitions		
Increase in assets and liabilities:		
Loans	$ 70,817	$ 981,541
Securities	—	218,676
Other assets	4,324	78,542
Noninterest bearing deposits	4,366	171,117
Interest bearing deposits	44,503	1,037,206
Borrowings	—	75,789
Other liabilities	65	1,832

See accompanying notes to condensed consolidated financial statements.

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2011

1. ACCOUNTING POLICIES

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

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

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2010 Annual Report on Form 10-K. If needed, certain previously reported amounts have been reclassified to conform to current period presentation.

2. BUSINESS COMBINATIONS

On May 20, 2011 the Company completed the purchase of the NewBridge Bank branch in Harrisonburg, Virginia (the “Harrisonburg branch”). As part of the agreement, the Company purchased loans of $72.5 million and assumed deposit liabilities of $48.7 million, and purchased the related fixed assets of the branch and a potential branch site in Waynesboro, Virginia. The Company operates the acquired bank branch under the name Union First Market Bank. The acquisition, which allowed the Company to establish immediately a meaningful presence in a new banking market, is consistent with the Company’s secondary growth strategy of expanding operations along the I-81 corridor. The Company’s condensed consolidated statements of income include the results of operations of the Harrisonburg branch from the closing date of the acquisition.

In connection with the acquisition, the Company recorded $1.8 million of goodwill and $9,500 of core deposit intangible. The core deposit intangible of $9,500 was expensed in the current period. The recorded goodwill was allocated to the community banking segment of the Company and is deductible for tax purposes.

The Company acquired the $72.5 million loan portfolio at a fair value discount of $1.7 million. The discount represents expected credit losses, adjustments to market interest rates and liquidity adjustments. The performing loan portfolio fair value estimate was $70.5 million and the impaired loan portfolio fair value estimate was $276,000.

The consideration paid for the acquired branch and the amounts of acquired identifiable assets and liabilities as of the acquisition date were as follows (dollars in thousands):

Purchase price:	
Cash	**$ 26,437**
Total purchase price	**26,437**
Identifiable assets:	
Cash and due from banks	**230**
Loans and leases	**70,817**
Core deposit intangible	**10**
Other assets	**2,481**
Total assets	**73,538**
Liabilities and equity:	
Deposits	**48,869**
Other liabilities	**65**
Total liabilities	**48,934**
Net assets acquired	**24,604**
Goodwill resulting from acquisition	**$ 1,833**

Harrisonburg Branch Acquisition

In the second quarter interest income of approximately $392,000 was recorded on loans acquired in the Harrisonburg branch acquisition. The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheet at June 30, 2011 are as follows (dollars in thousands):

Outstanding principal balance	**$ 60,323**
Carrying amount	**$ 58,848**

Loans obtained in the acquisition of the Harrisonburg branch for which there is specific evidence of credit deterioration and for which it was probable that the Company would be unable to collect all contractually required principal and interest payments represent less than 0.01% of the Company's consolidated assets and, accordingly, are not considered material.

The amounts of the Harrisonburg branch revenue and earnings included in the Company's consolidated income statement for the six months ended June 30, 2011, and the revenue and earnings of the combined entity had the acquisition date been January 1, 2010, are presented in the pro forma table below. These results combine the historical results of the Harrisonburg branch into the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2010. In particular, no adjustments have been made to include provision for credit losses in 2010 on the acquired loan portfolio and related branch specific income taxes. The disclosure of the Harrisonburg branch post-acquisition revenue and net income were not practicable due to combining its operations with the Company's largest affiliate shortly after the acquisition.

	Pro forma for the six months ended June 30,	
(dollars in thousands)	**2011**	**2010**
Total revenues	**$117,276**	**$118,087**
Net income	**$ 14,475**	**$ 12,548**

The 2011 supplemental pro forma earnings were adjusted to exclude $498,000 of acquisition-related costs incurred in 2011 and $149,000 of nonrecurring income principally related to the fair value adjustments to acquisition-date loans and deposits. The 2010 supplemental pro forma earnings were adjusted to include these charges.

Acquisition-related expenses associated with the acquisition of Harrisonburg branch were $204,000 and $498,000 for the three and six month periods ended June 30, 2011, respectively, and are recorded in “Other operating expenses” in the Company’s condensed consolidated statements of income. There were no acquisition-related expenses related to the Harrisonburg branch in 2010. Such costs included principally system conversion and integrating operations charges which have been expensed as incurred.

First Market Bank Acquisition

Interest income on acquired loans for the second quarter of 2011 was approximately $10.7 million. The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheet at June 30, 2011 are as follows (dollars in thousands):

Outstanding principal balance	**$ 706,387**
Carrying amount	**$ 695,825**

Loans obtained in the acquisition of the First Market Bank for which there is specific evidence of credit deterioration and for which it was probable that the Company would be unable to collect all contractually required principal and interest payments represent less than 0.29% of the Company’s consolidated assets and, accordingly, are not considered material.

During the second quarter of 2011, the Company compared the expected prepayments at acquisition to actual payments and anticipated future payments on three purchased performing loan pools. The slower prepayment speed noted on real estate, commercial real estate and auto pools during this assessment resulted in an adjustment to the fair value discount accretion rate. This is considered a change in accounting estimate and resulted in a lower effective yield in each pool.

3. STOCK-BASED COMPENSATION

The Company’s 2011 Stock Incentive Plan (the “2011 Plan”) provides for the granting of incentive stock options, non-statutory stock options, and nonvested stock awards to key employees of the Company and its subsidiaries. The 2011 Plan became effective on January 1, 2011 after its approval by shareholders at the annual meeting of shareholders held on April 26, 2011. The 2011 Plan makes available 1,000,000 shares which may be awarded to employees of the Company and its subsidiaries in the form of incentive stock options intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986 (“incentive stock options”), non-statutory stock options, and nonvested stock. Under the plan, the option price cannot be less than the fair market value of the stock on the grant date. The Company issues new shares to satisfy stock-based awards. 907,536 shares remained available as of June 30, 2011, for issuance under the Company’s 2011 Stock Incentive Plan.

For the three month and six month periods ended June 30, 2011, the Company recognized stock-based compensation expense of approximately $117,000 and $191,000 net of tax, respectively, and less than $0.01 per common share for the both periods ended June 30, 2011.

Stock Options

The following table summarizes the stock option activity for the six months ended June 30, 2011:

	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, December 31, 2010	**324,776**	**$ 19.38**
Granted	**134,046**	**12.11**
Exercised	**(6,450)**	**8.54**
Forfeited	**(3,629)**	**16.65**
Expired	**(413)**	**29.77**
Options outstanding, June 30, 2011	**448,330**	**17.37**
Options exercisable, June 30, 2011	**209,884**	**21.04**

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Dividend yield (1)	**2.36%**	**2.48%**
Expected life in years (2)	**7.0**	**7.0**
Expected volatility (3)	**41.02%**	**37.92%**
Risk-free interest rate (4)	**2.71%**	**3.23%**
Weighted average fair value per option granted	**$ 4.31**	**$ 5.53**

(1)Calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.
(2)Based on the average of the contractual life and vesting schedule for the respective option.
(3)Based on the monthly historical volatility of the Company's stock price over the expected life of the options.
(4)Based upon the U.S. Treasury bill yield curve, for periods within the contractual life of the option, in effect at the time of grant.

The following table summarizes information concerning stock options issued to the Company's employees that are vested or are expected to vest and stock options exercisable as of June 30, 2011 (dollars in thousands, except share and per share amounts):

	Stock Options Vested or Expected to Vest	Exercisable
Stock options	**421,766**	**209,884**
Weighted average remaining contractual life in years	**6.40**	**3.48**
Weighted average exercise price on shares above water	**$ 11.90**	**$ 10.67**
Aggregate intrinsic value	**$ 43**	**$ 35**

The total intrinsic value for stock options exercised during the six months ended June 30, 2011, was $37,000. There were no stock options exercised during the second quarter of 2011. The fair value of stock options vested during the six months ended June 30, 2011, was approximately $237,000. Cash received from the exercise of stock options for the six months ended June 30, 2011 was $55,000.

Nonvested Stock

The 2011 and 2003 Stock Incentive Plans permit the granting of nonvested stock, but are limited to one-third of the aggregate number of total awards granted. This equity component of compensation is divided between restricted (time-based) stock grants and performance-based stock grants. Generally, the restricted stock vests fifty percent on each of the third and fourth anniversaries from the date of the grant. The performance-based stock is subject to vesting on the fourth anniversary of the date of the grant dependent upon the performance of the Company's stock price. The value of the nonvested stock awards was calculated by multiplying the fair market value of the Company's common stock on grant date by the number of shares awarded. Employees have the right to vote the shares and to receive cash or stock dividends (restricted stock), if any, except for the nonvested stock under the performance-based component (performance stock).

The following table summarizes the nonvested stock activity for the six months ended June 30, 2011:

	Number of Shares of Restricted Stock	Performance Stock	Weighted Average Grant-Date Fair Value
Balance, December 31, 2010	94,277	15,000	$ 15.93
Granted	73,761	—	11.22
Released	(12,243)	—	23.83
Forfeited	(10,949)	(9,000)	13.71
Balance, June 30, 2011	144,846	6,000	12.52

The estimated unamortized compensation expense, net of estimated forfeitures, related to nonvested stock and stock options issued and outstanding as of June 30, 2011 that will be recognized in future periods is as follows (dollars in thousands):

	Stock Options	Restricted Stock	Total
For the remaining six months of 2011	$ 136	$ 299	$ 435
For year ending December 31, 2012	270	621	891
For year ending December 31, 2013	263	388	651
For year ending December 31, 2014	260	75	335
For year ending December 31, 2015	170	11	181
For year ending December 31, 2016	48	—	48
Total	$ 1,147	$ 1,394	$2,541

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at their face amount, net of unearned income, and consist of the following at June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 2011	December 2010
Commercial:		
Commercial Construction	$ 194,171	$ 205,795
Commercial Real Estate	831,890	758,034
Other Commercial	951,914	975,830
Total	1,977,975	1,939,659
Consumer:		
Mortgages	219,639	212,228
Consumer Construction	17,250	15,615
Indirect auto	169,526	180,778
Indirect marine	43,055	46,383
HELOCs	275,279	273,025
Credit Card	17,334	19,308
Other Consumer	139,511	150,257
Total	881,594	897,594
Loans, net of unearned income	$2,859,569	$2,837,253

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The following table shows the Company's class types that were past due, current, and greater than 90 days and still accruing at June 30, 2011 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial:							
Commercial Construction	$ 6,627	$ 210	$ 4,624	$ 11,461	$ 182,710	$ 194,171	$ 626
Commercial Real Estate	4,884	699	4,755	10,338	821,552	831,890	181
Other Commercial	16,705	6,143	20,068	42,916	908,998	951,914	1,093
Consumer:							
Mortgages	5,021	1,884	3,673	10,578	209,061	219,639	3,366
Consumer Construction	477	—	—	477	16,773	17,250	—
Indirect Auto	2,133	256	504	2,893	166,633	169,526	504
Indirect Marine	640	—	597	1,237	41,818	43,055	232
HELOCs	1,544	642	2,004	4,190	271,089	275,279	1,083
Credit Card	145	137	217	499	16,835	17,334	217
Other Consumer	3,906	748	2,297	6,951	132,560	139,511	1,772
Total	$ 42,082	$ 10,719	$ 38,739	$ 91,540	$2,768,029	$2,859,569	$ 9,074

The following table shows the Company's class types that are past due, current, and greater than 90 days and still accruing at December 31, 2010 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial:							
Commercial Construction	$ 6,392	$ 1,157	$ 6,878	$ 14,427	$ 191,368	$ 205,795	$ 900
Commercial Real Estate	7,353	2,379	8,493	18,224	739,809	758,034	609
Other Commercial	24,308	3,016	23,566	50,889	924,941	975,830	3,459
Consumer:							
Mortgages	6,161	1,944	4,308	12,414	199,815	212,228	4,242
Consumer Construction	377	—	—	377	15,238	15,615	—
Indirect auto	3,472	613	729	4,814	175,964	180,778	729
Indirect marine	920	181	605	1,706	44,677	46,383	481
HELOCs	1,285	371	2,904	4,559	268,466	273,025	1,704
Credit Card	292	90	199	581	18,727	19,308	199
Other Consumer	2,447	624	3,185	6,256	144,001	150,257	3,009
Total	$ 53,007	$ 10,374	$ 50,866	$ 114,247	$2,723,005	$2,837,253	$ 15,332

The following table reflects the Company's class types that are in nonaccrual status as of June 30, 2011 and excludes purchased impaired loans (dollars in thousands):

	2011
Commercial:	
Commercial Construction	$ 9,886
Commercial Real Estate	7,136
Other Commercial	32,012
Consumer:	
Mortgages	1,087
Consumer Construction	214
Indirect Auto	11
Indirect Marine	365
HELOC	1,267
Other Consumer	2,344
Total	$54,322

Nonaccrual loans totaled $54.3 million and $48.9 at June 30, 2011 and 2010, respectively. The increase was principally related to the residential home builder market. There were no non-accrual loans excluded from impaired loan disclosure in 2011 or 2010. Loans past due 90 days or more and accruing interest totaled $9.1 million and $18.6 million at June 30, 2011 and 2010, respectively.

The following table reflects the Company's class types that are in nonaccrual status as of December 31, 2010 and excludes purchased impaired loans (dollars in thousands):

	2010
Commercial:	
Commercial Construction	$11,410
Commercial Real Estate	9,276
Other Commercial	38,908
Consumer:	
Mortgages	261
Consumer Construction	218
Indirect auto	14
Indirect marine	124
HELOC	1,329
Other Consumer	176
Total	$61,716

The following table shows the Company's class types that are impaired with a related allowance at June 30, 2011 (dollars in thousands):

Class Category	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial Construction	$ 10,049	$ 11,746	$ 1,004	$ 10,376	$ 134
Commercial Real Estate	12,926	17,286	484	13,089	266
Other Commercial	39,092	43,447	6,964	40,470	556
Consumer Construction	214	249	91	228	—
Indirect Auto	93	352	—	106	3
Indirect Marine	365	414	179	365	—
HELOC	1,267	1,304	908	1,578	—
Total	$ 64,006	$ 74,798	$ 9,630	$ 66,212	$ 959

The following table shows the Company's class types that are impaired with a related allowance at December 31, 2010 (dollars in thousands):

Class Category	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial Construction	$ 18,234	$ 18,274	$ 3,684	$ 18,649	$ 970
Commercial Real Estate	10,303	10,348	1,200	9,869	664
Other Commercial	48,678	49,337	5,672	49,157	1,854
Mortgage	66	66	—	105	—
Consumer Construction	218	228	95	228	—
Indirect Auto	14	15	—	17	1
Indirect Marine	124	124	—	124	5
HELOC	1,329	1,330	606	1,330	29
Other Consumer	177	187	—	187	—
Total	$ 79,144	$ 79,908	$11,257	$ 79,666	$ 3,524

The following table shows the Company's class types that are impaired without a related allowance at June 30, 2011 (dollars in thousands):

Class Category	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial Construction	$ 45,092	$ 55,291	$ —	$ 44,822	$ 1,015
Commercial Real Estate	25,270	27,694	—	25,983	595
Other Commercial	118,523	137,360	—	124,876	2,499
Mortgage	2,053	2,155	—	2,059	61
Indirect Auto	88	330	—	120	—
HELOC	2,047	2,260	—	2,274	10
Other Consumer	350	618	—	577	—
Total	$193,423	$ 225,708	$ —	$ 200,711	$ 4,180

The following table shows the Company's class types that are impaired without a related allowance at December 31, 2010 (dollars in thousands):

Class Category	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial Construction	$ 39,184	$ 39,271	$ —	$ 42,001	$ 1,707
Commercial Real Estate	29,522	29,643	—	29,698	1,656
Other Commercial	124,054	124,398	—	143,434	5,082
Mortgage	2,260	2,274	—	2,291	105
Indirect Auto	119	119	—	143	8
HELOC	650	650	—	650	22
Total	$195,788	$ 196,354	$ —	$ 218,217	$ 8,581

The following table shows the allowance for loan loss activity, portfolio segment types, balances for allowance for credit losses, and loans based on impairment methodology for the quarter ended June 30, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories (dollars in thousands):

	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:				
Balance, beginning of the year	$ 28,956	$ 9,488	$ (38)	$ 38,406
Recoveries credited to allowance	338	549	—	887
Loans charged off	(6,881)	(3,581)	—	(10,462)
Provision charged to operations	6,939	3,859	2	10,800
Balance, end of year	**$ 29,352**	**$ 10,315**	**$ (36)**	**$ 39,631**
Ending balance: individually evaluated for impairment	9,214	310	—	9,524
Ending balance: collectively evaluated for impairment	20,033	10,005	(36)	30,002
Ending balance: loans acquired with deteriorated credit quality	105	—	—	105
Total	**$ 29,352**	**$ 10,315**	**$ (36)**	**$ 39,631**
Loans:				
Ending balance	**$1,977,975**	**$881,594**	**$ —**	**$2,859,569**
Ending balance: individually evaluated for impairment	240,742	6,477	—	247,219
Ending balance: collectively evaluated for impairment	1,727,023	875,117	—	2,602,140
Ending balance: loans acquired with deteriorated credit quality	10,210	—	—	10,210
Total	**$1,977,975**	**$881,594**	**$ —**	**$2,859,569**

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The following table shows the portfolio segment types, balances for allowance for credit losses, and loans based on impairment methodology for the year ended December 31, 2010.

	Commercial	Consumer	Unallocated	Total
Balance, end of year	$ 28,255	$ 10,189	$ (38)	$ 38,406
Ending balance: individually evaluated for impairment	10,065	701	—	10,766
Ending balance: collectively evaluated for impairment	17,699	9,488	(38)	27,149
Ending balance: loans acquired with deteriorated credit quality	491	—	—	491
Total	$ 28,255	$ 10,189	$ (38)	$ 38,406
Loans:				
Ending balance	$1,939,659	$897,594	$ —	$2,837,253
Ending balance: individually evaluated for impairment	259,386	1,547	—	260,933
Ending balance: collectively evaluated for impairment	1,667,473	896,047	—	2,563,520
Ending balance: loans acquired with deteriorated credit quality	12,800	—	—	12,800
Total	$1,939,659	$897,594	$ —	$2,837,253

Activity in the allowance for loan losses for the six months ended June 30, 2010 is summarized below (dollars in thousands):

Beginning balance	$30,484
Recoveries credited to allowance	1,416
Loans charged off	(6,900)
Provision for loan losses	8,956
Ending balance	$33,956

The Company uses a risk rating system for commercial loans. They are graded on a scale of 1 through 9. A general description of the characteristics of the risk grades is as follows:

- Risk rated 1 loans have little or no risk and are generally secured by cash or cash equivalents;
- Risk rated 2 loans have minimal risk to well qualified borrowers and no significant questions as to safety;
- Risk rated 3 loans are satisfactory loans with strong borrowers and secondary sources of repayment;
- Risk rated 4 loans are satisfactory loans with borrowers not as strong as risk rated 3 loans and may exhibit a greater degree of financial risk based on the type of business supporting the loan;
- Risk rated 5 loans are watch loans that warrant more than the normal level of supervision and have the possibility of an event occurring that may weaken the borrower's ability to repay;
- Risk rated 6 loans have increasing potential weaknesses beyond those at which the loan originally was granted and if not addressed could lead to inadequately protecting the Company's credit position;
- Risk rated 7 loans are substandard loans and are inadequately protected by the current sound worth or paying capacity of the obligor or the collateral pledged; these have well defined weaknesses that

jeopardize the liquidation of the debt with the distinct possibility the Company will sustain some loss if the deficiencies are not corrected;

- Risk rated 8 loans are doubtful of collection and the possibility of loss is high but pending specific borrower plans for recovery, its classification as a loss is deferred until its more exact status is determined; and
- Risk rated 9 loans are loss loans which are considered uncollectable and of such little value that their continuance as bankable assets is not warranted.

Classified loans include loans with risk ratings of 7 and worse. The following table shows classified loans, excluding purchased impaired loans, classified in the commercial portfolios by class with their related risk rating as of June 30, 2011. The risk rating information has been updated through June 30, 2011 (dollars in thousands):

	Commercial Construction	Commercial Real Estate	Other Commercial	Total
Risk rated 7	$ 55,924	$ 35,982	$ 144,803	$236,709
Risk rated 8	—	—	335	335
Total	$ 55,924	$ 35,982	$ 145,138	$237,044

The following table shows classified loans, excluding purchased impaired loans, classified in the commercial portfolios by class with their related risk rating as of December 31, 2010. The risk rating information has been updated through December 31, 2010 (dollars in thousands):

	Commercial Construction	Commercial Real Estate	Other Commercial	Total
Risk rated 7	$ 55,633	$ 41,409	$ 168,719	$265,761
Risk rated 8	—	—	376	376
Total	$ 55,633	$ 41,409	$ 169,095	$266,137

The following table shows only purchased impaired commercial portfolios by class with their related risk rating as of June 30, 2011. The credit quality indicator information has been updated through June 30, 2011 (dollars in thousands):

	Commercial Construction	Commercial Real Estate	Other Commercial	Total
Risk rated 7	$ —	$ 1,342	$ 7,958	$ 9,300
Risk rated 8	—	—	910	910
Total	$ —	$ 1,342	$ 8,868	$10,210

The following table shows only purchased impaired commercial portfolios by class with their related risk rating as of December 31, 2010. The credit quality indicator information has been updated through December 31, 2010 (dollars in thousands):

	Commercial Construction	Commercial Real Estate	Other Commercial	Total
Risk rated 7	$ 945	$ 375	$ 8,164	$ 9,484
Risk rated 8	225	535	2,556	3,316
Total	$ 1,170	$ 910	$ 10,720	$12,800

The following table shows purchased impaired commercial and consumer portfolios by class and their delinquency status. The credit quality indicator information has been updated through June 30, 2011 (dollars in thousands):

	30-89 Days Past Due	Greater Than 90 Days	Current	Total
Commercial:				
Commercial Real Estate	$ —	$ —	$1,342	$ 1,342
Other Commercial	—	2,524	6,344	8,868
Consumer:				
Indirect auto	10	5	43	58
HELOCs	20	35	857	912
Other Consumer	5	228	—	233
Total	$ 35	$2,792	$8,586	$11,413

The current column represents loans that are less than 30 days past due.

The following table shows purchased impaired commercial and consumer portfolios by class and their delinquency status. The credit quality indicator information has been updated through December 31, 2010 (dollars in thousands):

	30-89 Days Past Due	Greater Than 90 Days	Current	Total
Commercial:				
Commercial Construction	$ —	$ 1,170	$ —	$ 1,170
Commercial Real Estate	—	910	—	910
Other Commercial	—	9,341	1,379	10,720
Consumer:				
Indirect auto	8	10	63	81
HELOCs	20	844	116	980
Other Consumer	81	56	1	137
Total	$ 109	$12,331	$1,559	$13,999

The current column represents loans that are less than 30 days past due.

5. EARNINGS PER SHARE

Basic earnings per common share ("EPS") is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS uses as the denominator the weighted average number of common shares outstanding during the period, including the effect of potentially dilutive common shares outstanding attributable to stock awards. Dividends on preferred stock and amortization of discount on preferred stock are treated as a reduction of the numerator in calculating basic and diluted EPS. There were approximately 380,657 and 220,978 shares underlying anti-dilutive stock awards as of June 30, 2011 and 2010, respectively. Dividends paid on nonvested stock awards were approximately $8,000 and $7,000 for the three months ended June 30, 2011 and 2010, respectively.

The following is a reconcilement of the denominators of the basic and diluted EPS computations for the three and six months ended June 30, 2011 and 2010 (dollars and shares in thousands, except per share amounts):

	Net Income Available to Common Shareholders (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
For the Three Months ended June 30, 2011			
Net income	**$ 6,820**	**25,970**	**$ 0.26**
Less: dividends paid and accumulated on preferred stock	**462**	**—**	**0.02**
Less: accretion of discount on preferred stock	**65**	**—**	**—**
Basic	**$ 6,293**	**25,970**	**$ 0.24**
Add: potentially dilutive common shares - stock awards	**—**	**22**	**—**
Diluted	**$ 6,293**	**25,992**	**$ 0.24**
For the Three Months ended June 30, 2010			
Net income	$ 8,726	25,872	$ 0.34
Less: dividends paid and accumulated on preferred stock	462	—	0.02
Less: accretion of discount on preferred stock	50	—	—
Basic	$ 8,214	25,872	$ 0.32
Add: potentially dilutive common shares - stock awards	—	42	—
Diluted	$ 8,214	25,914	$ 0.32
For the Six Months ended June 30, 2011			
Net income	**$ 13,014**	**25,964**	**$ 0.50**
Less: dividends paid and accumulated on preferred stock	**924**	**—**	**0.04**
Less: accretion of discount on preferred stock	**129**	**—**	**—**
Basic	**$ 11,961**	**25,964**	**$ 0.46**
Add: potentially dilutive common shares - stock awards	**—**	**23**	**—**
Diluted	**$ 11,961**	**25,987**	**$ 0.46**
For the Six Months ended June 30, 2010			
Net income	$ 10,425	24,542	$ 0.42
Less: dividends paid and accumulated on preferred stock	765	—	0.03
Less: accretion of discount on preferred stock	101	—	—
Basic	$ 9,559	24,542	$ 0.39
Add: potentially dilutive common shares - stock awards	—	41	—
Diluted	$ 9,559	24,583	$ 0.39

6. TRUST PREFERRED CAPITAL NOTES

Statutory Trust I, a wholly owned subsidiary of the Company, issued a Trust Preferred Capital Note of $22.5 million through a pooled underwriting for an acquisition in 2004. The securities have an indexed London Interbank Offer Rate (“LIBOR”) floating rate (three month LIBOR rate plus 2.75%) which adjusts and is payable quarterly. The interest rate at June 30, 2011 was 3.00%. The capital securities were redeemable at par beginning on June 17, 2009 and quarterly thereafter until the securities mature on June 17, 2034. The principal asset of Statutory Trust I is $23.2 million of the Company’s junior subordinated debt securities with like maturities and like interest rates to the capital notes. Of the above amount, $696,000 is reflected as the Company’s investment in Statutory Trust I and reported as “Other assets” within the consolidated balance sheet.

Statutory Trust II, a wholly owned subsidiary, of the Company, issued a Trust Preferred Capital Note of $36.0 million through a pooled underwriting for an acquisition in 2006. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 1.40%) which adjusts and is payable quarterly. The interest rate at June 30, 2011 was 1.65%. The redeemable capital securities may be called at par on June 30, 2011 and each calendar quarter thereafter until the securities mature on March 31, 2036. The principal asset of the Statutory Trust II is $37.1 million of the Company’s junior subordinated debt securities with like maturities and like interest rates to the capital notes. Of this amount $1.1 million is reflected as the Company's investment in Statutory Trust II reported as "Other assets" within the consolidated balance sheet.

7. SEGMENT REPORTING DISCLOSURES

The Company has two reportable segments: a traditional full service community bank and a mortgage loan origination business. The community bank segment provides loan, deposit, investment, and trust services to retail and commercial customers throughout its 99 retail locations in Virginia. The mortgage segment provides a variety of mortgage loan products principally in Virginia, North Carolina, South Carolina, Maryland and the Washington D.C. metro area. These loans are originated and sold primarily in the secondary market through purchase commitments from investors, which subject the Company to only de minimus risk.

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

Both of the Company's reportable segments are service based. The mortgage business is a fee-based business while the bank is driven principally by net interest income. The bank segment provides a distribution and referral network through their customers for the mortgage loan origination business. The mortgage segment offers a more limited referral network for the bank, due largely to the minimal degree of overlapping geographic markets.

The community bank segment provides the mortgage segment with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest at the three month LIBOR rate plus 1.5%. These transactions are eliminated in the consolidation process. A management fee for operations and administrative support services is charged to all subsidiaries and eliminated in the consolidated totals.

Information about reportable segments and reconciliation of such information to the consolidated financial statements for three and six months ended June 30, 2011 and 2010 was as follows (dollars in thousands):

	Community Banks	Mortgage	Eliminations	Consolidated
Three Months Ended June 30, 2011				
Net interest income	**$ 39,341**	**$ 282**	**$ —**	**$ 39,623**
Provision for loan losses	**4,500**	**—**	**—**	**4,500**
Net interest income after provision for loan losses	**34,841**	**282**	**—**	**35,123**
Noninterest income	**5,777**	**4,304**	**(118)**	**9,963**
Noninterest expenses	**31,665**	**4,325**	**(118)**	**35,872**
Income before income taxes	**8,953**	**261**	**—**	**9,214**
Income tax expense	**2,299**	**95**	**—**	**2,394**
Net income	**$ 6,654**	**$ 167**	**$ —**	**$ 6,820**
Total assets	**$3,846,714**	**$57,215**	**$ (52,405)**	**$3,851,524**
Three Months Ended June 30, 2010				
Net interest income	$ 38,965	$ 602	$ —	$ 39,567
Provision for loan losses	3,955	—	—	3,955
Net interest income after provision for loan losses	35,010	602	—	35,612
Noninterest income	6,964	5,254	(118)	12,101
Noninterest expenses	30,663	4,603	(118)	35,148
Income before income taxes	11,311	1,253	—	12,565
Income tax expense	3,383	456	—	3,839
Net income	$ 7,928	$ 797	$ —	$ 8,726
Total assets	$3,865,549	$81,857	$ (73,207)	$3,874,199
Six Months Ended June 30, 2011				
Net interest income	**$ 77,654**	**$ 769**	**$ —**	**$ 78,423**
Provision for loan losses	**10,800**	**—**	**—**	**10,800**
Net interest income after provision for loan losses	**66,854**	**769**	**—**	**67,623**
Noninterest income	**11,472**	**9,272**	**(234)**	**20,510**
Noninterest expenses	**61,621**	**9,252**	**(234)**	**70,639**
Income before income taxes	**16,705**	**789**	**—**	**17,494**
Income tax expense	**4,186**	**294**	**—**	**4,480**
Net income	**$ 12,519**	**$ 495**	**$ —**	**$ 13,014**
Total assets	**$3,846,714**	**$57,215**	**$ (52,405)**	**$3,851,524**
Six Months Ended June 30, 2010				
Net interest income	$ 72,743	$ 984	$ —	$ 73,727
Provision for loan losses	8,956	—	—	8,956
Net interest income after provision for loan losses	63,787	984	—	64,771
Noninterest income	12,329	9,746	(235)	21,840
Noninterest expenses	63,674	8,509	(235)	71,948
Income before income taxes	12,442	2,221	—	14,663
Income tax (benefit) expense	3,394	844	—	4,238
Net income	$ 9,048	$ 1,377	$ —	$ 10,425
Total assets	$3,865,549	$81,857	$ (73,207)	$3,874,199

8. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). This amends previous guidance to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, "*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*" The new disclosure guidance significantly expands the existing requirements and will lead to greater transparency into a company's exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period became effective for both interim and annual reporting periods ending on or after December 15, 2010.

Specific disclosures regarding activity that occurred before the issuance of the ASU, such as the allowance roll forward and modification disclosures will be required for periods beginning on or after December 15, 2010. The Company has included the required disclosures in its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, "*Disclosure of Supplementary Pro Forma Information for Business Combinations*." The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. This is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, "*When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*" The amendments in this guidance modify step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The amendments in this update were effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

The Securities Exchange Commission ("SEC") has issued Final Rule No. 33-9002, "*Interactive Data to Improve Financial Reporting*", which requires companies to submit financial statements in extensible business reporting language ("XBRL") format with their SEC filings on a phased-in schedule. Large accelerated filers and foreign large accelerated filers using U.S. GAAP were required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2010. All remaining filers are required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2011. The Company will submit financial statements in XBRL format for the second quarter of 2011.

In March 2011, the SEC issued Staff Accounting Bulletin ("SAB") 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the SAB. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB's codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB series. The effective date for SAB 114 is March 28, 2011. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, "*A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*" ("ASU 2011-02"). This clarifies the guidance on a creditor's evaluation of whether it has granted a concession to a debtor. They also clarify the guidance on a creditor's evaluation of whether a debtor is experiencing financial difficulty. The amendments in this guidance are effective for the first interim or annual period beginning on or after June 15, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, an entity may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company is currently preparing for and assessing the impact that ASU 2011-02 will have on its consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, "*Transfers and Servicing (Topic 860) — Reconsideration of Effective Control for Repurchase Agreements*" ("ASU 2011-03"). The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU are effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2011-03 will have on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, "*Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*" ("ASU 2011-04"). This ASU is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. GAAP (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and international financial reporting standards. The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. Early application is not permitted. The Company is currently assessing the impact that ASU 2011-04 will have on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income (Topic 220) — Presentation of Comprehensive Income*" ("ASU 2011-05"). The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Company is currently assessing the impact that ASU 2011-05 will have on its consolidated financial statements.

9. GOODWILL AND INTANGIBLE ASSETS

The Company adopted ASC 350, *Goodwill and Other Intangible Assets,* which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of this statement discontinued the amortization of goodwill and intangible assets with indefinite lives but require an impairment review at least annually and more frequently if certain impairment indicators are evident.

Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 4 to 14 years. In connection with the First Market Bank acquisition in 2010, the Company recorded $26.4 million of core deposit intangible, $1.2 million of trademark intangible and $1.1 million in goodwill. None of the goodwill recognized will be deductible for income tax purposes. The core deposit intangible on that acquisition is being amortized over an average of 4.3 years using an accelerated method and the trademark intangible is being amortized over three years using the straight-line method.

In the recent acquisition of the Harrisonburg branch, the Company recorded $1.8 million in goodwill and $9,500 of core deposit intangible. The goodwill is deductible for tax purposes.

Based on the annual testing during the second quarter of each year and the absence of impairment indicators during the quarter ended June 30, 2011, the Company has recorded no impairment charges to date for goodwill or intangible assets.

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
June 30, 2011			
Amortizable core deposit intangibles	**$ 46,615**	**$ 22,957**	**$ 23,658**
Unamortizable goodwill	**59,742**	**342**	**59,400**
Trademark intangible	**1,200**	**567**	**633**
December 31, 2010			
Amortizable core deposit intangibles	$ 46,615	$ 19,788	$ 26,827
Unamortizable goodwill	57,909	342	57,567
Trademark intangible	1,200	367	833
June 30, 2010			
Amortizable core deposit intangibles	$ 46,615	$ 15,917	$ 30,698
Unamortizable goodwill	57,909	342	57,567
Trademark intangible	1,200	167	1,033

Amortization expense of the core deposit intangibles for the three and six month periods ended June 30, 2011 totaled $1.6 million and $3.2 million, respectively compared to $1.9 million and $3.4 million, respectively in 2010. The Harrisonburg branch core deposit intangible of $9,500 was expensed in the second quarter of 2011. Amortization expense of the trademark intangibles for the three and six month periods ended June 30, 2011 was $100,000 and $200,000, respectively compared to $100,000 and $167,000, respectively for 2010.

As of June 30, 2011, the estimated remaining amortization expense of core deposit and trademark intangibles for each of the five succeeding fiscal years is as follows (dollars in thousands):

2012	**$ 6,033**
2013	**4,698**
2014	**3,273**
2015	**2,578**
2016	**2,117**
Thereafter	**5,590**
	$24,291

10. COMMITMENTS AND CONTINGENCIES

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payments of fees. Because many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. At June 30, 2011 and 2010, the Company had outstanding loan commitments approximating $773.3 million and $761.3 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 $39.7 million and $38.7 million at June 30, 2011, and 2010, respectively.

At June 30, 2011, Union Mortgage Group, Inc. ("Union Mortgage"), a wholly owned subsidiary of Union First Market Bank, a wholly owned subsidiary of Union First Market Bankshares Corporation, had rate lock commitments to originate mortgage loans amounting to $109.9 million and loans held for sale of $50.4 million. Union Mortgage Group has entered into corresponding agreements on a best-efforts basis to sell loans on a servicing released basis totaling approximately $160.3 million. These commitments to sell loans are designed to mitigate the mortgage company's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

11. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of investment securities as of June 30, 2011 and December 31, 2010 are summarized as follows (in thousands):

		Gross Unrealized		
	Amortized Cost	Gains	(Losses)	Estimated Fair Value
June 30, 2011				
U.S. government and agency securities	**$ 8,533**	**$ 780**	**$ —**	**$ 9,313**
Obligations of states and political subdivisions	**182,466**	**5,675**	**(724)**	**187,417**
Corporate and other bonds	**15,005**	**461**	**(422)**	**15,044**
Mortgage-backed securities	**341,423**	**12,226**	**(101)**	**353,548**
Federal Reserve Bank stock - restricted	**6,711**	**—**	**—**	**6,711**
Federal Home Loan Bank stock - restricted	**16,172**	**—**	**—**	**16,172**
Other securities	**2,857**	**—**	**(2)**	**2,855**
Total securities	**$573,167**	**$19,142**	**$(1,249)**	**$591,060**
December 31, 2010				
U.S. government and agency securities	$ 9,610	$ 454	$ (103)	$ 9,961
Obligations of states and political subdivisions	176,431	2,189	(3,588)	175,032
Corporate and other bonds	15,543	380	(858)	15,065
Mortgage-backed securities	334,696	9,767	(425)	344,038
Federal Reserve Bank stock - restricted	6,716	—	—	6,716
Federal Home Loan Bank stock - restricted	18,345	—	—	18,345
Other securities	3,259	32	(7)	3,284
Total securities	$564,600	$12,822	$(4,981)	$572,441

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

	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
As of June 30, 2011						
Obligations of states and political subdivisions	**$ 18,493**	**$ (675)**	**$ 4,608**	**$ (49)**	**$ 23,101**	**$ (724)**
Mortgage-backed securities	**13,472**	**(101)**	**—**	**—**	**13,472**	**(101)**
Corporate bonds and other securities	**21**	**(2)**	**4,498**	**(422)**	**4,519**	**(424)**
Totals	**$ 31,986**	**$ (778)**	**$ 9,106**	**$ (471)**	**$ 41,092**	**$ (1,249)**
As of December 31, 2010						
U.S. government and agency securities	$ 43	$ (103)	$ —	$ —	$ 43	$ (103)
Obligations of states and political subdivisions	82,952	(2,451)	14,762	(1,137)	97,714	(3,588)
Mortgage-backed securities	49,515	(425)	—	—	49,515	(425)
Corporate bonds and other securities	—	(7)	4,104	(858)	4,104	(865)
Totals	$132,510	$ (2,986)	$18,866	$ (1,995)	$151,376	$ (4,981)

As of June 30, 2011, there were $9.1 million, or 17 issues, of individual securities that had been in a continuous loss position for more than 12 months. Additionally, these securities had an unrealized loss of $0.5 million and consisted of corporate and municipal obligations.

During each quarter the Company conducts an assessment of the securities portfolio for other-than-temporary impairment ("OTTI") consideration. The assessment considers factors such as external credit ratings, delinquency coverage ratios, market price, management's judgment, expectations of future performance, and relevant industry research and analysis. An impairment is OTTI if any of the following conditions exists: 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. Based on the assessment for the quarter ended June 30, 2011 and in accordance with the guidance, no OTTI was recognized.

12. FAIR VALUE MEASUREMENTS

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

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

- Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the markets.
- Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. These unobservable inputs reflect the

Company's assumptions about what market participants would use and information that is reasonably available under the circumstances without undue cost and effort.

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

Interest rate swap agreement used for interest rate risk management

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

Securities available for sale

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

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

	Fair Value Measurements at June 30, 2011 using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Balance
ASSETS				
Interest rate swap - loans	$ —	$ 137	$ —	$ 137
Securities available for sale:				
U.S. government and agency securities	—	9,313	—	9,313
Obligations of states and political subdivisions	—	187,417	—	187,417
Corporate and other bonds	—	15,044	—	15,044
Mortgage-backed securities	—	353,548	—	353,548
Other securities	—	2,855	—	2,855
Total	**$ —**	**$ 568,314**	**$ —**	**$568,314**
LIABILITIES				
Interest rate swap - loans	$ —	$ 137	$ —	$ 137
Cash flow hedge - trust	—	2,474	—	2,474
Total	**$ —**	**$ 2,611**	**$ —**	**$ 2,611**

	Fair Value Measurements at December 31, 2010 using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Balance
ASSETS				
Interest rate swap - loans	$ —	$ 189	$ —	$ 189
Securities available for sale:				
U.S. government and agency securities	—	9,961	—	9,961
Obligations of states and political subdivisions	—	175,032	—	175,032
Corporate and other bonds	—	15,065	—	15,065
Mortgage-backed securities	—	344,038	—	344,038
Other securities	—	3,284	—	3,284
Total	**$ —**	**$ 547,569**	**$ —**	**$547,569**
LIABILITIES				
Interest rate swap - loans	$ —	$ 189	$ —	$ 189
Cash flow hedge - trust	—	1,476	—	1,476
Total	**$ —**	**$ 1,665**	**$ —**	**$ 1,665**

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

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

Loans held for sale

Loans held for sale are carried at the lower of cost or market value. These loans currently consist of residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different from cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the three and six months ended June 30, 2011. Gains and losses on the sale of loans are recorded within income from the mortgage segment on the Consolidated Statements of Income.

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company’s collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than two years old, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business’s financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. At June 30, 2011, the Company’s Level 3 loans consisted of nine relationships secured by residential real estate and lots of $10.6 million with a valuation reserve of $2.1 million; three relationships secured by commercial real estate of $2.3 million with a valuation reserve of $484,000; and two relationships secured by inventory, receivables, or equipment of $4.0 million with a valuation reserve of $952,000.

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

	Fair Value Measurements at June 30, 2011 using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Balance
ASSETS				
Loans held for sale	$ —	$ 50,420	$ —	$ 50,420
Impaired loans	—	40,998	13,379	54,377
Total	**$ —**	**$ 91,418**	**$ 13,379**	**$104,797**

	Fair Value Measurements at December 31, 2010 using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Balance
ASSETS				
Loans held for sale	$ —	$ 73,974	$ —	$ 73,974
Impaired loans	—	59,992	7,895	67,887
Total	**$ —**	**$ 133,966**	**$ 7,895**	**$141,861**

The Company's nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis relate to other real estate owned ("OREO"), goodwill, and intangible assets. In accordance with ASC 360, *Property, Plant and Equipment*, OREO with a carrying value above fair value is written down to its fair value and results in an impairment charge. The fair value of the real property is generally determined using appraisals or other indicators of value based on recent comparables of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 2. Total valuation expenses related to two OREO properties for the three and six months ended June 30, 2011 were $165,000 and 177,000, and for the three and six months ended June 30, 2010 were zero for both periods. No impairment charges have been recorded for goodwill or intangible assets.

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

Cash and Cash Equivalents

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

Loans

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

Deposits

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

Borrowings

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Cash Flow Hedge

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

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At June 30, 2011, the fair value of loan commitments and standby letters of credit was immaterial and excluded from the table below.

The carrying values and estimated fair values of the Company's financial instruments as of June 30, 2011 are in the following table (dollars in thousands):

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 63,234	$ 63,234
Securities available for sale	591,060	591,060
Loans held for sale	50,420	50,420
Net loans	2,819,938	2,834,255
Interest rate swap - loans	137	137
Accrued interest receivable	15,613	15,613
Financial liabilities:		
Deposits	$3,083,053	$3,090,510
Borrowings	295,670	283,903
Accrued interest payable	1,979	1,979
Cash flow hedge - trust	2,474	2,474
Interest rate swap - loans	137	137

13. DERIVATIVES

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

Amounts receivable or payable are recognized as accrued under the terms of the agreements. In accordance with ASC 815, *Derivatives and Hedging*, the trust swap is designated as a cash flow hedge, with the effective portion of the derivative's unrealized gain or loss recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. The Company has assessed the effectiveness of the hedging relationship by comparing the changes in cash flows on the designated hedged item. There was no hedge ineffectiveness for this trust swap. At June 30, 2011, the fair value of the trust swap agreement was an unrealized loss of $2.5 million, the amount the Company would have expected to pay if the contract was terminated. The below liability is recorded as a component of other comprehensive income recorded in the Company's Consolidated Statements of Changes in Stockholders' Equity.

Shown below is a summary of the derivative designated as an accounting hedge at June 30, 2011:

	Positions	Notional Amount	Asset	Liability	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swaps	1	$36,000	$—	$2,474	0.25%	3.51%	5.96

The Company also acquired two interest rate swap loan relationships ("loan swaps") as a result of the acquisition of First Market Bank. Upon entering into loan swaps with borrowers to meet their financing needs, offsetting positions with counterparties were entered into in order to minimize interest rate risk. These back-to-back loan swaps qualify as financial derivatives with fair values reported in other assets and other liabilities. The Company had loan swaps with a notional value of $4.1 million and offsetting fair values of $137,000 recorded in other assets and other liabilities with no net effect on other operating income. Shown below is a summary regarding loan swap derivative activities at June 30, 2011 (dollars in thousands):

	Positions	Notional Amount	Asset	Liability	Receive Rate	Pay Rate	Life (Years)
Receive fixed - pay floating interest rate swaps	2	$4,118	$137	$ —	6.35%	2.69%	1.51
Pay fixed - receive floating interest rate swaps	2	4,118	—	137	2.69%	6.35%	1.51

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Yount Hyde & Barbour
Certified Public Accountants and Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Union First Market Bankshares Corporation
Richmond, Virginia

We have reviewed the accompanying condensed consolidated balance sheets of Union First Market Bankshares Corporation and subsidiaries as of June 30, 2011 and 2010, the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2011 and 2010, and the related condensed consolidated statements of changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Union First Market Bankshares Corporation and subsidiaries as of December 31, 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
August 9, 2011

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Union First Market Bankshares Corporation and its subsidiaries (collectively the "Company"). This discussion and analysis should be read with the consolidated financial statements, the notes to the financial statements, and the other financial data included in this report, as well as the Company's Annual Report on Form 10-K and management's discussion and analysis for the year ended December 31, 2010. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Results of operations for the three and six month periods ended June 30, 2011 and 2010 are not necessarily indicative of results that may be attained for any other period. Amounts are rounded for presentation purposes while some of the percentages presented are computed based on unrounded amounts.

FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations, or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as "expect," "believe," "estimate," "plan," "project," "anticipate," "intend," "will," or words of similar meaning or other statements concerning opinions or judgment of the Company and its management about future events. Although the Company believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance, or achievements of the Company will not differ materially from any future results, performance, or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits. More information is available on the Company's website, *http://investors.bankatunion.com* and on the Securities and Exchange Commission's website, *www.sec.gov*. The information on the Company's website is not a part of this Form 10-Q. The Company does not intend or assume any obligation to update or revise any forward-looking statements that may be made from time to time by or on behalf of the Company.

CRITICAL ACCOUNTING POLICIES

General

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

The more critical accounting and reporting policies include the Company's accounting for the allowance for loan losses and mergers and acquisitions. The Company's accounting policies are fundamental to understanding the Company's consolidated financial position and consolidated results of operations. Accordingly, the Company's significant accounting policies are discussed in detail in Note 1 "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

Allowance for Loan Losses

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

The Company's allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. All components of the allowance represent an estimation performed pursuant to applicable GAAP. Management's estimate of each homogenous pool component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation may include but is not limited to credit quality trends; collateral values; loan volumes; geographic, borrower and industry concentrations; seasoning of the loan portfolio; the findings of internal credit quality assessments; and results from external bank regulatory examinations. These factors together with historical losses and current economic and business conditions are considered in developing estimated loss factors used in the calculations.

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates generally to commercial loans that are classified as impaired, and on which 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-impaired loans and is derived from an estimate of credit losses adjusted for various environmental factors applicable to both commercial and consumer loan segments. The estimate of credit losses is a function of the product of net charge-off historical loss experience to the loan balance of the loan portfolio averaged over a period of time management deems appropriate to adequately reflect the losses inherent in the loan portfolio. The environmental factors consist of national, local, and portfolio characteristics and are applied to both the commercial and consumer segments. The following table shows the types of environmental factors management considers:

ENVIRONMENTAL FACTORS

Portfolio	National	Local
Experience and ability of lending team	Interest rates	Level of economic activity
Depth of lending team	Inflation	Unemployment
Pace of loan growth	Unemployment	Competition
Franchise expansion	Gross domestic product	Rural v. urban market
Execution of loan risk rating process	General market risk and other concerns	Military/government impact
Degree of oversight /underwriting standards	Legislative and regulatory environment	
Value of real estate serving as collateral		
Delinquency levels in portofolio		
Charge-off levels in portfolio		
Credit concentrations / nature and volume of the portfolio		

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management judges the loan to be uncollectable. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. These adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

An unallocated component may be used 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. Together, the specific, general, and any unallocated allowance for loan loss represents management's estimate of losses inherent in the current loan portfolio. Though provisions for loan losses may be based on specific loans, the entire allowance for loan losses is available for any loan management deems necessary to charge-off. At June 30, 2011 and 2010, there were no material amounts considered unallocated as part of the allowance for loan losses.

Mergers and Acquisitions

The Company accounts for its business combinations under the purchase method of accounting, a cost allocation process which requires the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company will continue to rely on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Under the acquisition method of accounting, the Company will identify the acquirer and the closing date and apply applicable recognition principles and conditions. Costs that the Company expects, but is not obligated to incur in the future, to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. The Company will not recognize these costs as part of applying the acquisition method. Instead, the Company will recognize these costs in its post-combination financial statements in accordance with other applicable accounting guidance.

Acquisition-related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples for the Company include systems conversions, integration planning consultants and advertising costs. The Company will account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities will be recognized in accordance with other applicable accounting guidance. These acquisition-related costs are included within the Consolidated Statements of Income classified within the noninterest expense caption.

NewBridge Bank branch acquisition

On May 20, 2011 the Company completed the purchase of the NewBridge Bank branch in Harrisonburg, Virginia (the "Harrisonburg branch"). As part of the agreement, the Company purchased loans of $72.5 million and assumed deposit liabilities of $48.7 million, and purchased the related fixed assets of the branch and a potential branch site in Waynesboro, Virginia. The Company operates the acquired bank branch under the name Union First Market Bank. The Company's condensed consolidated statements of income include the results of operations of the Harrisonburg branch from the closing date of the acquisition.

In connection with the acquisition, the Company recorded $1.8 million of goodwill and $9,500 of core deposit intangible. The core deposit intangible of $9,500 is being expensed in the current period. The recorded goodwill was allocated to the community banking segment of the Company and is deductible for tax purposes.

The Company acquired the $72.5 million loan portfolio at a fair value discount of $1.7 million. The discount represents expected credit losses, adjustments to market interest rates and liquidity adjustments. The performing loan portfolio fair value estimate was $70.5 million and the impaired loan portfolio fair value estimate was $276,000.

First Market Bank acquisition

On February 1, 2010, the Company completed its acquisition of First Market Bank, FSB ("First Market Bank" or "FMB") in an all stock transaction. First Market Bank's common shareholders received 6,273.259 shares of the Company's common stock in exchange for each share of First Market Bank's common stock, resulting in the Company issuing 6,701,478 common shares. The Series A preferred shareholder of First Market Bank received 775,795 shares of the Company's common stock in exchange for all shares of the Series A preferred stock. In connection with the transaction the Company issued a total of 7,477,273 common shares with an acquisition date fair value of $96.1 million. The Series B and Series C preferred shareholder of First Market Bank received 35,595 shares of the Company's Series B preferred stock in exchange for all shares of the FMB Series B and Series C preferred stock.

The FMB transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values on the acquisition date. Assets acquired totaled $1.4 billion, including $981.5 million in net loans and $218.7 million in investment securities. Liabilities assumed were $1.3 billion, including $1.2 billion of deposits. In connection with the acquisition, the Company recorded $1.1 million of goodwill and $26.4 million of core deposit intangible. The core deposit intangible is being amortized over an average of 4.3 years using an accelerated method. In addition, the Company recorded $1.2 million related to a trademark intangible. This is being amortized over a three year time period. Based on the annual testing during the second quarter of each year and the absence of impairment indicators during the quarter ended June 30, 2011 the Company has recorded no impairment charges to date for goodwill or intangible assets.

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

The estimated fair value of liabilities assumed was based on the discounted value of contractual cash flows and compared to other securities with similar characteristics and remaining maturities. Specifically, First Market Bank's Federal Home Loan Bank of Atlanta ("FHLB") advances, subordinated debt and certificates of deposit were assumed at a net premium and the Harrisonburg branch's certificates of deposit were also assumed at a premium.

ABOUT UNION FIRST MARKET BANKSHARES CORPORATION

Headquartered in Richmond, Virginia, Union First Market Bankshares Corporation is the holding company for Union First Market Bank, which has 99 branches and more than 160 ATMs throughout Virginia. Non-bank affiliates of the holding company include: Union Investment Services, Inc., which provides full brokerage services; Union Mortgage Group, Inc., which provides a full line of mortgage products; and Union Insurance Group, LLC, which offers various lines of insurance products. Union First Market Bank also owns a non-controlling interest in Johnson Mortgage Company, LLC.

Additional information is available on the Company's website at *http://investors.bankatunion.com*. The information contained on the Company's website is not a part of this report. Shares of the Company's common stock are traded on the NASDAQ Global Select Market under the symbol UBSH.

RESULTS OF OPERATIONS

Net Income

The Company reported net income of $6.8 million and earnings per share of $0.24 for the second quarter ended June 30, 2011. The quarterly results represent an increase of $626,000 in net income or $0.02 in earnings per share from the most recent quarter and a decrease of $1.9 million in net income or $0.08 decrease in earnings per share from the quarter ended June 30, 2010.

Second quarter net income increased $626,000, or 10.1%, from the first quarter of this year and was largely attributable to a reduction in the provision for loan losses and increased net interest income. These improvements were partially offset by increased costs associated with loan foreclosures, workouts, OREO, and lower income from the mortgage segment.

Second quarter net income decreased $1.9 million, or 21.8%, compared to the same quarter in the prior year. The decrease in quarterly net income is largely a result of flat net interest income, declines in mortgage segment income, and increased costs associated with loan foreclosures, workouts, and OREO. These changes were partially offset by the absence of prior year nonrecurring FMB acquisition costs and lower marketing and occupancy costs.

Year-to-date net income for the six months ended June 30, 2011 increased $2.6 million, or 24.8%, from the same period a year ago. The increase was principally a result of favorable net interest income and the absence of nonrecurring prior year acquisition costs. These improvements were partially offset by increases in provision for loan losses and lower mortgage segment income. Comparative results to the prior year exclude FMB results for the month of January 2010.

NET INTEREST INCOME

On a linked quarter basis, tax-equivalent net interest income was $40.7 million, an increase of $816,000, or 2.0%, from the first quarter of 2011. This improvement was principally due to interest-earning asset growth outpacing the growth of interest-bearing liabilities, enhanced by favorable demand deposit growth. Second quarter tax-equivalent net interest margin was unchanged at 4.68% compared to the most recent quarter. The flat net interest margin was principally attributable to lower investment security and loan yields offset by lower costs of interest-bearing deposits. Additionally, the funding mix continued to shift from higher cost certificates of deposit to lower cost money market accounts and checking accounts.

The following table shows average interest-earning assets, interest-bearing liabilities, the related income/expense and change for the periods shown:

	Linked quarter results *Dollars in thousands* Three Months Ended		
	06/30/11	03/31/11	Change
Average interest-earning assets	$3,486,949	$3,459,834	$27,115
Interest income	$ 48,849	$ 48,490	$ 359
Yield on interest-earning assets	5.62%	5.68%	(6)bps
Average interest-bearing liabilities	$2,861,567	$2,858,406	$ 3,161
Interest expense	$ 8,134	$ 8,591	$ (457)
Cost of interest-bearing liabilities	1.14%	1.22%	(8)bps

For the three months ended June 30, 2011, tax-equivalent net interest income increased $119,000, or 0.29%, when compared to the same period last year. The tax-equivalent net interest margin increased 3 basis points to 4.68% from 4.65% in the prior year. The improvement in the net interest margin was a result of a continued shift in funding mix to lower cost funds as certificates of deposit decreased while savings, money markets and demand deposits increased. Lower interest-earning asset income was principally due to lower loan yields on relatively flat average loan volume.

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The following table shows average interest-earning assets, interest-bearing liabilities, the related income/expense and change for the periods shown:

	Year-over-year results *Dollars in thousands* Three Months Ended		
	06/30/11	06/30/10	Change
Average interest-earning assets	$3,486,949	$3,502,398	$(15,449)
Interest income	$ 48,849	$ 50,351	$ (1,502)
Yield on interest-earning assets	5.62%	5.77%	(15)bps
Average interest-bearing liabilities	$2,861,567	$2,917,606	$(56,039)
Interest expense	$ 8,134	$ 9,755	$ (1,621)
Cost of interest-bearing liabilities	1.14%	1.34%	(20)bps

For the six months ended June 30, 2011, tax-equivalent net interest income increased $4.9 million, or 6.5%, when compared to the same period last year. Comparative results to the prior year exclude FMB results for the month of January 2010. The tax-equivalent net interest margin increased 8 basis points to 4.68% from 4.60% in the prior year. The improvement in the net interest margin was a result of improvement in the cost of funds partially offset by lower loan yields and aided by the increase in interest-earning assets due to the acquisition of FMB in the first quarter of 2010.

The following table shows average interest-earning assets, interest-bearing liabilities, the related income/expense and change for the periods shown:

	Year-over-year results *Dollars in thousands* Six Months Ended		
	06/30/11	06/30/10	Change
Average interest-earning assets	$3,473,467	$3,304,121	$169,346
Interest income	$ 97,339	$ 94,606	$ 2,733
Yield on interest-earning assets	5.65%	5.75%	(10)bps
Average interest-bearing liabilities	$2,859,995	$2,770,366	$ 89,629
Interest expense	$ 16,725	$ 18,913	$ (2,188)
Cost of interest-bearing liabilities	1.18%	1.37%	(19)bps

Acquisition Activity – net interest margin

The favorable impact of acquisition accounting fair value adjustments on net interest income was $1.8 million ($1.7 million – FMB; $140,000 – Harrisonburg branch) for the three months ended June 30, 2011. If not for this favorable impact, the net interest margin for the second quarter would have been 4.47%, unchanged from the first quarter of 2011.

The Harrisonburg branch

The acquired loan portfolio of the Harrisonburg branch was marked-to-market with a fair value discount to market rates. Performing loan discount accretion is recognized as interest income over the estimated remaining life of the loans. The Company also assumed certificates of deposit at a premium to market. These were marked-to-market with estimates of fair value on acquisition date. The resulting premium to market is amortized as a decrease to interest expense over the estimated lives of the certificates of deposit.

FMB

The acquired loan and investment security portfolios of FMB were marked-to-market with a fair value discount to market rates. Performing loan and investment security discount accretion is recognized as interest income over the estimated remaining life of the loans and investment securities. The Company also assumed borrowings FHLB and subordinated debt) and certificates of deposit. These liabilities were

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marked-to-market with estimates of fair value on acquisition date. The resulting discount/premium to market is accreted/amortized as an increase (or decrease) to net interest income over the estimated lives of the liabilities. Additional credit quality deterioration above the original credit mark is recorded as additional provisions for loan losses.

The second quarter and remaining estimated discount/premium is reflected in the following table (dollars in thousands):

	Harrisonburg Branch		First Market Bank			
	Loan Accretion	Certificates of Deposit	Loan Accretion	Investment Securities	Borrowings	Certificates of Deposit
For the quarter ended June 30, 2011	$ 118	$ 22	$ 1,529	$ 93	$ (122)	$ 194
For the remaining six months of 2011	506	101	2,485	186	(245)	311
For the years ending:						
2012	589	11	3,624	201	(489)	222
2013	148	7	2,377	15	(489)	—
2014	37	4	1,478	—	(489)	—
2015	26	—	570	—	(489)	—
2016	27	—	28	—	(163)	—
Thereafter	143	—	—	—	—	—

Acquisition Activity – other operating expenses

Acquisition-related expenses associated with the acquisition of the Harrisonburg branch were $204,000 and $498,000 for the three and six month periods ended June 30, 2011, respectively, and are recorded in “Other operating expenses” in the Company’s condensed consolidated statements of income. Such costs included principally system conversion and integrating operations charges which have been expensed as incurred. There were no acquisition-related expenses related to the Harrisonburg branch in 2010. The Company expects no further acquisition-related expenses from the Harrisonburg branch acquisition.

AVERAGE BALANCES, INCOME AND EXPENSES, YIELDS AND RATES (TAXABLE EQUIVALENT BASIS)

	For the Three Months Ended June 30,								
	2011			2010			2009		
	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
	(Dollars in thousands)								
Assets:									
Securities:									
Taxable	**$ 419,747**	**$ 3,627**	**3.47%**	$ 408,964	$ 3,503	3.44%	$ 258,950	$ 2,630	4.07%
Tax-exempt	**166,660**	**2,722**	**6.55%**	139,483	2,356	6.77%	121,400	2,192	7.24%
Total securities (2)	**586,407**	**6,349**	**4.34%**	548,447	5,859	4.28%	380,350	4,822	5.08%
Loans, net (3) (4)	**2,823,186**	**42,005**	**5.97%**	2,825,183	43,757	6.21%	1,871,142	27,462	5.89%
Loans held for sale	**42,341**	**468**	**4.43%**	59,854	717	4.80%	51,522	580	4.52%
Federal funds sold	**165**	**—**	**0.22%**	7,666	3	0.19%	304	—	0.17%
Money market investments	**153**	**—**	**0.00%**	208	—	0.00%	104	—	0.00%
Interest-bearing deposits in other banks	**34,697**	**27**	**0.32%**	60,696	15	0.10%	84,408	60	0.29%
Other interest-bearing deposits	**—**	**—**	**0.00%**	344	—	0.00%	2,598	—	0.00%
Total earning assets	**3,486,949**	**48,849**	**5.62%**	3,502,398	50,351	5.77%	2,390,428	32,924	5.53%
Allowance for loan losses	**(39,999)**			(34,158)			(28,249)		
Total non-earning assets	**383,836**			376,016			251,820		
Total assets	**$3,830,786**			$3,844,256			$2,613,999		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 386,107**	**157**	**0.16%**	$ 360,760	206	0.23%	$ 203,276	86	0.17%
Money market savings	**840,696**	**1,465**	**0.70%**	732,353	1,724	0.94%	442,436	2,636	2.39%
Regular savings	**175,869**	**192**	**0.44%**	151,657	127	0.34%	100,309	97	0.39%
Certificates of deposit: (5)									
$100,000 and over	**569,587**	**2,217**	**1.56%**	664,418	3,033	1.83%	475,200	3,962	3.34%
Under $100,000	**600,754**	**2,135**	**1.43%**	673,916	2,747	1.63%	489,752	4,006	3.28%
Total interest-bearing deposits	**2,573,013**	**6,166**	**0.96%**	2,583,104	7,837	1.22%	1,710,973	10,787	2.53%
Other borrowings (6)	**288,554**	**1,967**	**2.73%**	334,502	1,918	2.30%	315,517	2,486	3.18%
Total interest-bearing liabilities	**2,861,567**	**8,133**	**1.14%**	2,917,606	9,755	1.34%	2,026,490	13,273	2.63%
Noninterest-bearing liabilities:									
Demand deposits	**504,810**			484,478			291,175		
Other liabilities	**24,050**			26,055			20,540		
Total liabilities	**3,390,427**			3,428,139			2,338,205		
Stockholders' equity	**440,359**			416,117			275,794		
Total liabilities and stockholders' equity	**$3,830,786**			$3,844,256			$2,613,999		
Net interest income		**$40,716**			$40,596			$19,651	
Interest rate spread (7)			**4.48%**			4.43%			2.90%
Interest expense as a percent of average earning assets			**0.94%**			1.12%			2.23%
Net interest margin (8)			**4.68%**			4.65%			3.30%

(1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
(2) Interest income on securities includes $93 thousand in accretion of the fair market value adjustments related to the acquisition of FMB. Remaining estimated accretion for 2011 is $186 thousand.
(3) Nonaccrual loans are included in average loans outstanding.
(4) Interest income on loans includes $1.5 million in accretion of the fair market value adjustments related to the acquisition of FMB. Remaining estimated FMB accretion for 2011 is $2.5 million for FMB. The Harrisonburg branch accretion was $118 thousand with $506 thousand estimated to remain in 2011.
(5) Interest expense on certificates of deposits includes $194 thousand in accretion of the fair market value adjustments related to the acquisition of FMB. Remaining estimated FMB accretion for 2011 is $311 thousand. The Harrisonburg branch accretion was $22 thousand with $101 thousand estimated to remain in 2011.
(6) Interest expense on borrowings includes $122 thousand in amortization of the fair market value adjustments related to the acquisition of FMB. Remaining estimated amortization for 2011 is $245 thousand.
(7) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.
(8) Core net interest margin excludes purchase accounting adjustments and was 4.47% for the quarter ending 6/30/11.

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AVERAGE BALANCES, INCOME AND EXPENSES, YIELDS AND RATES (TAXABLE EQUIVALENT BASIS)

	For the Six Months Ended June 30,								
	2011			2010			2009		
	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
	(Dollars in thousands)								
Assets:									
Securities:									
Taxable	**$ 416,150**	**$ 7,257**	**3.52%**	$ 393,813	$ 7,042	3.61%	$ 239,572	$ 5,066	4.26%
Tax-exempt	**165,799**	**5,420**	**6.59%**	129,597	4,456	6.93%	119,082	4,291	7.27%
Total securities (2)	**581,949**	**12,677**	**4.39%**	523,410	11,498	4.43%	358,654	9,357	5.26%
Loans, net (3) (4)	**2,817,829**	**83,597**	**5.98%**	2,671,272	81,907	6.18%	1,870,455	54,720	5.90%
Loans held for sale	**48,214**	**1,032**	**4.32%**	52,273	1,163	4.48%	45,146	1,011	4.52%
Federal funds sold	**215**	**—**	**0.23%**	17,719	15	0.18%	304	—	0.19%
Money market investments	**157**	**—**	**0.00%**	160	—	0.00%	98	—	0.00%
Interest-bearing deposits in other banks	**25,103**	**33**	**0.26%**	37,822	23	0.12%	89,294	114	0.26%
Other interest-bearing deposits	**—**	**—**	**0.00%**	1,465	—	0.00%	2,598	—	0.00%
Total earning assets	**3,473,467**	**97,339**	**5.65%**	3,304,121	94,606	5.75%	2,366,549	65,202	5.56%
Allowance for loan losses	**(39,386)**			(32,876)			(27,202)		
Total non-earning assets	**385,355**			372,044			250,661		
Total assets	**$3,819,436**			$3,643,289			$2,590,008		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 380,463**	**$ 316**	**0.17%**	$ 332,449	$ 383	0.23%	$ 200,712	$ 166	0.17%
Money market savings	**825,717**	**2,970**	**0.73%**	683,493	3,200	0.94%	421,413	5,125	2.45%
Regular savings	**168,259**	**295**	**0.35%**	149,364	316	0.43%	97,953	198	0.41%
Certificates of deposit: (5)									
$100,000 and over	**585,173**	**4,700**	**1.62%**	624,153	5,886	1.90%	472,448	8,014	3.42%
Under $100,000	**610,407**	**4,570**	**1.51%**	631,683	5,315	1.70%	503,204	8,389	3.36%
Total interest-bearing deposits	**2,570,019**	**12,851**	**1.01%**	2,421,142	15,100	1.26%	1,695,730	21,892	2.60%
Other borrowings (6)	**289,976**	**3,874**	**2.69%**	349,224	3,813	2.20%	317,488	5,031	3.20%
Total interest-bearing liabilities	**2,859,995**	**16,725**	**1.18%**	2,770,366	18,913	1.37%	2,013,218	26,923	2.70%
Noninterest-bearing liabilities:									
Demand deposits	**495,886**			443,452			279,642		
Other liabilities	**27,150**			26,477			20,977		
Total liabilities	**3,383,031**			3,240,295			2,313,837		
Stockholders' equity	**436,405**			402,994			276,171		
Total liabilities and stockholders' equity	**$3,819,436**			$3,643,289			$2,590,008		
Net interest income		**$80,614**			$75,693			$38,279	
Interest rate spread (7)			**4.47%**			4.38%			2.86%
Interest expense as a percent of average earning assets			**0.97%**			1.15%			2.29%
Net interest margin			**4.68%**			4.60%			3.26%

(1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
(2) Interest income on securities includes $201 thousand in accretion of the fair market value adjustments related to the acquisition of FMB.
(3) Nonaccrual loans are included in average loans outstanding.
(4) Interest income on loans includes $3.1 million in accretion of the fair market value adjustments related to the acquisition of FMB and $118 thousand related to the Harrisonburg branch.
(5) Interest expense on certificates of deposits includes $452 thousand in accretion of the fair market value adjustments related to the acquisition of FMB and $22 thousand related to the Harrisonburg branch.
(6) Interest expense on borrowings includes $245 thousand in amortization of the fair market value adjustments related to the acquisition of FMB.
(7) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.

Provision for Loan Losses

The provision for loan losses for the current quarter was $4.5 million, a decrease of $1.8 million from the first quarter of this year and $545,000 increase from the same quarter a year ago. The lower provision for loan losses compared to the most recent quarter primarily reflects improvements in asset quality and reduced specific reserves, as covered impaired loans were charged off. The current level of the allowance for loan losses reflects specific reserves related to nonperforming loans, changes in risk ratings on loans, net charge-off activity, loan growth, delinquency trends and other credit risk factors that the Company considers in assessing the adequacy of the allowance for loan losses.

The allowance for loan losses as a percentage of the total loan portfolio, including net loans recorded at fair value without an allowance, acquired in the FMB and the Harrisonburg branch acquisitions was 1.39% at June 30, 2011, 1.35% at December 31, 2010, and 1.20% at June 30, 2010. The allowance for loan losses as a percentage of the total loan portfolio, adjusted for acquired loans, was 1.88% at June 30, 2011, a decrease from 1.96% at March 31, 2011, and an increase from 1.76% in the same quarter a year ago. The lower ratio of the allowance for loan losses as a percentage of loans compared to the loan portfolio, adjusted for acquired loans, is related to the elimination of FMB's allowance for loan losses at acquisition. In acquisition accounting there is no carryover of previously established allowance for loan losses.

Noninterest Income

On a linked quarter basis, noninterest income decreased $584,000, or 5.5%, to $10.0 million from $10.5 million in the first quarter. Gains on the sale of loans in the mortgage segment decreased $665,000, or 13.4%, and were driven by lower volume in loan originations. Declines in refinanced mortgage loan volume accounted for most of the volume decrease as Union's refinanced loans as a percentage of originations declined from 38.1% to 18.4%. Service charges on deposit accounts and other account fees increased $585,000, related to an increase in debit card fee income, brokerage commissions, and overdraft and returned check fee volume. During the current quarter, the Company reached agreement to sell a former branch building previously closed in connection with the FMB merger. The sale closed in early July and a loss of $626,000 was accrued in the second quarter. Excluding mortgage segment operations and the loss on the sale of the branch building, noninterest income increased $718,000, or 12.6% from the first quarter and related to an increase in brokerage commissions, debit card fee income, and overdraft and returned check fee volume.

For the quarter ended June 30, 2011, noninterest income decreased $2.1 million, or 17.7%, to $10.0 million from $12.1 million in the prior year's same quarter. Gains on sales of loans in the mortgage segment decreased $945,000, or 18.0%, primarily related to lower origination volume. Other operating income decreased $442,000, largely due to the reversal of a property improvement liability the Company recorded in the second quarter of 2010. Other service charges and fees increased $215,000, primarily as a result of increased debit card income and brokerage commissions, but were partially offset by lower service charges on deposit accounts of $165,000. During the current quarter, the Company recorded a loss of $626,000 on a former branch building as mentioned above, and recorded losses on sales of other real estate owned of $163,000. Excluding the mortgage segment operations, and the loss on the sale of the free standing branch, noninterest income decreased $551,000, or 7.9%, from the same period a year ago.

For the six months ending June 30, 2011, noninterest income decreased $1.3 million, to $20.5 million, from $21.8 million a year ago. Comparative results to the prior year exclude FMB results for the month of January 2010. Gains on sales of loans in the mortgage segment decreased $468,000 on lower origination volume and higher estimates of early payment defaults. Service charges on deposit accounts decreased $284,000 primarily related to lower overdraft and returned check charges. Other operating income decreased $258,000 largely related to a reversal of a property improvement liability that occurred in 2010 and higher trust income in the current year. Partially offsetting those decreases was an increase in account service charges and fees of $854,000 that related to higher debit card income, ATM income, and brokerage commissions. During the current quarter, the Company recorded a loss of $626,000 on a former branch building as mentioned above. Other incurred losses on sales of other real estate owned were $461,000 for the period.

Noninterest Expense

On a linked quarter basis, noninterest expense increased $1.1 million, or 3.2%, to $35.9 million from $34.8 million when compared to the first quarter. Other operating expenses increased $1.2 million, or 9.8%. Of the other operating expenses increase, $612,000 were costs to maintain the Company's portfolio of other real estate owned including a valuation adjustment of $165,000, higher legal and professional fees due to continuing problem loan work outs and foreclosure activity of $368,000, and the remaining $220,000 represented communication and marketing expense increases. Current quarter marketing expenses were brand awareness campaigns for the new seven in-store MARTIN'S® locations and a home equity line of credit promotion. Also during the quarter, the Company recorded acquisition costs of $204,000, compared to $294,000 in the first quarter in connection with the aforementioned branch acquisition. Excluding the mortgage segment operations and acquisition costs, noninterest expense increased $1.8 million, or 6.1%, compared to the first quarter of this year.

For the quarter ended June 30, 2011, noninterest expense increased $724,000, or 2.1%, to $35.9 million from $35.1 million for the second quarter of 2010. Other operating expenses increased $852,000, or 6.5%. Other operating expenses included higher costs to maintain the Company's portfolio of other real estate owned of $811,000 which included a valuation adjustment of $165,000, legal and other professional fees of $387,000 principally relating to problem loan work outs and loan foreclosures. Other increases were higher franchise taxes of $299,000, which were levied to include all of former FMB branches, higher other communication expenses which includes online customer activity and telephone expenses of $245,000, partially offset by lower marketing and advertising expenses of $268,000. Included in other operating expenses were costs associated with the acquisition of FMB of $843,000 during the second quarter of 2010 and current quarter branch acquisition costs of $204,000. Excluding mortgage segment operations and acquisition costs, noninterest expense increased $1.6 million, or 5.5% from the second quarter of 2010.

For the six months ended June 30, 2011, noninterest expense decreased $1.3 million, to $70.6 million, from $71.9 million a year ago. Comparative results to the prior year exclude FMB results for the month of January 2010. Other operating expenses decreased $3.8 million, or 12.5%. Included in the reduction of other operating expenses were prior year costs associated with the acquisition of FMB of $7.7 million during the first six months of 2010. Increases in current year expenses included higher costs to maintain the Company's portfolio of other real estate owned of $1.1 million, communication expenses related to increased online customer activity and additional branch locations of $885,000, and higher professional fees related to continuing collection activity and problem loan work outs of $579,000. Other costs included higher franchise tax and FDIC insurance assessments of $598,000 and $472,000, respectively, due to adjustments starting in 2011, which included the acquired FMB branches. Salary and benefits expense increased $2.4 million, primarily related to additional personnel. Excluding mortgage segment operations and acquisition costs, noninterest expense increased $5.2 million, or 9.2% from the same period a year ago.

Securities

As of June 30, 2011, the Company maintained a diversified municipal bond portfolio with three quarters of its holdings in general obligation issues and the remainder backed by revenue bonds. Issuances within the Commonwealth of Virginia represented 10% and the only state with a concentration above 10% was Texas, which represented 28% of the municipal portfolio. Approximately 84% of municipal holdings are considered investment grade by Moody's or S&P. The non-investment grade securities are principally insured Texas municipalities with no underlying rating. When purchasing municipal securities, the Company focuses on strong underlying ratings for general obligation issuers or bonds backed by essential service revenues.

Income Taxes

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

The Company must also evaluate the likelihood that deferred tax assets will be recovered from future taxable income. If any such assets are not likely to be recovered, a valuation allowance must be recognized. The Company has determined that a valuation allowance is not required for deferred tax assets as of June 30, 2011. The assessment of the carrying value of deferred tax assets is based on certain assumptions, changes in which could have a material impact on the Company's financial statements.

The effective tax rate for the three and six months ended June 30, 2011 was 26.0% and 25.6%, respectively, compared to 30.6% and 28.9%, respectively, for the same periods in 2010.

SEGMENT INFORMATION

Community Banking Segment

On a linked quarter basis, net interest income was $39.3 million, an increase of $1.0 million, or 2.7%, from the first quarter of the current year. The linked quarter net increase was principally due to greater interest-earning asset volume increases as compared to interest-bearing liabilities combined with favorable demand deposit growth.

Noninterest income increased $82,000, or 1.4%, to $5.8 million from $5.7 million in the first quarter. Service charges on deposit accounts and other account fees increased $585,000, related to an increase in debit card fee income, brokerage commissions, and overdraft and returned check fee volume. During the current quarter, the Company reached agreement to sell a branch building previously closed in connection with the FMB merger. The sale closed in early July and a loss of $626,000 was accrued in the second quarter.

Noninterest expense increased $1.7 million, or 5.7%, to $31.7 million from $30.0 million when compared to the first quarter. Other operating expenses increased $1.2 million, or 9.6%. Of the other operating expenses increase, $612,000 were costs to maintain the Company's portfolio of other real estate owned including a valuation adjustment of $165,000, higher legal and professional fees due to continuing problem loan work outs and foreclosure activity of $347,000, higher other operating expenses of $339,000 which included ATM and bank card processing fees, and the remaining $300,000 represented communication and marketing expenses. Current quarter marketing expenses were brand awareness campaigns for the new seven in-store MARTIN'S® locations and HELOC (home equity line of credit) interest rate promotions. Partially offsetting these increases was the lower FDIC assessment of $366,000. Also during the quarter, the Company recorded acquisition costs of $204,000, compared to $294,000 in the first quarter due to the Harrisonburg branch.

For the three months ended June 30, 2011, net interest income increased $375,000, or 1.0%, to $39.3 million when compared to the same period last year. The improvement in the net interest margin was a result of a continued shift in funding mix to lower cost funds as certificates of deposit decreased while savings, money markets and demand deposits increased. Lower interest-earning asset income was principally due to lower loan yields on relatively flat average loan volume.

Noninterest income decreased $1.2 million, or 17.0%, to $5.8 million from $7.0 million in the prior year's same quarter. Other operating income decreased $442,000, largely due to the reversal of a property improvement liability the Company recorded in the second quarter of 2010. Other service charges and fees increased $215,000, primarily as a result of increased debit card income and brokerage commissions, but were partially offset by lower service charges on deposit accounts of $165,000.

Noninterest expense increased $1.0 million, or 3.3%, to $31.7 million from $30.7 million in the second quarter of 2010. Other operating expenses increased $789,000, or 6.3%. Other operating expenses included an increase of $753,000 in costs to maintain the Company's portfolio of other real estate owned (which included a valuation adjustment of $165,000), legal and other professional fees of $373,000 (related largely to problem loan work outs), higher franchise taxes of $299,000 which was levied to include all of former FMB branches, higher other communication expenses of $193,000, partially offset by lower marketing and advertising expenses of $264,000. Included in other operating expenses were costs associated with the acquisition of FMB of $843,000 during the second quarter of 2010 and current quarter Harrisonburg branch acquisition costs of $204,000.

For the six months ended June 30, 2011, net interest income increased $4.9 million, or 6.7%, when compared to the same period last year. Results for the prior year exclude FMB results for the month of January 2010. The improvement in the net interest margin was a result of improvement in the cost of funds partially offset by lower loan yields and aided by the increase in interest-earning assets due to the acquisition of FMB in the first quarter of 2010.

Noninterest income decreased $857,000, or 7.0%, to $11.5 million from $12.3 million a year ago. Results for the prior year exclude FMB results for the month of January 2010. Service charges on deposit accounts decreased $278,000 primarily related to lower overdraft and returned check charges. Other operating income decreased $235,000 due to a reversal of a property improvement liability that occurred in 2010. Partially offsetting those decreases was an increase in account service charges and fees of $824,000 that related to higher debit card income, ATM income, and brokerage commissions. During the second quarter of 2011, the Company sold a former branch building as mentioned above and accrued a loss on the sale of $626,000. Other incurred losses on sales of other real estate owned were $461,000 for the period.

Noninterest expense decreased $2.1 million, or 3.2%, to $61.6 million from $63.7 million a year ago. Comparative results to the prior year exclude FMB results for the month of January 2010. Other operating expenses decreased $4.0 million, or 13.6%. Included in the reduction of other operating expenses were prior year costs associated with the acquisition of FMB of $7.7 million during the first six months of 2010. Increases in current year expenses included higher costs to maintain the Company’s portfolio of other real estate owned of $945,000, higher communication expenses related to increased online customer activity and additional branch locations of $790,000, and higher professional fees related to continuing collection activity and problem loan work outs of $526,000. Other costs included higher franchise tax and FDIC insurance assessments of $598,000 and $472,000, respectively, due to adjustments starting in 2011, which included the acquired FMB branches. Salary and benefits expense increased $2.0 million, primarily related to additional personnel.

Mortgage Segment

On a linked quarter basis, the mortgage segment net income for the second quarter decreased $161,000, or 49.1%, to $167,000 from $328,000 in the first quarter. Originations declined by $1.4 million from $149.1 million to $147.7 million, or 1.0%, from the first quarter as a result of a decline in refinance originations. Refinanced loans represented 18.4% of originations during the second quarter compared to 38.1% during the first quarter. Net interest income decreased $205,000, or 42.1%, due to increased borrowing rates. Gains on the sale of loans decreased $665,000, or 13.4%, while commission expense declined $566,000, or 23.2%. Salary and benefit expenses decreased $687,000 largely on loan volume driven commission expense, and other operating expenses increased $78,000, or 11.7%. Estimated loan related losses attributable to early payment defaults, make whole demands and indemnifications were $184,000, decreasing $141,000, or 43.4% from the first quarter.

For the three months ended June 30, 2011, the mortgage segment net income decreased $630,000 to $167,000, from $797,000 for the same quarter in 2010. Originations decreased $55.7 million from $203.5 million to $147.7 million, or 27.4%, during the same period last year as the average loan size declined 8.0% along with decreases in overall homeownership rates and residential mortgage activity. Refinanced loans represented 18.4% of originations during the second quarter of 2011 compared to 23.1% during the same period a year ago. As a result, gains on the sale of loans decreased $952,000, or 18.1 %. Noninterest expenses decreased $278,000. Of this amount, salaries and benefits decreased $372,000 primarily as a result of loan volume driven commission expense.

For the six months ended June 30, 2011, the mortgage segment net income decreased $882,000, or 64.0%, to $495,000 from $1.4 million during the same period last year. Originations declined by $54.9 million from $351.7 million to $296.8 million, or 15.6%, during the same period last year due to declines in residential mortgage activity, particularly refinance volume. Net interest income decreased $215,000, or 21.9%, due to decreased originations and higher borrowing rates. Gains on the sale of loans decreased $474,000, or 4.9%, driven largely by a $206,000, or 67.9%, increase in estimated loan related losses attributable to early payment defaults, make whole demands and indemnifications. Refinanced loans represented 25.8% of originations during the first six months on the year compared to 30.0% during the same period a year ago. Salary and benefit expenses increased $410,000 due to additional salary expense required to meet evolving regulatory, compliance and production demands. Other operating expenses increased $221,000, or 18.6%, primarily related to increased costs associated with the processing, underwriting and compliance components of origination.

BALANCE SHEET

At June 30, 2011, total cash and cash equivalents were $63.2 million, an increase of $2.1 million from December 31, 2010, and a decrease of $72.5 million from June 30, 2010. The cash reduction from the prior year principally funded investment security purchases and reduced wholesale borrowings. At June 30, 2011, net loans were $2.8 billion, an increase of $53.4 million, or 1.9% from the prior quarter. Net loans increased $34.2 million, or 1.2%, from June 30, 2010. Loans held for sale of $50.4 million in the Company's mortgage segment decreased slightly from $50.6 million in the prior quarter and $24.3 million from the same quarter a year ago, each related to a decline in refinance originations. At June 30, 2011, total assets were $3.852 billion, an increase of $38.8 million compared to the first quarter, and a decrease of $22.7 million from $3.874 billion at June 30, 2010.

Total deposits during the second quarter increased $16.4 million compared to the first quarter driven by higher volumes in money market and demand deposit accounts, partially offset by lower volumes of NOW accounts and CDs. Total deposits decreased $12.4 million from June 30, 2010 with net volume inflows into money market accounts and out of certificates of deposit. Total borrowings, including repurchase agreements, increased $14.1 million on a linked quarter basis and decreased $32.6 million from June 30, 2010. The Company's equity to assets ratio was 11.50% and 10.90% at June 30, 2011 and 2010, respectively. The Company's tangible common equity to tangible assets ratio was 8.62% and 7.89% at June 30, 2011 and 2010, respectively. Tangible book value per share increased to $12.50 from $12.22 a quarter earlier, while book value per share increased to $15.72 from $15.43 for the same period.

Liquidity

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

As of June 30, 2011, cash, interest-bearing deposits in other banks, money market investments, Federal funds sold, loans held for sale, investment securities and loans that mature within one year totaled $1.2 billion, or 33.6%, of total earning assets. As of June 30, 2011, approximately $1.0 billion, or 35.3%, of total loans are scheduled to mature within one year. In addition to deposits, the Company utilizes Federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, to fund the growth in its loan portfolio, securities purchases, and periodically, wholesale leverage transactions.

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Loan Portfolio

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

	June 30, 2011	% of Total Loans	December 31, 2010	% of Total Loans	June 30, 2010	% of Total Loans
Loans secured by real estate:						
Residential 1-4 family	**$ 448,270**	**15.7%**	$ 431,614	15.2%	$ 433,362	15.4%
Commercial	**982,986**	**34.3%**	924,548	32.6%	866,588	30.7%
Construction, land development and other land loans	**473,604**	**16.6%**	489,601	17.3%	508,639	18.0%
Second mortgages	**62,463**	**2.2%**	64,534	2.3%	64,127	2.3%
Equity lines of credit	**301,766**	**10.6%**	305,741	10.8%	313,621	11.1%
Multifamily	**103,862**	**3.6%**	91,397	3.2%	84,648	3.0%
Farm land	**26,033**	**0.9%**	26,787	0.9%	27,680	1.0%
Total real estate loans	**2,398,984**	**83.9%**	2,334,222	82.3%	2,298,665	81.5%
Commercial Loans	**165,552**	**5.8%**	180,840	6.4%	172,658	6.1%
Consumer installment loans						
Personal	**257,170**	**9.0%**	277,184	9.8%	306,420	10.9%
Credit cards	**17,334**	**0.6%**	19,308	0.6%	14,828	0.5%
Total consumer installment loans	**274,504**	**9.6%**	296,492	10.4%	321,248	11.4%
All other loans	**20,529**	**0.7%**	25,699	0.9%	27,080	1.0%
Gross loans	**$2,859,569**	**100.0%**	$2,837,253	100.0%	$2,819,651	100.0%

As reflected in the loan table, at June 30, 2011, the largest component of the Company's loan portfolio consisted of real estate loans, concentrated in commercial, construction and residential 1-4 family. The risks attributable to these concentrations are mitigated by the Company's credit underwriting and monitoring processes, including oversight by a centralized credit administration function and credit policy and risk management committee, as well as seasoned bankers' focusing their lending to borrowers with proven track records in markets with which the Company is familiar.

Asset Quality

Overview

During the second quarter, the Company experienced modest improvement in asset quality. The reduced levels of nonperforming assets and associated activity, as well as delinquency trends, were favorable even though current economic conditions did not improve materially. While future economic conditions remain unknown, the Company's lower levels of provisions for loan losses and increased coverage ratios demonstrate that its dedicated efforts to improve asset quality are taking hold. The magnitude of any continued softening in the real estate market and its impact on the Company is largely dependent upon any lagging impact on commercial real estate, the recovery of residential housing, and the pace at which the local economies in the Company's operating markets recover.

The Company considers the level of nonperforming assets to be manageable and has devoted an appropriate amount of resources to review the loan portfolio and workout problem assets in order to minimize any potential losses to the Company. Management continues to monitor delinquencies, risk rating changes, charge-offs, market trends and other indicators of risk in the Company's portfolio, particularly those tied to residential and commercial real estate, and adjusts the allowance for loan losses accordingly. Historically, and particularly in the current economic environment, the Company seeks to work with its customers on loan collection matters while taking appropriate actions to improve the Company's position and minimize any losses.

Loans obtained in connection with the FMB acquisition have been accounted for in accordance with ASC 805,*Business Combinations,* and/or ASC 310-30,*Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"), if the loans had experienced deterioration of credit quality at the time of acquisition. Both require that acquired loans be recorded at fair value and prohibit the carryover of the related allowance for loan losses. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans. Because ASC 310-30 loans (i.e., impaired loans) have been recorded at fair value, such loans are not classified as nonaccrual or past due even though some payments may be contractually past due. If there is further deterioration of credit quality on these acquired loans, the deterioration will be reflected through the allowance process and there will be no additional fair value adjustment.

Nonperforming Assets ("NPAs")

At June 30, 2011, nonperforming assets totaled $91.3 million, a decrease of $10.0 million from the first quarter, and an increase of $13.9 million compared to a year ago. The current quarter decrease in NPAs from the first quarter related to net decreases in both nonaccrual loans of $8.3 million and OREO of $1.7 million. The decrease in nonperforming loans was a result of customer net pay downs of approximately $8.9 million and, charge-offs of $3.6 million, partially offset by additions of $4.2 million. The nonperforming loans added during the quarter were principally related to residential real estate as borrowers continued to experience financial difficulties with the protracted economic recovery depleting their cash reserves and other repayment sources.

Nonaccrual Loans

Nonperforming assets at June 30, 2011 included $54.3 million in nonaccrual loans. This total includes residential real estate loans of $27.8 million, land loans of $14.4 million, commercial real estate loans of $7.1 million, commercial and industrial loans of $2.4 million, land development loans of $1.5 million, and other loans of $1.0 million. At June 30, 2011, the coverage ratio of the allowance for loan losses to nonperforming loans was 72.9%, an increase from 69.4% a year earlier and from 64.5% at March 31, 2011. Impairment analyses provided appropriate reserves on these nonperforming loans while appropriate reserves on homogenous pools continue to be maintained. The increase in the coverage ratio is primarily related to a decline in nonperforming loans.

The following table reflects the balances and changes from the most recent quarter (dollars in thousands):

Nonperforming Loans	6/30/2011	3/31/2011	Change
Residential real estate loans (builder lines)	$27,843	$30,081	$(2,238)
Commercial real estate loans	7,136	14,891	(7,755)
Land loans	14,413	13,051	1,362
Commercial and industrial	2,376	2,387	(11)
Land development	1,472	1,510	(38)
Other	1,082	722	360
Totals	$54,322	$62,642	$(8,320)

The Company had approximately $7.1 million in troubled debt restructurings still accruing interest at June 30, 2011.

Other Real Estate Owned

Nonperforming assets at June 30, 2011 also included $36.9 million in other real estate owned, a decrease of $1.7 million from the prior quarter. This total includes residential real estate of $14.1 million, land development of $12.1 million, land of $8.5 million, commercial real estate of $1.2 million and land held for development of bank branch sites of $1.0 million. Included in land development is $8.7 million related to a residential community in the Northern Neck region of Virginia, which includes developed residential lots, a golf course and undeveloped land. Foreclosed properties were adjusted to their fair values at the time of each foreclosure and any losses were taken as loan charge-offs against the allowance for loan losses at that time. OREO asset valuations are also evaluated at least quarterly and any necessary write down to fair value is recorded as impairment.

During the second quarter ended June 30, 2011, the Company's OREO showed a net decrease of approximately $1.7 million compared to the first quarter of 2011, with sales of $3.7 million at a net loss of $163,000, additions of $2.3 million, and a fair value impairment write-down of $165,000. The additions were principally related to homeowners and residential builders; sales from OREO were principally related to residential real estate and multi-unit residential property. Such sales of OREO have typically occurred at sales prices ranging from 90% to 110% of carrying value. The Company expects this type of activity to continue until the market for these properties and the economy as a whole show marked improvement.

The following table reflects the balances and changes from the most recent quarter (dollars in thousands):

Other Real Estate Owned	6/30/2011	3/31/2011	Change
Land development	$12,088	$12,192	$ (104)
Land	8,537	8,885	(348)
Residential real estate (builder lines)	14,058	15,345	(1,287)
Commercial real estate	1,232	1,232	—
Land held for development of branch sites	1,020	1,020	—
Totals	$36,935	$38,674	$(1,739)

Charge-offs and delinquencies

For the quarter ended June 30, 2011, net charge-offs which included loans with specific established reserves were $5.3 million, or 0.74%, of loans on an annualized basis, compared to $4.3 million, or 0.62%, for the first quarter of 2011 and $4.0 million, or 0.57%, for the same quarter last year. Net charge-offs in the current quarter included commercial and residential builder loans of $2.3 million, commercial construction loans of $1.3 million, other consumer loans of $1.0 million, and home equity lines of credits of $710,000. At June 30, 2011, total accruing past due loans were $38.1 million, or 1.33%, of total loans, a decrease from 1.52% at March 31, 2011, and 1.85% for the same quarter a year ago. At June 30, 2011, 30-89 days past due and still accruing loans were $28.9, or 1.01%, of total loans, a decrease from 1.14% at March 31, 2011, and 1.13% for the same quarter a year ago.

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

	June 30, 2011	December 31, 2010	June 30, 2010
Nonaccrual loans	**$ 54,322**	$ 61,716	$ 48,911
Foreclosed properties	**35,915**	35,101	27,374
Real estate investment	**1,020**	1,020	1,020
Total nonperforming assets	**$ 91,257**	$ 97,837	$ 77,305
Balances			
Allowance for loan losses	**$ 39,631**	$ 38,406	$ 33,956
Average loans, net of unearned income	**2,823,186**	2,830,435	2,671,272
Loans, net of unearned income	**2,859,569**	2,837,253	2,819,651
Ratios			
Allowance for loan losses to loans	**1.39%**	1.35%	1.20%
Allowance-to-legacy loans (Non-GAAP)	**1.88%**	1.88%	1.76%
Allowance for loan losses to NPAs	**43.43%**	39.25%	43.92%
Allowance for loan losses to NPLs	**72.96%**	62.23%	69.42%
Nonperforming assets to loans & other real estate	**3.15%**	3.40%	2.71%
Net charge-offs to loans (annualized)	**0.74%**	1.19%	0.57%

Capital Resources

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

The Board of Governors of the Federal Reserve System and the FDIC, 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. The Company had a ratio of total capital to risk-weighted assets of 14.91% and 14.09% on June 30, 2011 and 2010, respectively. The Company's ratio of Tier 1 capital to risk-weighted assets was 13.26% and 12.51% at June 30, 2011 and 2010, respectively, allowing the Company to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the fully phased-in capital requirements in 2011 and 2010. The Company's equity to asset ratio at June 30, 2011 and 2010 were 11.50% and 10.90%, respectively.

In connection with two bank acquisitions, prior to 2005, the Company has issued trust preferred capital notes to fund the cash portion of those acquisitions, collectively totaling $58.5 million. The total of the trust preferred capital notes currently qualify for Tier 1 capital of the Company for regulatory purposes.

The Company's outstanding series of preferred stock resulted from the acquisition of First Market Bank. The Company's Board of Directors established a series of preferred stock with substantially identical preferences, rights and limitations to the First Market Bank preferred stock, except as explained below. Pursuant to the closing of the acquisition, each share of First Market Bank Series B and Series C preferred stock was exchanged for one share of the Company's Series B Preferred Stock. The Series B Preferred Stock of the Company pays cumulative dividends to the Treasury at a rate of 5.19% per annum for the first five years and thereafter at a rate of 9.0% per annum. The 5.19% dividend rate is a blended rate comprised of the dividend rate of the 33,900 shares of First Market Bank 5% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B and 1,695 shares of First Market Bank 9% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A. The Series B Preferred Stock of the Company is non-voting and each share has a liquidation preference of $1,000. The Company anticipates redemption of this capital issue in increments or in full prior to the end of 2012, subject to regulatory approval. Despite the Treasury's being the sole holder of the Company's Series B Preferred Stock, the Company is not considered a participant in the Treasury's Capital Purchase Program.

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

	June 30, 2011	December 31, 2010	June 30, 2010
Tier 1 capital	**$ 408,836**	$ 398,165	$ 384,716
Tier 2 capital	**50,653**	53,298	48,603
Total risk-based capital	**459,489**	451,463	433,319
Risk-weighted assets	**3,082,408**	3,075,330	3,075,841
Capital ratios:			
Tier 1 risk-based capital ratio	**13.26%**	12.95%	12.51%
Total risk-based capital ratio	**14.91%**	14.68%	14.09%
Leverage ratio (Tier 1 capital to average adjusted assets)	**10.90%**	10.55%	10.24%
Stockholders' equity to assets	**11.50%**	11.16%	10.90%
Tangible common equity to tangible assets	**8.62%**	8.22%	7.89%

NON-GAAP MEASURES

In reporting the results as of June 30, 2011, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization.

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Net income	**$ 6,820**	$ 8,726	**$ 13,014**	$ 10,425
Plus: core deposit intangible amortization, net of tax	**1,009**	1,260	**2,066**	2,205
Plus: trademark intangible amortization, net of tax	**65**	65	**130**	109
Cash basis operating earnings	**$ 7,894**	$ 10,051	**$ 15,210**	$ 12,739
Average assets	**$ 3,830,786**	$ 3,844,256	**$ 3,819,435**	$ 3,643,289
Less: average trademark intangible	**681**	1,082	**731**	935
Less: average goodwill	**57,582**	57,566	**57,574**	57,155
Less: average core deposit intangibles	**24,384**	31,635	**25,184**	28,205
Average tangible assets	**$ 3,748,139**	$ 3,753,973	**$ 3,735,946**	$ 3,556,994
Average equity	**$ 440,359**	$ 416,117	**$ 436,405**	$ 402,994
Less: average trademark intangible	**681**	1,082	**731**	935
Less: average goodwill	**57,582**	57,566	**57,574**	57,155
Less: average core deposit intangibles	**24,384**	31,635	**25,184**	28,205
Less: average preferred equity	**34,518**	34,260	**34,483**	28,371
Average tangible equity	**$ 323,194**	$ 291,574	**$ 318,433**	$ 288,328
Weighted average shares outstanding, diluted	**25,992,190**	25,913,471	**25,986,640**	24,583,186
Cash basis earnings per share, diluted	**$ 0.30**	$ 0.39	**$ 0.59**	$ 0.52
Cash basis return on average tangible assets	**0.84%**	1.07%	**0.82%**	0.72%
Cash basis return on average tangible equity	**9.80%**	13.83%	**9.63%**	8.91%

The allowance-to-legacy loan ratio (non-GAAP) includes the allowance for loan losses to the total loan portfolio less acquired loans without additional credit deterioration above the original credit mark (which have been provided for in the allowance for loan losses subsequent to acquisition). GAAP requires the acquired allowance for loan losses not be carried over in an acquisition or merger. We believe the presentation of the allowance-to-legacy loan ratio is useful to investors because the acquired loans were recorded at a market discount (including credit valuation) with no allowance for loan losses carried over to the Company. Acquired loans that have further deteriorated are included in the loan loss calculation and reflected in both the numerator and denominator of the allowance-to-legacy loan ratio. In order to present the allowance-to-legacy loan ratio, acquired loans with no additional credit deterioration beyond the original credit mark are adjusted out of the loan balance denominator. See reconciliation below (dollars in thousands):

	June 30, 2011	June 30, 2010
Gross Loans	$2,859,569	$2,819,651
less acquired loans without additional credit deterioration	(755,358)	(887,245)
Gross Loans, adjusted for acquired	$2,104,211	$1,932,406
Allowance for loan losses	39,631	33,956
Allowance-to-legacy loan loss ratio	1.88%	1.76%

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

EARNINGS SIMULATION ANALYSIS

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

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

The Company uses its simulation model to estimate earnings in rate environments where rates are instantaneously shocked up or down around a “most likely” rate scenario, based on implied forward rates. The analysis assesses the impact on net interest income over a 12 month time horizon after an immediate increase or “shock” in rates, of 100 basis points up to 300 basis points. The shock down 200 or 300 basis points analysis is not as meaningful as interest rates across most of the yield curve are at historic lows and cannot decrease another 200 or 300 basis points. The model, under all scenarios, does not drop the index below zero.

The following table represents the interest rate sensitivity on net interest income over the next twelve months for the Company across the rate paths modeled at June 30, 2011 (dollars in thousands):

	Change In Net Interest Income	
	%	$
Change in Yield Curve:		
+300 basis points	**0.25%**	**$ 410**
+200 basis points	**(0.70)**	**(1,135)**
+100 basis points	**(1.58)**	**(2,552)**
Most likely rate scenario	**0.00**	**—**
-100 basis points	**(0.83)**	**(1,337)**
-200 basis points	**(3.25)**	**(5,245)**
-300 basis points	**(3.99)**	**(6,451)**

ECONOMIC VALUE SIMULATION

Economic value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Economic values are calculated based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The same assumptions are used in the economic value simulation as in the earnings simulation. The economic value simulation uses instantaneous rate shocks to the balance sheet.

The following chart reflects the estimated change in net economic value over different rate environments using economic value simulation based on the balances at the period ended June 30, 2011 (dollars in thousands):

	Change In Economic Value of Equity	
	%	$
Change in Yield Curve:		
+300 basis points	**(5.78)%**	**$ (36,208)**
+200 basis points	**(3.01)**	**(18,824)**
+100 basis points	**(0.78)**	**(4,908)**
Most likely rate scenario	**0.00**	—
-100 basis points	**(4.72)**	**(29,568)**
-200 basis points	**(11.56)**	**(72,401)**
-300 basis points	**(18.33)**	**(114,792)**

The shock down 200 or 300 basis points analysis is not as meaningful since interest rates across most of the yield curve are at historic lows and cannot decrease another 200 or 300 basis points. While management considers this scenario highly unlikely, the natural floor increases the Company's sensitivity in rates down scenarios. Additionally, the Company's deposit base has experienced a shift from fixed rate time deposits to floating rate money markets. The change in deposit mix has not been wholly offset by changes in asset mix, where duration has increased moderately. This dynamic results in negative economic value of equity in up rate scenarios.

ITEM 4 – CONTROLS AND PROCEDURES

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

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective at the reasonable assurance level. There was no change in the internal control over financial reporting that occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

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

ITEM 1A – RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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

(a) Sales of Unregistered Securities – None
(b) Use of Proceeds – Not Applicable
(c) Issuer Purchases of Securities – None

ITEM 6 – EXHIBITS

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

Exhibit No.	Description
15.00	Awareness letter from Yount, Hyde, Barbour, P.C. acknowledging the auditor's awareness that unaudited interim financial information is being used in a registration statement filed under the Securities Act of 1933.
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.00	The following materials from the Company's 10-Q Report for the quarterly period ended June 30, 2011, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.*

* Furnished, not filed

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SIGNATURES

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

	Union First Market Bankshares Corporation (Registrant)
Date: August 9, 2011	By: /s/ G. William Beale G. William Beale, Chief Executive Officer
Date: August 9, 2011	By: /s/ D. Anthony Peay D. Anthony Peay, Executive Vice President and Chief Financial Officer

Exhibit 15

Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

August 9, 2011

Union First Market Bankshares Corporation
Richmond, Virginia

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Union First Market Bankshares Corporation and subsidiaries for the periods ended March 31, 2011 and 2010 and June 30, 2011 and 2010, as indicated in our reports dated May 10, 2011 and August 9, 2011; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011, is incorporated by reference in Registration Statement No. 333-175807 on Form S-3 and Registration Statement No. 333-175808 on Form S-8.

We are also aware that the aforementioned reports, pursuant to Rule 436(c) under the Securities Act of 1933, are not considered a part of the Registration Statements prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Yount, Hyde & Barbour, P.C.

Exhibit 31.01

CERTIFICATIONS

I, G. William Beale, certify that:

1. I have reviewed this report on Form 10-Q of Union First Market Bankshares Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2011

/s/ G. William Beale

G. William Beale,
Chief Executive Officer

Exhibit 31.02

CERTIFICATIONS

I, D. Anthony Peay, certify that:

1. I have reviewed this report on Form 10-Q of Union First Market Bankshares Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2011

/s/ D. Anthony Peay

D. Anthony Peay,
Executive Vice President and Chief Financial Officer

Exhibit 32.01

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Union First Market Bankshares Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ G. William Beale
G. William Beale, Chief Executive Officer

/s/ D. Anthony Peay
D. Anthony Peay, Executive Vice President and Chief Financial Officer

August 9, 2011

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Union First Market Bankshares Corporation and will be retained by Union First Market Bankshares Corporation and furnished to the Securities and Exchange Commission or its staff upon request.