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 March 31, 2012

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

1051 East Cary Street
Suite 1200
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 May 2, 2012 was 25,942,472

Table of Contents

UNION FIRST MARKET BANKSHARES CORPORATION
FORM 10-Q
INDEX

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1 – Financial Statements

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)	March 31, 2011 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 62,345**	$ 69,786	$ 54,403
Interest-bearing deposits in other banks	**48,504**	26,556	30,050
Money market investments	**179**	155	178
Federal funds sold	**155**	162	175
Total cash and cash equivalents	**111,183**	96,659	84,806
Securities available for sale, at fair value	**621,751**	620,166	557,338
Restricted stock, at cost	**20,715**	20,661	25,056
Loans held for sale	**73,575**	74,823	50,584
Loans, net of unearned income	**2,841,758**	2,818,583	2,806,928
Less allowance for loan losses	**40,204**	39,470	40,399
Net loans	**2,801,554**	2,779,113	2,766,529
Bank premises and equipment, net	**90,986**	90,589	90,594
Other real estate owned, net of valuation allowance	**37,663**	32,263	38,674
Core deposit intangibles, net	**19,403**	20,714	25,171
Goodwill	**59,400**	59,400	57,567
Other assets	**111,569**	112,699	116,381
Total assets	**$3,947,799**	$3,907,087	$3,812,700
LIABILITIES			
Noninterest-bearing demand deposits	**$ 564,811**	$ 534,535	$ 507,565
Interest-bearing deposits:			
NOW accounts	**434,625**	412,605	381,887
Money market accounts	**904,272**	904,893	827,076
Savings accounts	**194,473**	179,157	174,244
Time deposits of $100,000 and over	**516,829**	511,614	521,940
Other time deposits	**600,697**	632,301	653,904
Total interest-bearing deposits	**2,650,896**	2,640,570	2,559,051
Total deposits	**3,215,707**	3,175,105	3,066,616
Securities sold under agreements to repurchase	**53,043**	62,995	66,225
Trust preferred capital notes	**60,310**	60,310	60,310
Long-term borrowings	**155,503**	155,381	155,014
Other liabilities	**37,132**	31,657	29,046
Total liabilities	**3,521,695**	3,485,448	3,377,211
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 at March 31, 2011 and zero at December 31, 2011 and March 31, 2012.	**—**	—	35,595
Common stock, $1.33 par value, shares authorized 36,000,000; issued and outstanding, 25,944,530 shares, 26,134,830 shares, and 26,034,989 shares, respectively.	**34,396**	34,672	34,559
Surplus	**185,263**	187,493	185,962
Retained earnings	**195,933**	189,824	173,655
Discount on preferred stock	**—**	—	(1,113)
Accumulated other comprehensive income	**10,512**	9,650	6,831
Total stockholders' equity	**426,104**	421,639	435,489
Total liabilities and stockholders' equity	**$3,947,799**	$3,907,087	$3,812,700

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 March 31	
	2012 (Unaudited)	2011 (Unaudited)
Interest and dividend income:		
Interest and fees on loans	$ 40,608	$ 42,003
Interest on deposits in other banks	24	5
Interest and dividends on securities:		
Taxable	3,454	3,630
Nontaxable	1,788	1,754
Total interest and dividend income	45,874	47,392
Interest expense:		
Interest on deposits	5,335	6,684
Interest on Federal funds purchased	—	7
Interest on short-term borrowings	404	161
Interest on long-term borrowings	1,788	1,740
Total interest expense	7,527	8,592
Net interest income	38,347	38,800
Provision for loan losses	3,500	6,300
Net interest income after provision for loan losses	34,847	32,500
Noninterest income:		
Service charges on deposit accounts	2,130	2,058
Other service charges, commissions and fees	3,410	2,924
Losses on securities transactions, net	(5)	(16)
Gains on sales of loans	5,296	4,968
Losses on sales of other real estate and bank premises, net	(58)	(299)
Other operating income	1,045	912
Total noninterest income	11,818	10,547
Noninterest expenses:		
Salaries and benefits	19,507	17,654
Occupancy expenses	2,647	2,754
Furniture and equipment expenses	1,763	1,662
Other operating expenses	11,692	12,697
Total noninterest expenses	35,609	34,767
Income before income taxes	11,056	8,280
Income tax expense	3,133	2,086
Net income	$ 7,923	$ 6,194
Dividends paid and accumulated on preferred stock	—	462
Accretion of discount on preferred stock	—	64
Net income available to common shareholders	$ 7,923	$ 5,668
Earnings per common share, basic	$ 0.31	$ 0.22
Earnings per common share, diluted	$ 0.31	$ 0.22

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31	
	2012	2011
	(Unaudited)	(Unaudited)
Net income	**$ 7,923**	$ 6,194
Other comprehensive income:		
Change in fair value of interest rate swap (cash flow hedge)	**197**	193
Unrealized gains on securities:		
Unrealized holding gains arising during period (net of tax $355 and $1,645, respectively)	**662**	3,057
Reclassification adjustment for losses included in net income (net of tax $2 and $6, respectively)	**3**	10
Other comprehensive income	**862**	3,260
Comprehensive income	**$ 8,785**	$ 9,454

See accompanying notes to condensed consolidated financial statements.

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(Dollars in thousands, except share and per share amounts)
(Unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Discount on Preferred Stock	Accumulated Other Comprehensive Income	Total
Balance - December 31, 2010	$ 35,595	$34,532	$185,763	$169,801	$(1,177)	$ 3,571	$428,085
Net income - 2011				6,194			6,194
Other comprehensive income (net of tax, $1,651)						3,260	3,260
Dividends on Common Stock ($.07 per share)				(1,814)			(1,814)
Tax benefit from exercise of stock awards			1				1
Dividends on Preferred Stock				(462)			(462)
Accretion of discount on Preferred Stock				(64)	64		—
Issuance of common stock under Dividend Reinvestment Plan (5,194 shares)		7	52				59
Issuance of common stock under Stock Incentive Plan (6,450 shares)		8	68				76
Vesting of restricted stock under Stock Incentive Plan (8,659 shares)		12	(12)				—
Stock-based compensation expense			90				90
Balance - March 31, 2011	$ 35,595	$34,559	$185,962	$173,655	$(1,113)	$ 6,831	$435,489
Balance - December 31, 2011	$ —	$34,672	$187,493	$189,824	$ —	$ 9,650	$421,639
Net income - 2012				7,923			7,923
Other comprehensive income (net of tax, $357)						862	862
Dividends on Common Stock ($.07 per share)				(1,694)			(1,694)
Stock purchased under stock repurchase plan (220,265 shares)		(293)	(2,571)				(2,864)
Issuance of common stock under Dividend Reinvestment Plan (8,731 shares)		12	108	(120)			—
Vesting of restricted stock under Stock Incentive Plan (4,032 shares)		5	(5)				—
Stock-based compensation expense			238				238
Balance - March 31, 2012	$ —	$34,396	$185,263	$195,933	$ —	$ 10,512	$426,104

See accompanying notes to condensed consolidated financial statements.

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
Operating activities:		
Net income	$ 7,923	$ 6,194
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation of bank premises and equipment	1,694	1,649
Amortization, net	2,285	1,571
Provision for loan losses	3,500	6,300
Losses on the sale of investment securities	5	16
Increase in loans held for sale, net	1,248	23,390
Loss on sales of other real estate owned and bank premises, net	58	299
Stock-based compensation expense	238	90
Decrease in other assets	1,914	4,761
Increase (decrease) in other liabilities	5,672	(1,888)
Net cash and cash equivalents provided by operating activities	24,537	42,382
Investing activities:		
Purchases of securities available for sale	(43,339)	(40,971)
Proceeds from maturities, calls and paydowns of securities available for sale	40,602	32,841
Net (increase) decrease in loans	(32,534)	19,587
Net increase in bank premises and equipment	(2,122)	(1,526)
Proceeds from sales of other real estate owned	1,485	3,580
Improvements to other real estate owned	(319)	(37)
Net cash and cash equivalents provided by (used in) investing activities	(36,227)	13,474
Financing activities:		
Net increase in noninterest-bearing deposits	30,276	22,698
Net increase (decrease) in interest-bearing deposits	10,326	(26,141)
Net decrease in short-term borrowings	(9,952)	(26,742)
Net increase in long-term borrowings	122	122
Cash dividends paid - common stock	(1,694)	(1,814)
Cash dividends paid - preferred stock	—	(462)
Repurchase of common stock	(2,864)	—
Taxes paid related to net share settlement of equity awards	—	1
Issuance of common stock	—	135
Net cash and cash equivalents (used in) provided by financing activities	26,214	(32,203)
Increase in cash and cash equivalents	14,524	23,653
Cash and cash equivalents at beginning of the period	96,659	61,153
Cash and cash equivalents at end of the period	$111,183	$ 84,806
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	$ 8,394	$ 8,795
Income taxes	2,914	2,464
Supplemental schedule of noncash investing and financing activities		
Unrealized gain on securities available for sale	$ 1,022	$ 4,718
Changes in fair value of interest rate swap	197	193
Transfers from loans to other real estate owned	6,593	6,431

See accompanying notes to consolidated financial statements.

UNION FIRST MARKET BANKSHARES CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2012

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 2011 Annual Report on Form 10-K. If needed, certain previously reported amounts have been reclassified to conform to current period presentation.

2. BUSINESS COMBINATIONS

Harrisonburg Branch Acquisition

On May 20, 2011, the Company completed the purchase of the NewBridge Bank branch in Harrisonburg, Virginia and a potential branch site in Waynesboro, Virginia. Under the parties' agreement, the Company purchased loans of $72.5 million, assumed deposit liabilities of $48.9 million, and purchased the related fixed assets of the branch. The Company operates the acquired bank branch under the name Union First Market Bank (the "Harrisonburg branch"). 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 Interstate Route 81 corridor. The Company's 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 intangibles. The core deposit intangible of $9,500 was expensed immediately upon completion of the acquisition. 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.

In the first quarter, interest income of approximately $751,000 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 March 31, 2012 and December 31, 2011 are as follows (dollars in thousands):

March 31, 2012:	
Outstanding principal balance	**$53,711**
Carrying amount	**$52,903**
December 31, 2011:	
Outstanding principal balance	$54,953
Carrying amount	$53,359

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.

First Market Bank Acquisition

In February 2010, the Company completed the acquisition of First Market Bank. Interest income on acquired loans for the first quarter of 2012 was approximately $7.6 million. The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheet at March 31, 2012 and December 31, 2011 are as follows (dollars in thousands):

March 31, 2012:	
Outstanding principal balance	**$538,841**
Carrying amount	**$526,775**
December 31, 2011:	
Outstanding principal balance	$632,602
Carrying amount	$620,048

Loans obtained in the acquisition of First Market Bank for which there is specific evidence of credit deterioration and for which it was probable that the Company would be unable to collect all contractually required principal and interest payments represent less than 0.20% of the Company's consolidated assets and, accordingly, are not considered material.

3. STOCK-BASED COMPENSATION

The Company's 2011 Stock Incentive Plan (the "2011 Plan") and the 2003 Stock Incentive Plan (the "2003 Plan") provide 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. Approximately 8,600 shares remain available for grant under the 2003 Plan, which expires in 2013. Under both plans, 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. A stock option's maximum term is ten years from the date of grant and vests in equal annual installments of 20% over a five year vesting schedule. There remain approximately 711,000 shares available as of March 31, 2012 for issuance under the 2011 and 2003 Plans.

For the three month periods ended March 31, 2011 and 2012, the Company recognized stock-based compensation expense of approximately $238,000 and $90,000, respectively, and less than $0.01 per common share for both periods ended March 31, 2012 and 2011.

Table of Contents

Stock Options

The following table summarizes the stock option activity for the three months ended March 31, 2012:

	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, December 31, 2011	**422,750**	**$ 17.70**
Granted	**131,657**	**14.40**
Forfeited	**(850)**	**17.11**
Expired	**(180)**	**10.67**
Options outstanding, March 31, 2012	**553,377**	**16.92**
Options exercisable, March 31, 2012	**189,479**	**22.34**

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 three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Dividend yield (1)	**2.47%**	**2.48%**
Expected life in years (2)	**7.0**	**7.0**
Expected volatility (3)	**41.53%**	**37.92%**
Risk-free interest rate (4)	**1.24%**	**3.23%**
Weighted average fair value per option granted	**$ 4.76**	**$ 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 March 31, 2012:

	Stock Options Vested or Expected to Vest	Exercisable
Stock options	**553,377**	**189,479**
Weighted average remaining contractual life in years	**7.03**	**3.06**
Weighted average exercise price on shares above water	**$ 12.13**	**$ 12.72**
Aggregate intrinsic value	**$ 257,575**	**$ 2,453**

There were no stock options exercised during the first quarter of 2012; the total intrinsic value for stock options exercised during the three months ended March 31, 2012 was $0. The fair value of stock options vested during the three months ended March 31, 2011 was approximately $34,000.

Nonvested Stock

The 2003 and the 2011 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 50% 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 based on the performance of the Company's stock price. The value of the nonvested stock awards was calculated by multiplying the fair market value of the Company's common stock on 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 three months ended March 31, 2012:

	Number of Shares of Restricted Stock	Performance Stock	Weighted Average Grant-Date Fair Value
Balance, December 31, 2011	**140,557**	**6,000**	**$ 12.62**
Granted	**68,561**	**—**	**14.22**
Vested	**(3,914)**	**—**	**13.29**
Forfeited	**(2,702)**	**(1,500)**	**13.72**
Balance, March 31, 2012	**202,502**	**4,500**	**13.06**

The estimated unamortized compensation expense, net of estimated forfeitures, related to nonvested stock and stock options issued and outstanding as of March 31, 2012 that will be recognized in future periods is as follows (dollars in thousands):

	Stock Options	Restricted Stock	Total
For the remaining nine months of 2012	**$ 308**	**$ 679**	**$ 987**
For year ending December 31, 2013	**389**	**688**	**1,077**
For year ending December 31, 2014	**382**	**369**	**751**
For year ending December 31, 2015	**290**	**102**	**392**
For year ending December 31, 2016	**168**	**9**	**177**
For year ending December 31, 2017	**33**	**—**	**33**
Total	**$ 1,570**	**$ 1,847**	**$3,417**

Table of Contents

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at their face amount, net of unearned income, and consist of the following at March 31, 2012 and December 31, 2011 (dollars in thousands):

	March 31, 2012	December 31, 2011
Commercial:		
Commercial Construction	**$ 176,664**	$ 185,359
Commercial Real Estate - Owner Occupied	**468,392**	452,407
Commercial Real Estate - Non-Owner Occupied	**681,605**	655,083
Raw Land and Lots	**204,966**	214,284
Single Family Investment Real Estate	**201,103**	192,437
Commercial and Industrial	**209,998**	212,268
Other Commercial	**43,491**	44,403
Consumer:		
Mortgage	**224,178**	219,646
Consumer Construction	**23,194**	20,757
Indirect Auto	**159,016**	162,708
Indirect Marine	**37,140**	39,819
HELOCs	**276,031**	277,101
Credit Card	**19,319**	19,006
Other Consumer	**116,661**	123,305
Total	**$2,841,758**	$2,818,583

The following table shows the aging of the Company's loan portfolio, by class, at March 31, 2012 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and still Accruing	Purchased Impaired (net of credit mark)	Nonaccrual	Current	Total Loans
Commercial:							
Commercial Construction	$ —	$ —	$ —	$ —	$ 9,835	$ 166,829	$ 176,664
Commercial Real Estate - Owner Occupied	3,873	2,225	1,560	1,178	5,215	454,341	468,392
Commercial Real Estate - Non-Owner Occupied	3,442	47	374	—	1,084	676,658	681,605
Raw Land and Lots	133	191	94	5,178	13,064	186,306	204,966
Single Family Investment Real Estate	361	1,157	177	354	4,507	194,547	201,103
Commercial and Industrial	903	50	1,730	361	5,318	201,636	209,998
Other Commercial	117	23	500	—	233	42,618	43,491
Consumer:							
Mortgage	5,434	3,804	3,783	—	1,096	210,061	224,178
Consumer Construction	—	—	—	—	205	22,989	23,194
Indirect Auto	1,690	245	283	31	5	156,762	159,016
Indirect Marine	71	115	598	—	261	36,095	37,140
HELOCs	1,730	404	1,271	873	855	270,898	276,031
Credit Card	204	136	297	—	—	18,682	19,319
Other Consumer	2,320	97	1,600	165	713	111,766	116,661
Total	$ 20,278	$ 8,494	$ 12,267	$ 8,140	$ 42,391	$2,750,188	$2,841,758

The following table shows the aging of the Company's loan portfolio, by class, at December 31, 2011 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and still Accruing	Purchased Impaired (net of credit mark)	Nonaccrual	Current	Total Loans
Commercial:							
Commercial Construction	$ —	$ —	$ 490	$ —	$ 10,276	$ 174,593	$ 185,359
Commercial Real Estate - Owner Occupied	520	—	2,482	1,292	5,962	442,151	452,407
Commercial Real Estate - Non-Owner Occupied	190	64	2,887	1,133	2,031	648,778	655,083
Raw Land and Lots	94	1,124	—	5,623	13,322	194,121	214,284
Single Family Investment Real Estate	779	70	3,637	388	5,048	182,515	192,437
Commercial and Industrial	601	185	3,369	392	5,297	202,424	212,268
Other Commercial	—	25	—	—	238	44,140	44,403
Consumer:							
Mortgage	6,748	412	3,804	—	240	208,442	219,646
Consumer Construction	—	—	—	—	207	20,550	20,757
Indirect Auto	2,653	416	443	40	7	159,149	162,708
Indirect Marine	189	795	—	—	544	38,291	39,819
HELOCs	1,678	547	820	865	885	272,306	277,101
Credit Card	245	184	323	—	—	18,254	19,006
Other Consumer	1,421	443	1,657	164	777	118,843	123,305
Total	$ 15,118	$ 4,265	$ 19,912	$ 9,897	$ 44,834	$2,724,557	$2,818,583

Nonaccrual loans totaled $42.4 million and $62.6 million at March 31, 2012 and 2011, respectively. There were no nonaccrual loans excluded from impaired loan disclosure in 2012 or 2011. Loans past due 90 days or more and accruing interest totaled $12.3 million and $10.8 million at March 31, 2012 and 2011, respectively.

The following table shows purchased impaired commercial and consumer loan portfolios, by class and their delinquency status through March 31, 2012 (dollars in thousands):

	30-89 Days Past Due	Greater than 90 Days	Current	Total
Commercial:				
Commercial Real Estate - Owner Occupied	$ —	$ 228	$ 950	$1,178
Raw Land and Lots	—	—	5,178	5,178
Single Family Investment Real Estate	—	—	354	354
Commercial and Industrial	—	278	83	361
Consumer:				
Indirect Auto	8	3	20	31
HELOCs	—	55	818	873
Other Consumer	—	78	87	165
Total	$ 8	$ 642	$7,490	$8,140

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

The following table shows purchased impaired commercial and consumer loan portfolios, by class and their delinquency status through December 31, 2011 (dollars in thousands):

	30-89 Days Past Due	Greater than 90 Days	Current	Total
Commercial:				
Commercial Real Estate - Owner Occupied	$ 206	$ 50	$1,036	$1,292
Commercial Real Estate - Non-Owner Occupied	—	1,133	—	1,133
Raw Land and Lots	—	—	5,623	5,623
Single Family Investment Real Estate	—	—	388	388
Commercial and Industrial	—	302	90	392
Consumer:				
Indirect Auto	6	11	23	40
HELOCs	19	32	814	865
Other Consumer	—	77	87	164
Total	$ 231	$ 1,605	$8,061	$9,897

Table of Contents

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

The Company measures the amount of impairment by evaluating loans either in their collective homogeneous pools or individually. At March 31, 2012, the Company had $242.7 million in loans considered to be impaired of which $11.9 million were collectively evaluated for impairment and $230.8 million were individually evaluated for impairment. The following table shows the Company's impaired loans individually evaluated for impairment, by class, at March 31, 2012 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	YTD Average Investment	Interest Income Recognized
Loans without a specific allowance					
Commercial:					
Commercial Construction	$ 39,176	$ 39,605	$ —	$ 39,458	$ 448
Commercial Real Estate - Owner Occupied	22,416	22,955	—	23,143	289
Commercial Real Estate - Non-Owner Occupied	37,390	37,589	—	39,324	480
Raw Land and Lots	47,290	47,398	—	47,713	402
Single Family Investment Real Estate	11,375	11,706	—	11,756	136
Commercial and Industrial	7,395	7,892	—	8,288	96
Other Commercial	1,250	1,250	—	1,254	18
Consumer:					
Mortgage	3,005	3,005	—	3,007	28
Indirect Auto	10	10	—	11	—
HELOCs	1,426	1,526	—	1,527	3
Other Consumer	792	817	—	827	8
Total impaired loans without a specific allowance	$171,525	$173,753	$ —	$176,308	$ 1,908
Loans with a specific allowance					
Commercial:					
Commercial Construction	$ 8,971	$ 9,015	$ 851	$ 9,035	$ 60
Commercial Real Estate - Owner Occupied	6,934	7,063	1,547	7,079	44
Commercial Real Estate - Non-Owner Occupied	6,943	6,969	941	6,981	68
Raw Land and Lots	16,677	16,920	1,830	16,995	43
Single Family Investment Real Estate	4,795	4,859	1,484	4,864	51
Commercial and Industrial	12,407	12,572	3,578	12,588	100
Consumer:					
Mortgage	961	961	162	1,028	17
Consumer Construction	205	226	83	226	—
Indirect Marine	261	271	99	272	—
HELOCs	755	811	552	1,020	—
Other Consumer	355	355	161	355	—
Total impaired loans with a specific allowance	$ 59,264	$ 60,022	$11,288	$ 60,443	$ 383
Total loans individually evaluated for impairment	$230,789	$233,775	$11,288	$236,751	$ 2,291

Table of Contents

At December 31, 2011, the Company had $255.1 million in loans considered to be impaired of which $12.3 million were collectively evaluated for impairment and $242.8 million were individually evaluated for impairment. The following table shows the Company's impaired loans individually evaluated for impairment, by class, at December 31, 2011 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	YTD Average Investment	Interest Income Recognized
Loans without a specific allowance					
Commercial:					
Commercial Construction	$ 40,475	$ 40,524	$ —	$ 37,835	$ 1,690
Commercial Real Estate - Owner Occupied	20,487	21,010	—	23,364	1,183
Commercial Real Estate - Non-Owner Occupied	37,799	37,855	—	38,084	2,002
Raw Land and Lots	46,791	46,890	—	47,808	1,306
Single Family Investment Real Estate	11,285	11,349	—	11,684	637
Commercial and Industrial	9,467	9,959	—	10,216	423
Other Commercial	1,257	1,257	—	1,269	75
Consumer:					
Mortgage	1,202	1,202	—	1,225	70
HELOCs	349	349	—	350	11
Other Consumer	—	—	—	1	—
Total impaired loans without a specific allowance	$169,112	$170,395	$ —	$171,836	$ 7,397
Loans with a specific allowance					
Commercial:					
Commercial Construction	$ 12,927	$ 13,297	$ 583	$ 13,811	$ 343
Commercial Real Estate - Owner Occupied	8,679	8,788	1,961	8,681	267
Commercial Real Estate - Non-Owner Occupied	8,858	8,879	1,069	9,010	322
Raw Land and Lots	22,188	22,429	991	24,553	973
Single Family Investment Real Estate	9,020	9,312	1,140	9,571	321
Commercial and Industrial	8,980	9,133	3,320	10,448	369
Other Commercial	150	150	3	153	10
Consumer:					
Mortgage	535	535	11	536	32
Consumer Construction	207	226	86	228	—
Indirect Auto	71	71	—	93	5
Indirect Marine	544	547	263	548	9
HELOCs	785	825	587	1,034	—
Other Consumer	777	804	284	815	5
Total impaired loans with a specific allowance	$ 73,721	$ 74,996	$10,298	$ 79,481	$ 2,656
Total loans individually evaluated for impairment	$242,833	$245,391	$10,298	$251,317	$ 10,053

The Company considers troubled debt restructurings ("TDRs") to be impaired loans. A modification of a loan's terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrower's financial difficulties that it would not otherwise consider. Included in the impaired loan disclosures above are $99.8 million and $112.6 million of loans considered to be troubled debt restructurings as of March 31, 2012 and December 31, 2011, respectively. All loans that are considered to be TDRs are specifically evaluated for impairment in accordance with the Company's allowance for loan loss methodology.

[Table of Contents](#)

The following table provides a summary, by class and modification type, of modified loans that continue to accrue interest under the terms of the restructuring agreement, which are considered to be performing, and modified loans that have been placed in nonaccrual status, which are considered to be nonperforming, as of March 31, 2012 (dollars in thousands):

	Modified to Interest Only			Term Modification at Market Rate			Term Modification below Market Rate			Total		
	No. of Loans	Recorded Investment	Outstanding Commitment	No. of Loans	Recorded Investment	Outstanding Commitment	No. of Loans	Recorded Investment	Outstanding Commitment	No. of Loans	Recorded Investment	Outstanding Commitment
Performing												
Commercial:												
Commercial Construction	—	$ —	$ —	11	$ 15,437	$ 2,649	—	$ —	$ —	11	$ 15,437	$ 2,649
Commercial Real Estate - Owner Occupied	2	398	—	8	7,554	347	3	555	—	13	8,507	347
Commercial Real Estate - Non-Owner Occupied	1	301	—	9	17,157	—	—	—	—	10	17,458	—
Raw Land and Lots	3	329	—	9	24,391	174	4	6,994	—	16	31,714	174
Single Family Investment Real Estate	2	180	—	8	4,915	—	1	385	—	11	5,480	—
Commercial and Industrial	—	—	—	12	4,784	192	2	356	—	14	5,140	192
Other Commercial	—	—	—	2	302	—	—	—	—	2	302	—
Consumer:												
Mortgage	2	604	—	5	807	—	1	507	—	8	1,918	—
Other Consumer	—	—	—	1	108	—	—	—	—	1	108	—
Total performing	10	$ 1,812	$ —	65	$ 75,455	$ 3,362	11	$ 8,797	$ —	86	$ 86,064	$ 3,362
Nonperforming												
Commercial:												
Commercial Construction	—	$ —	$ —	1	$ 846	$ —	4	$ 4,523	$ —	5	$ 5,369	$ —
Commercial Real Estate - Owner Occupied	—	—	—	1	908	—	—	—	—	1	908	—
Commercial Real Estate - Non-Owner Occupied	1	216	—	1	73	—	—	—	—	2	289	—
Raw Land and Lots	1	341	—	2	353	—	3	3,567	—	6	4,261	—
Single Family Investment Real Estate	1	92	—	1	520	—	2	714	—	4	1,326	—
Commercial and Industrial	—	—	—	3	1,123	—	—	—	—	3	1,123	—
Consumer:												
Indirect Marine	—	—	—	1	261	—	—	—	—	1	261	—
Other Consumer	—	—	—	1	206	—	—	—	—	1	206	—
Total nonperforming	3	$ 649	$ —	11	$ 4,290	$ —	9	$ 8,804	$ —	23	$ 13,743	$ —
Total performing and nonperforming	13	$ 2,461	$ —	76	$ 79,745	$ 3,362	20	$ 17,601	$ —	109	$ 99,807	$ 3,362

The following table provides a summary, by class and modification type, of modified loans that continue to accrue interest under the terms of the restructuring agreement, which are considered to be performing, and modified loans that have been placed in nonaccrual status, which are considered to be nonperforming, as of December 31, 2011 (dollars in thousands):

	Modified to Interest Only			Term Modification at Market Rate			Term Modification below Market Rate			Total		
	No. of Loans	Recorded Investment	Outstanding Commitment	No. of Loans	Recorded Investment	Outstanding Commitment	No. of Loans	Recorded Investment	Outstanding Commitment	No. of Loans	Recorded Investment	Outstanding Commitment
Performing												
Commercial:												
Commercial Construction	—	$ —	$ —	14	$ 21,461	$ 3,185	—	$ —	$ —	14	$ 21,461	$ 3,185
Commercial Real Estate - Owner Occupied	2	398	—	7	7,052	180	2	546	—	11	7,996	180
Commercial Real Estate - Non-Owner Occupied	1	301	—	15	21,476	13	—	—	—	16	21,777	13
Raw Land and Lots	—	—	—	11	25,425	1	4	7,025	—	15	32,450	1
Single Family Investment Real Estate	—	—	—	10	6,750	—	2	1,775	—	12	8,525	—
Commercial and Industrial	—	—	—	10	4,629	204	2	362	—	12	4,991	204
Other Commercial	—	—	—	4	864	—	—	—	—	4	864	—
Consumer:												
Mortgage	—	—	—	—	—	—	1	507	—	1	507	—
Other Consumer	—	—	—	2	263	—	—	—	—	2	263	—
Total performing	3	$ 699	$ —	73	$ 87,920	$ 3,583	11	$ 10,215	$ —	87	$ 98,834	$ 3,583
Nonperforming												
Commercial:												
Commercial Construction	—	$ —	$ —	1	$ 762	$ —	4	$ 4,591	$ —	5	$ 5,353	$ —
Commercial Real Estate - Non-Owner Occupied	1	218	—	1	74	—	—	—	—	2	292	—
Raw Land and Lots	1	341	—	2	358	—	3	3,643	—	6	4,342	—
Single Family Investment Real Estate	1	93	—	1	529	—	2	720	—	4	1,342	—
Commercial and Industrial	—	—	—	3	1,134	—	—	—	—	3	1,134	—
Consumer:												
Mortgage	1	538	—	4	538	—	—	—	—	5	1,076	—
Other Consumer	—	—	—	1	265	—	—	—	—	1	265	—
Total nonperforming	4	$ 1,190	$ —	13	$ 3,660	$ —	9	$ 8,954	$ —	26	$ 13,804	$ —
Total performing and nonperforming	7	$ 1,889	$ —	86	$ 91,580	$ 3,583	20	$ 19,169	$ —	113	$ 112,638	$ 3,583

Table of Contents

The Company considers a default of a restructured loan to occur when subsequent to the restructure, the borrower is 90 days past due or results in foreclosure and repossession of the applicable collateral; the Company identified one restructured loan, totaling approximately $453,000, that went into default in the first quarter that had been restructured during the previous twelve months. This loan was a commercial real estate (owner occupied) loan for which the term had been extended at a market rate. The following table shows, by class and modification type, TDRs that occurred during the three month period ended March 31, 2012 (dollars in thousands):

	All Restructurings	
	No. of Loans	Recorded investment at period end
Interest only at market rate of interest		
Commercial:		
Raw Land and Lots	3	$ 329
Single Family Investment Real Estate	2	180
Consumer:		
Mortgage	1	202
Total interest only at market rate of interest	6	$ 711
Loan term extended at a market rate		
Commercial:		
Commercial Real Estate - Owner Occupied	2	$ 1,701
Raw Land and Lots	1	604
Commercial and Industrial	1	104
Consumer:		
Mortgage	1	273
Other Consumer	1	206
Total loan term extended at a market rate	6	$ 2,888
Loan term extended at a below market rate		
Commercial:		
Commercial Real Estate - Owner Occupied	1	$ 10
Total loan term extended at a below market rate	1	$ 10
Total	13	$ 3,609

The primary modification to each loan class identified as TDRs during the period related to a renewal at the current terms and those terms were considered to be below market based on the risk characteristics of the borrower. Generally, the Company does not modify interest rates or reduce principal balances when restructuring loans, thus the recorded investment is unchanged after the modification is made.

Table of Contents

The following table shows the allowance for loan loss activity, by portfolio segment, balances for allowance for credit losses, and loans based on impairment methodology for the three months ended March 31, 2012. 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	$ 27,891	$ 11,498	$ 81	$ 39,470
Recoveries credited to allowance	66	275	—	341
Loans charged off	(1,399)	(1,708)	—	(3,107)
Provision charged to operations	3,086	479	(65)	3,500
Balance, end of year	**$ 29,644**	**$ 10,544**	**$ 16**	**$ 40,204**
Ending balance: individually evaluated for impairment	10,070	1,057	—	11,127
Ending balance: collectively evaluated for impairment	19,413	9,487	16	28,916
Ending balance: loans acquired with deteriorated credit quality	161	—	—	161
Total	**$ 29,644**	**$ 10,544**	**$ 16**	**$ 40,204**
Loans:				
Ending balance	**$1,986,219**	**$855,539**	**$ —**	**$2,841,758**
Ending balance: individually evaluated for impairment	215,948	6,701	—	222,649
Ending balance: collectively evaluated for impairment	1,763,200	847,769	—	2,610,969
Ending balance: loans acquired with deteriorated credit quality	7,071	1,069	—	8,140
Total	**$1,986,219**	**$855,539**	**$ —**	**$2,841,758**

The following table shows the allowance for loan loss activity, portfolio segment types, balances for allowance for loan losses, and loans based on impairment methodology for the year ended December 31, 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	$ 28,255	$ 10,189	$ (38)	$ 38,406
Recoveries credited to allowance	924	1,206	—	2,130
Loans charged off	(10,891)	(6,975)	—	(17,866)
Provision charged to operations	9,603	7,078	119	16,800
Balance, end of year	**$ 27,891**	**$ 11,498**	**$ 81**	**$ 39,470**
Ending balance: individually evaluated for impairment	8,982	1,231	—	10,213
Ending balance: collectively evaluated for impairment	18,824	10,267	81	29,172
Ending balance: loans acquired with deteriorated credit quality	85	—	—	85
Total	**$ 27,891**	**$ 11,498**	**$ 81**	**$ 39,470**
Loans:				
Ending balance	**$1,956,241**	**$862,342**	**$ —**	**$2,818,583**
Ending balance: individually evaluated for impairment	229,535	3,401	—	232,936
Ending balance: collectively evaluated for impairment	1,717,878	857,872	—	2,575,750
Ending balance: loans acquired with deteriorated credit quality	8,828	1,069	—	9,897
Total	**$1,956,241**	**$862,342**	**$ —**	**$2,818,583**

The Company uses the past due status and trends as the primary credit quality indicator for the consumer loan portfolio segment while a risk rating system is utilized for commercial loans. Commercial loans are graded on a scale of 1 through 9. A general description of the characteristics of the risk grades 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 risk;
- 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;

Table of Contents

- 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.

The following table shows all loans, excluding purchased impaired loans, in the commercial portfolios by class with their related risk rating as of March 31, 2012. The risk rating information has been updated through March 31, 2012 (dollars in thousands):

	1-3	4	5	6	7	8	Total
Commercial Construction	$ 13,480	$ 74,692	$ 10,700	$ 32,623	$ 45,169	$—	$ 176,664
Commercial Real Estate - Owner Occupied	91,635	308,483	18,609	24,178	24,309	—	467,214
Commercial Real Estate - Non-Owner Occupied	141,066	421,129	44,562	39,764	35,084	—	681,605
Raw Land and Lots	4,424	100,739	14,360	32,932	47,058	275	199,788
Single Family Investment Real Estate	33,473	125,271	15,767	13,563	12,675	—	200,749
Commercial and Industrial	36,829	124,074	18,884	9,371	20,287	192	209,637
Other Commercial	5,491	17,135	15,470	3,481	1,852	62	43,491
Total	$326,398	$1,171,523	$138,352	$155,912	$186,434	$529	$1,979,148

The following table shows all loans, excluding purchased impaired loans, in the commercial portfolios by class with their related risk rating as of December 31, 2011. The risk rating information has been updated through December 31, 2011 (dollars in thousands):

	1-3	4	5	6	7	8	Total
Commercial Construction	$ 10,099	$ 84,299	$ 6,079	$ 36,650	$ 48,232	$ —	$ 185,359
Commercial Real Estate - Owner Occupied	88,430	296,825	17,604	21,158	26,389	709	451,115
Commercial Real Estate - Non-Owner Occupied	149,346	367,244	58,844	38,662	39,854	—	653,950
Raw Land and Lots	4,368	99,374	18,767	33,673	52,204	275	208,661
Single Family Investment Real Estate	32,741	116,570	11,928	14,358	16,452	—	192,049
Commercial and Industrial	35,120	123,872	22,079	11,559	19,066	180	211,876
Other Commercial	6,364	15,918	16,739	3,807	1,512	63	44,403
Total	$326,468	$1,104,102	$152,040	$159,867	$203,709	$1,227	$1,947,413

The following table shows only purchased impaired loans in the commercial portfolios by class with their related risk rating as of March 31, 2012. The credit quality indicator information has been updated through March 31, 2012 (dollars in thousands):

	6	7	8	Total
Commercial Real Estate - Owner Occupied	$—	$1,178	$—	$1,178
Raw Land and Lots	—	5,178	—	5,178
Single Family Investment Real Estate	337	17	—	354
Commercial and Industrial	—	83	278	361
Total	$337	$6,456	$278	$7,071

The following table shows only purchased impaired loans in the commercial portfolios by class with their related risk rating as of December 31, 2011. The credit quality indicator information has been updated through December 31, 2011 (dollars in thousands):

	6	7	8	Total
Commercial Real Estate - Owner Occupied	$—	$1,292	$—	$1,292
Commercial Real Estate - Non-Owner Occupied	—	1,133	—	1,133
Raw Land and Lots	—	5,623	—	5,623
Single Family Investment Real Estate	369	19	—	388
Commercial and Industrial	—	91	301	392
Total	$369	$8,158	$301	$8,828

Loans acquired are originally recorded at fair value, with certain loans being identified as impaired at the date of purchase. The fair values were determined based on the credit quality of the portfolio, expected future cash flows, and timing of those expected future cash flows. The contractually required payments, cash flows expected to be collected, and fair value as of the date of acquisition were $1,080,780, $1,072,726, and $1,052,358 respectively (dollars in thousands).

The following shows changes in the Company's acquired loan portfolio and accretable yield for the following periods (dollars in thousands):

	For the Three Months Ended March 31, 2012				For the Twelve Months Ended December 31, 2011			
	Purchased Impaired		Purchased Nonimpaired		Purchased Impaired		Purchased Nonimpaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period	$ 5,140	$ 9,897	$ 9,010	$663,510	$ 8,169	$13,999	$13,589	$ 799,898
Additions	—	—	—	—	122	276	1,593	70,524
Accretion	(18)	—	(1,256)	—	(66)	—	(6,172)	—
Charged off	(3)	(3)	—	(541)	(3,073)	(1,329)	—	(5,988)
Transfers to OREO	—	(1,713)	—	(2,766)	(12)	(174)	—	(2,341)
Payments received, net	—	(41)	—	(88,665)	—	(2,875)	—	(198,583)
Balance at end of period	$ 5,119	$ 8,140	$ 7,754	$571,538	$ 5,140	$ 9,897	$ 9,010	$ 663,510

5. EARNINGS PER SHARE

Basic earnings per common share ("EPS") was computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares outstanding attributable to stock awards. Amortization of discount and dividends on the preferred stock is treated as a reduction of the numerator in calculating basic and diluted EPS. There were approximately 559,939 and 333,386 shares underlying anti-dilutive stock awards as of March 31, 2012 and 2011, respectively. Dividends paid on nonvested stock awards were approximately $6,000 and $3,000 for the three months ended March 31, 2012 and 2011, respectively.

The following is a reconcilement of the denominators of the basic and diluted EPS computations for the three months ended March 31, 2012 and 2011 (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 March 31, 2012			
Net income, basic	**$ 7,923**	**25,857**	**$ 0.31**
Add: potentially dilutive common shares - stock awards	**—**	**22**	**—**
Diluted	**$ 7,923**	**25,879**	**$ 0.31**
For the Three Months ended March 31, 2011			
Net income	$ 6,194	25,958	$ 0.24
Less: dividends paid and accumulated on preferred stock	462	—	0.02
Less: accretion of discount on preferred stock	64	—	—
Basic	$ 5,668	25,958	$ 0.22
Add: potentially dilutive common shares - stock awards	—	23	—
Diluted	$ 5,668	25,981	$ 0.22

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 March 31, 2012 was 3.22%. 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%) that adjusts and is payable quarterly. The interest rate at March 31, 2012 was 1.87%. The capital securities were redeemable at par on June 15, 2011 and quarterly thereafter until the securities mature on June 15, 2036. The principal asset of 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 business for 2012 includes one subsidiary bank, which provides loan, deposit, investment, and trust services to retail and commercial customers throughout its 98 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 its customers for the mortgage loan origination business. The mortgage segment offers a more limited referral network for the bank segment, 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% basis points, floor of 2%. 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 months ended March 31, 2012 and 2011 was as follows (dollars in thousands):

	Community Bank	Mortgage	Eliminations	Consolidated
Three Months Ended March 31, 2012				
Net interest income	**$ 38,038**	**$ 309**	**$ —**	**$ 38,347**
Provision for loan losses	**3,500**	**—**	**—**	**3,500**
Net interest income after provision for loan losses	**34,538**	**309**	**—**	**34,847**
Noninterest income	**6,637**	**5,298**	**(117)**	**11,818**
Noninterest expenses	**30,494**	**5,232**	**(117)**	**35,609**
Income before income taxes	**10,681**	**375**	**—**	**11,056**
Income tax expense	**2,992**	**141**	**—**	**3,133**
Net income	**$ 7,689**	**$ 234**	**—**	**$ 7,923**
Total assets	**$3,940,249**	**$83,637**	**$ (76,087)**	**$3,947,799**
Three Months Ended March 31, 2011				
Net interest income	$ 38,313	$ 487	$ —	$ 38,800
Provision for loan losses	6,300	—	—	6,300
Net interest income after provision for loan losses	32,013	487	—	32,500
Noninterest income	5,695	4,969	(117)	10,547
Noninterest expenses	29,956	4,928	(117)	34,767
Income before income taxes	7,752	528	—	8,280
Income tax expense	1,887	199	—	2,086
Net income	$ 5,865	$ 329	$ —	$ 6,194
Total assets	$3,807,228	$55,260	$ (49,788)	$3,812,700

8. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued ASU 2011-03, “Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements.” 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 became effective during the quarter ended March 31, 2012 and was applied prospectively to transactions or modifications of existing transactions that occurred on or after the effective date. The adoption of the new guidance did not have a material impact on the Company’s 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.” This ASU is the result of joint efforts by the FASB and International Accounting Standards Board (IASB) 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 (IFRS). The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. The Company has included the required disclosures in its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220) – Presentation of Comprehensive Income.” 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 were applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. The Company has included the required Statements of Comprehensive Income using the two-statement approach in its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, "Intangible – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment." The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities." This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect the adoption of ASU 2011-11 to have a material impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has included the required disclosures in its consolidated financial statements.

9. GOODWILL AND INTANGIBLE ASSETS

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

Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 4 to 14 years. In connection with the First Market Bank acquisition, 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. The acquired trademark intangible is included as a component of other assets in the consolidated balance sheet.

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 March 31, 2012, 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
March 31, 2012			
Amortizable core deposit intangibles	**$ 46,615**	**$ 27,212**	**$ 19,403**
Unamortizable goodwill	**59,742**	**342**	**59,400**
Trademark intangible	**1,200**	**867**	**333**
December 31, 2011			
Amortizable core deposit intangibles	$ 46,615	$ 25,901	$ 20,714
Unamortizable goodwill	59,742	342	59,400
Trademark intangible	1,200	767	433
March 31, 2011			
Amortizable core deposit intangibles	$ 46,615	$ 21,444	$ 25,171
Unamortizable goodwill	57,909	342	57,567
Trademark intangible	1,200	467	733

Amortization expense of the core deposit intangibles for the three month periods ended March 31, 2012 and 2011 totaled $1.3 million and $1.7 million, respectively. 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 month periods ended March 31, 2012 and 2011 was both $100,000, respectively.

As of March 31, 2012, 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):

2013	**$ 4,994**
2014	**3,567**
2015	**2,734**
2016	**2,348**
2017	**1,728**
Thereafter	**4,365**
	$19,736

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 March 31, 2012 and 2011 and at December 31, 2011, the Company had outstanding loan commitments approximating $798.7 million, $758.4 million, and $720.3 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 $46.6 million and $36.0 million at March 31, 2012 and 2011, and $38.1 million at December 31, 2011, respectively.

At March 31, 2012, 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 $102.7 million and loans held for sale of $73.6 million compared to $104.7 million and $50.6 million at March 31, 2012 and 2011, At December 31, 2011, Union Mortgage had rate lock commitments to originate mortgage loans amounting to $45.8 million and loans held for sale of $74.8 million. Union Mortgage has entered into corresponding agreements on a best-efforts basis to sell loans on a servicing released basis totaling approximately $176.3 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 March 31, 2012 and December 31, 2011 are summarized as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
March 31, 2012				
U.S. government and agency securities	**$ 3,592**	**$ 165**	**$ (3)**	**$ 3,754**
Obligations of states and political subdivisions	**189,817**	**11,724**	**(281)**	**201,260**
Corporate and other bonds	**12,179**	**261**	**(532)**	**11,908**
Mortgage-backed securities	**391,136**	**10,687**	**(169)**	**401,654**
Other securities	**3,106**	**69**	**—**	**3,175**
Total securities	**$599,830**	**$22,906**	**$ (985)**	**$621,751**
December 31, 2011				
U.S. government and agency securities	$ 3,933	$ 351	$ —	$ 4,284
Obligations of states and political subdivisions	189,117	11,337	(247)	200,207
Corporate and other bonds	12,839	188	(787)	12,240
Mortgage-backed securities	390,329	10,434	(445)	400,318
Other securities	3,044	77	(4)	3,117
Total securities	$599,262	$22,387	$(1,483)	$620,166

Due to restrictions placed upon the Company's common stock investment in the Federal Reserve Bank and Federal Home Loan Bank of Atlanta, these securities have been classified as restricted equity securities and carried at cost. These restricted securities are not subject to the investment security classifications. The Federal Home Loan Bank requires the Bank to maintain stock in an amount equal to 4.5% of outstanding borrowings and a specific percentage of the member's total assets. The Federal Reserve Bank of Richmond requires the Company to maintain stock with a par value equal to 6% of its outstanding capital. Restricted equity securities consist of Federal Reserve Bank stock in the amount of $6.8 million and $6.7 million and Federal Home Loan Bank of Atlanta stock in the amount of $13.9 million as of March 31, 2012 and December 31, 2011.

Table of Contents

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 March 31, 2012						
U.S. government and agency securities	**$ 14**	**$ (3)**	**$ —**	**$ —**	**$ 14**	**$ (3)**
Obligations of states and political subdivisions	**6,994**	**(191)**	**413**	**(90)**	**7,407**	**(281)**
Mortgage-backed securities	**58,274**	**(169)**	**—**	**—**	**58,274**	**(169)**
Corporate bonds and other securities	**100**	**—**	**3,884**	**(532)**	**3,984**	**(532)**
Totals	**$ 65,382**	**$ (363)**	**$ 4,297**	**$ (622)**	**$ 69,679**	**$ (985)**
As of December 31, 2011						
Obligations of states and political subdivisions	$ 5,429	$ (152)	$ 1,090	$ (95)	$ 6,519	$ (247)
Mortgage-backed securities	97,203	(445)	—	—	97,203	(445)
Corporate bonds and other securities	2,342	(165)	3,790	(626)	6,132	(791)
Totals	$104,974	$ (762)	$ 4,880	$ (721)	$109,854	$ (1,483)

As of March 31, 2012, there were $4.3 million, or 4 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 $622 thousand and consisted of corporate and municipal obligations.

The following table presents the amortized cost and estimated fair value of securities as of March 31, 2012, by contractual maturity (dollars in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012		December 31, 2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,047	$ 4,110	$ 6,046	$ 6,098
Due after one year through five years	18,360	19,014	18,771	19,408
Due after five years through ten years	72,181	76,281	76,044	80,214
Due after ten years	502,137	519,171	495,357	511,329
Subtotal	$596,725	$618,576	$596,218	$617,049
Other securities	3,106	3,175	3,044	3,117
Total securities available for sale	$599,830	$621,751	$599,262	$620,166

Securities with an amortized cost of $163.9 million and $172.1 million as of March 31, 2012 and December 31, 2011, respectively, were pledged to secure public deposits, repurchase agreements and for other purposes.

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 March 31, 2012, and in accordance with the guidance, no OTTI was recognized.

Based on the assessment for the quarter ended September 30, 2011 and in accordance with the guidance, the Company determined that a single issuer Trust Preferred security incurred credit-related OTTI of $400,000, which was recognized in earnings for the quarter ended September 30, 2011. There is a possibility that the Company will sell the security before recovering all unamortized costs. The significant inputs the Company considered in determining the amount of the credit loss are as follows:

- The assessment of security credit rating agencies and research performed by third parties;

- The continued interest payment deferral by the issuer;
- The lack of improving asset quality of the issuer and worsening economic conditions; and
- The security is thinly traded and trading at its historical low, below par.

OTTI recognized for the periods presented is summarized as follow (dollars in thousands):

	OTTI Losses
Cumulative credit losses on investment securities, through December 31, 2011	$ 400
Cumulative credit losses on investment securities	—
Additions for credit losses not previously recognized	—
Cumulative credit losses on investment securities, through March 31, 2012	$ 400

12. FAIR VALUE MEASUREMENTS

The Company follows 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 section 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 assets and liabilities. The Company has contracted with a third party vendor to provide valuations for interest rate swaps using standard swap valuation techniques and therefore classifies such valuations as Level 2. Third party valuations are validated by the Company using Bloomberg's derivative pricing functions. 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 (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 Company's investment portfolio is primarily valued using fair value measurements that are considered to be Level 2. The Company has contracted with a third party portfolio accounting service vendor for valuation of its securities portfolio. The vendor's primary source for security valuation is Interactive Data Corporation ("IDC"), which evaluates securities based on market data. IDC utilizes evaluated pricing models that vary by asset class and include available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary modes, vast descriptive terms and conditions databases, as well as extensive quality control programs.

The vendor utilizes proprietary valuation matrices for valuing all municipals securities. The initial curves for determining the price, movement, and yield relationships within the municipal matrices are derived from industry benchmark curves or sourced from a municipal trading desk. The securities are further broken down according to issuer, credit support, state of issuance and rating to incorporate additional spreads to the industry benchmark curves.

The Company uses Bloomberg Valuation Service, an independent information source that draws on quantitative models and market data contributed from over thousands of participants, to validate third party valuations. Any material differences between valuation sources are researched by further analyzing the various inputs that are utilized by each pricing source. No material differences were identified during our validation as of March 31, 2012 and December 31, 2011.

The carrying value of restricted Federal Reserve Bank of Richmond and FHLB stock approximates fair value based on the redemption provisions of each entity and is therefore excluded from the following table.

Table of Contents

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis at March 31, 2012 and December 31, 2011 (dollars in thousands):

	Fair Value Measurements at March 31, 2012 using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance
ASSETS				
Interest rate swap - loans	$ —	$ 44	$ —	$ 44
Securities available for sale:				
U.S. government and agency securities	—	3,754	—	3,754
Obligations of states and political subdivisions	—	201,260	—	201,260
Corporate and other bonds	—	11,908	—	11,908
Mortgage-backed securities	—	401,654	—	401,654
Other securities	—	3,175	—	3,175
Total	**$ —**	**$ 621,795**	**$ —**	**$621,795**
LIABILITIES				
Interest rate swap - loans	$ —	$ 44	$ —	$ 44
Cash flow hedge - trust	—	4,096	—	4,096
Total	**$ —**	**$ 4,140**	**$ —**	**$ 4,140**

	Fair Value Measurements at December 31, 2011 using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance
ASSETS				
Interest rate swap - loans	$ —	$ 66	$ —	$ 66
Securities available for sale:				
U.S. government and agency securities	—	4,284	—	4,284
Obligations of states and political subdivisions	—	200,207	—	200,207
Corporate and other bonds	—	12,240	—	12,240
Mortgage-backed securities	—	400,318	—	400,318
Other securities	—	3,117	—	3,117
Total	**$ —**	**$ 620,232**	**$ —**	**$620,232**
LIABILITIES				
Interest rate swap - loans	$ —	$ 66	$ —	$ 66
Cash flow hedge - trust	—	4,293	—	4,293
Total	**$ —**	**$ 4,359**	**$ —**	**$ 4,359**

Certain 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 assets recorded at fair value on a nonrecurring basis in the financial statements.

Loans held for sale

Loans held for sale are carried at the lower of cost or market value. These loans currently consist of residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during March 31, 2012 and December 31, 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.

Other real estate owned

Fair values of other real estate owned are carried at the lower of carrying value or fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as Level 2 valuation. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as Level 3 valuation. Total valuation expenses related to OREO properties for March 31, 2012 and December 31, 2011 were $0 and $707,000, respectively.

The following table summarizes the Company's financial assets that were measured at fair value on a nonrecurring basis at March 31, 2012 and December 31, 2011 (dollars in thousands):

	Fair Value Measurements at March 31, 2012 using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance
ASSETS				
Loans held for sale	$ —	$ 73,575	$ —	$ 73,575
Impaired loans	—	33,254	14,652	47,906
Other real estate owned	—	—	37,663	37,663
Total	**$ —**	**$ 106,829**	**$ 52,315**	**$159,144**

	Fair Value Measurements at December 31, 2011 using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance
ASSETS				
Loans held for sale	$ —	$ 74,823	$ —	$ 74,823
Impaired loans	—	28,525	34,898	63,423
Other real estate owned	—	—	32,263	32,263
Total	**$ —**	**$ 103,348**	**$ 67,161**	**$170,509**

Table of Contents

The changes in Level 3 assets measured at estimated fair value on a nonrecurring basis during the year ended March 31, 2012 were as follows:

	Fair Value Measurements at March 31, 2012	
	Impaired Loans	Other Real Estate Owned
Balance - January 1, 2012	$ 34,898	$ 32,263
Total gains (losses) realized/unrealized:		
Included in earnings	—	(27)
Additions	13,890	6,912
Sales	—	(1,485)
Net Payments	(25,603)	—
Transfers from Level 2	—	—
Transfers to Level 2	(8,533)	—
Balance - March 31, 2012	$ 14,652	$ 37,663

The following table displays quantitative information about Level 3 Fair Value Measurements for March 31, 2012 (dollars in thousands):

	Fair Value Measurements at March 31, 2012			
	Fair Value	Valuation Technique(s)	Unobservable Inputs	Weighted Average
ASSETS				
Commercial Construction	$ 3,609	Market comparables	Discount applied to market comparables (1)	30%
Commercial Real Estate - Owner Occupied	1,277	Market comparables	Discount applied to market comparables (1)	28%
Raw Land and Lots	6,991	Market comparables	Discount applied to market comparables (1)	39%
Commercial and Industrial	1,302	Market comparables	Discount applied to market comparables (1)	38%
Other (2)	1,473	Market comparables	Discount applied to market comparables (1)	26%
Total Impaired Loans	**14,652**			
Other real estate owned	**37,663**	Market comparables	Discount applied to market comparables (1)	31%
Total	**$ 52,315**			

(1) A discount percentage is applied based on age of independent appraisals, current market conditions, and experience within the local market.
(2) The "Other" category of the impaired loans section from the table above consists of Single Family Investment Real Estate, Mortgage, and Consumer Construction.

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 expected future cash flows using a yield curve that is constructed by adding a loan spread to a market yield curve. Loan spreads are based on spreads currently observed in the market for loans of similar type and structure.(Level 2). Fair value for impaired loans and their respective level within the fair value hierarchy, are described in the previous disclosure related to fair value measurements of assets that are measured on a nonrecurring basis.

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 deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities (Level 2).

Borrowings

The carrying value of the Company's repurchase agreements is a reasonable estimate of fair value. Other borrowings are discounted using the current yield curve for the same type of borrowing. For borrowings with embedded optionality, a third party source is used to value the instrument (Level 2). The Company validates all third party valuations for borrowings with optionality using Bloomberg's derivative pricing functions.

Accrued interest

The carrying amounts of accrued interest approximate fair value (Level 2).

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 March 31, 2012 and December 31, 2011, the fair value of loan commitments and standby letters of credit was immaterial.

The carrying values and estimated fair values of the Company's financial instruments as of March 31, 2012 and December 31, 2011 are as follows (dollars in thousands):

		Fair Value Measurements at March 31, 2012 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
ASSETS					
Cash and cash equivalents	$ 111,183	$ 111,183	$ —	$ —	$ 111,183
Securities available for sale	621,751	—	621,751	—	621,751
Restricted stock	20,715	—	20,715	—	20,715
Loans held for sale	73,575	—	73,575	—	73,575
Net loans	2,801,554	—	2,803,515	14,652	2,818,167
Interest rate swap - loans	44	—	44	—	44
Accrued interest receivable	16,275	—	16,275	—	16,275
LIABILITIES					
Deposits	$ 3,215,707	$ —	$ 3,230,517	$ —	$3,230,517
Borrowings	268,856	—	268,821	—	268,821
Accrued interest payable	999	—	999	—	999
Cash flow hedge - trust	4,096	—	4,096	—	4,096
Interest rate swap - loans	44	—	44	—	44

		Fair Value Measurements at December 31, 2011 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value Balance
ASSETS					
Cash and cash equivalents	$ 96,659	$ 96,659	$ —	$ —	$ 96,659
Securities available for sale	620,166	—	620,166	—	620,166
Restricted stock	20,661	—	20,661	—	20,661
Loans held for sale	74,823	—	74,823	—	74,823
Net loans	2,779,113	—	2,760,016	34,898	2,794,914
Interest rate swap - loans	66	—	66	—	66
Accrued interest receivable	16,626	—	16,626	—	16,626
LIABILITIES					
Deposits	$ 3,175,105	$ —	$ 3,191,256	$ —	$3,191,256
Borrowings	278,686	—	277,374	—	277,374
Accrued interest payable	1,865	—	1,865	—	1,865
Cash flow hedge - trust	4,293	—	4,293	—	4,293
Interest rate swap - loans	66	—	66	—	66

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

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 March 31, 2012, the fair value of the trust swap agreement was an unrealized loss of $4.1 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 Comprehensive Income.

Table of Contents

Shown below is a summary of the derivative designated as a cash flow hedge at March 31, 2012 and December 31, 2011 (dollars in thousands):

	Positions	Notional Amount	Asset	Liability	Receive Rate	Pay Rate	Life (Years)
As of March 31, 2012							
Pay fixed - receive floating interest rate swaps	1	$36,000	$—	$4,096	0.47%	3.51%	5.21

	Positions	Notional Amount	Asset	Liability	Receive Rate	Pay Rate	Life (Years)
As of December 31, 2011							
Pay fixed - receive floating interest rate swaps	1	$36,000	$—	$4,293	0.58%	3.51%	5.46

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. As of January 1, 2012, one of the two swaps matured. Shown below is a summary regarding loan swap derivative activities at March 31, 2012 and December 31, 2011 (dollars in thousands):

	Positions	Notional Amount	Asset	Liability	Receive Rate	Pay Rate	Life (Years)
As of March 31, 2012							
Receive fixed - pay floating interest rate swaps	1	$1,410	$ 44	$ —	7.00%	2.74%	0.75
Pay fixed - receive floating interest rate swaps	1	$1,410	$—	$ 44	2.74%	7.00%	0.75

	Positions	Notional Amount	Asset	Liability	Receive Rate	Pay Rate	Life (Years)
As of December 31, 2011							
Receive fixed - pay floating interest rate swaps	2	$4,028	$ 66	$ —	6.35%	2.77%	1.01
Pay fixed - receive floating interest rate swaps	2	$4,028	$—	$ 66	2.77%	6.35%	1.01

Table of Contents

14. OTHER OPERATING EXPENSES

The following table presents the consolidated statement of income lien "Other Operating Expenses" broken into greater detail for the three months ended March 31, 2012 and 2011, respectively (dollars in thousands):

	Three Months Ended March 31	
	2012	**2011**
Communication expenses	**$ 2,584**	$ 2,623
Professional services	**1,144**	1,054
Data processing fees	**831**	977
Marketing & advertising expense	**1,468**	1,163
FDIC assessment premiums and other insurance	**658**	1,751
Other taxes	**759**	705
Loan and OREO expenses	**990**	889
Amortization of core deposit premiums	**1,410**	1,755
Acquistion & Conversion Costs	**—**	200
Other expenses	**1,848**	1,580
Total other operating expenses	**$11,692**	$12,697

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 sheet of Union First Market Bankshares Corporation and subsidiaries as of March 31, 2012 and 2011, and the related condensed consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the three-month period ended March 31, 2012 and 2011. These condensed 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 condensed 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, 2011, 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 14, 2012, 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, 2011 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
May 9, 2012

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, 2011. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Results of operations for the three month periods ended March 31, 2012 and 2011 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 and bank industry conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, accounting standards or interpretations of existing standards, mergers and acquisitions, 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, mergers and acquisitions goodwill, and intangible assets. The Company's accounting policies are fundamental to understanding the Company's consolidated financial position and consolidated results of operations. Accordingly, the Company's significant accounting policies are discussed in detail in Note 1 "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" contained in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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 ("ALL")

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 believes the collectability of the principal is unlikely. 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 additions to the allowance based on their judgments about information available to them at the time of their examination.

The Company performs regular credit reviews of the loan portfolio to review the credit quality and adherence to its underwriting standards. The credit reviews consist of reviews by its internal credit administration group and reviews performed by an independent third party. Upon origination each commercial loan is assigned a risk rating ranging from one to nine, with loans closer to one having less risk, and this risk rating scale is our primary credit quality indicator. Consumer loans are generally not risk rated, the primary credit quality indicator for this portfolio segment is delinquency status. The Company has various committees that review and ensure that the allowance for loan losses methodology is in accordance with GAAP and loss factors used appropriately reflect the risk characteristics of the loan portfolio.

The Company's ALL consists of specific, general and unallocated components.

Specific Reserve Component – The specific component relates to commercial loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Upon being identified as impaired an allowance is established when the discounted cash flows of the impaired loan is lower than the carrying value of that loan for loans not considered to be collateral dependent. The significant majority of the Company's impaired loans are collateral dependent. The impairment of collateral dependent loans is measured based on the fair value of the underlying collateral (based on independent appraisals), less selling costs, compared to the carrying value of the loan. The Company obtains independent appraisals from a pre-approved list of independent, third party, appraisal firms located in the market in which the collateral is located. The Company's approved appraiser list is continuously maintained to ensure the list only includes such appraisers that have the experience, reputation, character, and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is currently licensed in the state in which the property is located, experienced in the appraisal of properties similar to the property being appraised, has knowledge of current real estate market conditions and financing trends, and is reputable. The Company's internal real estate valuation group performs either a technical or administrative review of all appraisals obtained. A technical review will ensure the overall quality of the appraisal while an administrative review ensures that all of the required components of an appraisal are present. Generally, independent appraisals are updated every 12 to 24 months or as necessary. The Company's impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Adjustments to appraisals generally include discounts for continued market deterioration subsequent to appraisal date. Any adjustments from appraised value to carrying value are documented in the impairment analysis, which is reviewed and approved by senior credit administration officers and the Special Assets Loan Committee. External appraisals are the primary source to value collateral dependent loans; however, the Company may also utilize values obtained through broker price opinions or other valuations sources. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period.

Table of Contents

General Reserve Component – 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 during the preceding twelve quarters, as management has determined this 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	Military/government impact
Execution of loan risk rating process	General market risk and other concerns	
Degree of oversight / underwriting standards	Legislative and regulatory environment	
Value of real estate serving as collateral		
Delinquency levels in portfolio		
Charge-off levels in portfolio		
Credit concentrations / nature and volume of the portfolio		

Unallocated Component – This 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 March 31, 2012, there were no material amounts considered unallocated as part of the allowance for loan losses.

Impaired Loans

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

For the consumer loan portfolio segment, large groups of smaller balance homogeneous loans are collectively evaluated for impairment. This evaluation subjects each of the Company's homogenous pools to a historical loss factor derived from net charge-offs experienced over the preceding twelve quarters. The Company applies payments received on impaired loans to principal and interest based on the contractual terms until they are placed on nonaccrual status at which time all payments received are applied to reduce the principal balance and recognition of interest income is terminated as previously discussed.

Mergers and Acquisitions

The Company accounts for its business combinations under the acquisition 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 affect 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 and a potential branch site in Waynesboro, Virginia. Under the parties' agreement, the Company purchased loans of $72.5 million and assumed deposit liabilities of $48.9 million, and purchased the related fixed assets of the branch. The Company operates the acquired bank branch under the name Union First Market Bank (the "Harrisonburg branch"). 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 at acquisition. 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 March 31, 2012, 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 98 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 $7.9 million and earnings per share of $0.31 for its first quarter ended March 31, 2012. The quarterly results represent a decrease of $437,000 in net income, but an increase of $0.03 in earnings per share from the fourth quarter. The increase in earnings per share is related to the redemption of preferred stock and resultant accelerated amortization of the discount which occurred in the prior quarter and reduced income available to common shareholders by $.02 per share. The quarterly results represent an increase of $1.7 million in net income or $0.09 in earnings per share from the quarter ended March 31, 2011. Net income available to common shareholders was $7.9 million, compared to $5.7 million for the prior year’s first quarter which included dividends and discount accretion on preferred stock of $526,000.

First quarter net income decreased $437,000, or 5.2%, compared to the fourth quarter in the prior year. The decrease is largely a result of higher salary and benefit expenses partially offset by lower losses on sales of other real estate owned (“OREO”) and other Bank property in relation to the prior quarter, lower marketing and advertising costs, lower net overdraft losses and recoveries, and lower Federal Deposit Insurance Corporation (“FDIC”) insurance expense. In addition, the Company recorded an additional $1.1 million in provision for loan losses above the prior quarter.

Net income for the quarter ended March 31, 2012 increased $1.7 million, or 27.9%, from the prior year. The increase was principally a result of a lower provision for loan losses, and to a lesser extent, an increase in account service charges and fees, favorable gains on sales of mortgage loans, and lower FDIC insurance assessment, partially offset by higher salary expense of additional employees.

NET INTEREST INCOME

On a linked quarter basis, tax-equivalent net interest income was $39.4 million, a decrease of $167,000, or 0.4%, from the fourth quarter of 2011. This decrease was principally due to lower average interest-earning asset balances offset by lower costs of interest-bearing liabilities. First quarter tax-equivalent net interest margin increased to 4.44% from 4.37% compared to the most recent quarter. The change in net interest margin was principally attributable to an increase in investment yields and lower cost of interest-bearing liabilities partially offset by lower loan yields. Loan yields continue to be affected negatively by competitive pricing while yields on investment securities benefitted from a slow- down of prepayments related to taxable securities during the quarter. The cost of interest-bearing deposits was affected positively by a shift in mix from term deposits to transaction deposits.

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		
	03/31/12	**12/31/11**	**Change**
Average interest-earning assets	$3,578,513	$3,591,739	$(13,226)
Interest income	$ 46,919	$ 47,386	$ (467)
Yield on interest-earning assets	5.27%	5.23%	4 bps
Average interest-bearing liabilities	$2,908,822	$2,906,758	$ 2,064
Interest expense	$ 7,527	$ 7,828	$ (301)
Cost of interest-bearing liabilities	1.04%	1.07%	(3) bps

For the three months ended March 31, 2012, tax-equivalent net interest income decreased $509,000, or 1.3%, when compared to the same period last year. The tax-equivalent net interest margin decreased to 4.44% from 4.68% in the prior year. This decrease was principally due to a decline in income from interest-earning assets outpacing lower costs on interest-bearing liabilities. Lower interest-earning asset income was principally due to lower yields on loans and investment securities as new loans are originated at lower rates and cash flows from securities investments and loans are reinvested at lower yields.

The Company continues to expect that its net interest margin will decline slightly over the next several quarters as decreases in earning asset yields are expected to outpace declines in costs of interest-bearing liabilities.

Table of Contents

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 03/31/12	03/31/11	Change
Average interest-earning assets	$3,578,513	$3,459,834	$118,679
Interest income	$ 46,919	$ 48,490	$ (1,571)
Yield on interest-earning assets	5.27%	5.68%	(41) bps
Average interest-bearing liabilities	$2,908,822	$2,858,406	$ 50,416
Interest expense	$ 7,527	$ 8,591	$ (1,064)
Cost of interest-bearing liabilities	1.04%	1.22%	(18) bps

Acquisition Activity – Net Interest Margin

The favorable impact of acquisition accounting fair value adjustments on net interest income was $1.3 million ($1.1 million – First Market Bank; $214,000 – Harrisonburg branch) for the three months ended March 31, 2012, respectively. If not for this favorable impact, the net interest margin for the fourth quarter would have been 4.28%, compared to 4.20% from the fourth quarter of 2011.

The acquired loan portfolios of the Harrisonburg Branch and FMB were 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. For the FMB acquisition, the acquired investment security portfolios were marked-to-market with a fair value discount to market rates. The Company also assumed borrowings (FHLB) and subordinated debt. These liabilities were marked-to-market with estimates of fair value on acquisition date. The resulting discount/premium to market is accreted/amortized as an increase/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 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 being amortized as a decrease to interest expense over the estimated lives of the certificates of deposit.

The first 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 March 31, 2012	$ 211	$ 3	$ 1,049	$ 62	$ (122)	$ 114
For the remaining nine months of 2012	377	8	2,576	139	(367)	108
For the years ending:						
2013	148	7	2,377	15	(489)	—
2014	37	4	1,478	—	(489)	—
2015	26	—	570	—	(489)	—
2016	27	—	28	—	(163)	—
2017	23	—	—	—	—	—
Thereafter	120	—	—	—	—	—

Acquisition Activity – Other Operating Expenses

Acquisition related expenses associated with the acquisition of the Harrisonburg branch were $426,000 for the year ended December 31, 2011 and are recorded in “Other operating expenses” in the Company’s condensed consolidated statements of income. Such costs principally included system conversion and operations integration charges that have been expensed as incurred. There were no acquisition related expenses related to the Harrisonburg branch in 2012. The Company expects no further expenses from the Harrisonburg branch acquisition.

Table of Contents

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

	For the Three Months Ended March 31,								
	2012			2011			2010		
	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	**$ 470,052**	**$ 3,456**	**2.96%**	$ 412,512	$ 3,630	3.57%	$ 378,494	$ 3,539	3.79%
Tax-exempt	**172,299**	**2,751**	**6.42%**	164,928	2,698	6.63%	119,602	2,100	7.12%
Total securities (2)	**642,351**	**6,206**	**3.89%**	577,440	6,328	4.44%	498,096	5,639	4.59%
Loans, net (3) (4)	**2,829,881**	**40,091**	**5.70%**	2,812,412	41,592	6.00%	2,515,652	38,151	6.15%
Loans held for sale	**67,906**	**599**	**3.55%**	54,152	565	4.23%	44,607	446	4.05%
Federal funds sold	**413**	**0**	**0.24%**	266	—	0.32%	28,205	12	0.17%
Money market investments	**39**	**—**	**0.00%**	161	—	0.00%	112	—	0.00%
Interest-bearing deposits in other banks	**37,923**	**22**	**0.23%**	15,403	5	0.14%	14,694	8	0.22%
Other interest-bearing deposits	**—**	**—**	**0.00%**	—	—	0.00%	2,598	—	0.00%
Total earning assets	**3,578,513**	**46,919**	**5.27%**	3,459,834	48,490	5.68%	3,103,964	44,256	5.78%
Allowance for loan losses	**(40,022)**			(38,765)			(31,579)		
Total non-earning assets	**365,267**			386,891			368,028		
Total assets	**$3,903,758**			$3,807,960			$3,440,413		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 410,070**	**132**	**0.13%**	$ 374,756	159	0.17%	$ 303,824	177	0.24%
Money market savings	**898,539**	**997**	**0.45%**	810,573	1,505	0.75%	634,090	1,476	0.94%
Regular savings	**186,351**	**178**	**0.38%**	160,565	103	0.26%	147,045	189	0.52%
Certificates of deposit: (5)									
$100,000 and over	**555,042**	**2,110**	**1.53%**	600,932	2,482	1.68%	583,442	2,854	1.98%
Under $100,000	**583,058**	**1,919**	**1.32%**	620,168	2,434	1.59%	588,981	2,568	1.77%
Total interest-bearing deposits	**2,633,059**	**5,335**	**0.82%**	2,566,994	6,683	1.06%	2,257,382	7,264	1.30%
Other borrowings (6)	**275,763**	**2,192**	**3.20%**	291,412	1,908	2.66%	364,433	1,895	2.11%
Total interest-bearing liabilities	**2,908,822**	**7,527**	**1.04%**	2,858,406	8,591	1.22%	2,621,815	9,159	1.42%
Noninterest-bearing liabilities:									
Demand deposits	**534,593**			486,864			401,971		
Other liabilities	**36,055**			30,283			26,901		
Total liabilities	**3,479,469**			3,375,553			3,050,687		
Stockholders' equity	**424,289**			432,407			389,726		
Total liabilities and stockholders' equity	**$3,903,758**			$3,807,960			$3,440,413		
Net interest income		**$39,392**			$39,899			$35,097	
Interest rate spread (7)			**4.23%**			4.46%			4.36%
Interest expense as a percent of average earning assets			**0.85%**			1.01%			1.20%
Net interest margin (8)			**4.44%**			4.68%			4.59%

(1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
(2) Interest income on securities includes $62 thousand in accretion of the fair market value adjustments related to the acquisition of FMB. Remaining estimated accretion for 2012 is $139 thousand.
(3) Nonaccrual loans are included in average loans outstanding.
(4) Interest income on loans includes $1.3 million in accretion of the fair market value adjustments related to the acquisition of FMB. Remaining estimated accretion for 2012 is $3.0 million.
(5) Interest expense on certificates of deposits includes $117 thousand in accretion of the fair market value adjustments related to the acquisition of FMB. Remaining estimated accretion for 2012 is $116 thousand.
(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 2012 is $367 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 4.28% for the quarter ending 3/31/12.

Table of Contents

Provision for Loan Losses

The provision for loan losses for the current quarter was $3.5 million, an increase of $1.1 million from the fourth quarter of last year and a $2.8 million decrease from the same quarter a year ago. The increased provision from the most recent quarter reflects the need to increase reserves on impaired loans. While the impaired loan balances declined, the reserve requirements increased as management continues to monitor collateral values and guarantor support. The current level of the allowance for loan losses reflects specific reserves related to nonperforming loans, current 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 acquired in the FMB and the Harrisonburg branch acquisitions, was 1.41% at March 31, 2012, 1.40% at December 31, 2011, and 1.44% at March 31, 2011. The allowance for loan losses as a percentage of the total loan portfolio, adjusted for acquired loans, was 1.77% at March 31, 2012, a decrease from 1.83% at December 31, 2011 and 1.96% from a year ago. While the allowance for loan losses as a percentage of the adjusted loan portfolio declined, the nonaccrual loan coverage ratio significantly improved, as it increased from 88.04% at December 31, 2011 and from 64.49% the same quarter last year to 94.84% at March 31, 2012. The rise in the coverage ratio, which at the highest level since the first quarter of 2010, further shows that management's proactive diligence in working through problem credits is having a significant positive impact on asset quality. The lower 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 increased $95,000, or 0.8%, to $11.8 million from $11.7 million in the fourth quarter. During the first quarter, the Company incurred approximately $1.0 million lower losses on disposal of Bank owned property, primarily related to the Company's recorded loss of $351,000 on disposal of Bank premises, and incurred losses on sales of OREO of $737,000 in the prior quarter. Also during the prior quarter, the Company recorded gains on sales of investment securities of $430,000. Gains on sales of mortgage loans decreased $412,000, or 7.2%, and were driven by compressed loan margins related to refinance volume. Excluding sales of Bank owned real estate, property, mortgage segment operations, and securities transactions, noninterest income decreased $95,000 or 1.4%.

For the quarter ended March 31, 2012, noninterest income increased $1.3 million, or 12.1%, to $11.8 million from $10.5 million in the prior year's same quarter. Service charges on deposit accounts and other account fees increased $558,000, related to higher VISA interchange fee income, overdraft and return check charges, letter of credit fees, and ATM charges. Gains on sales of mortgage loans increased $328,000, or 6.6%, due to higher origination volume. During the first quarter 2011, the Company recorded losses on sales of OREO of $299,000 compared to $27,000 in the current quarter. Other operating income increased $133,000 primarily as a result of higher trust services income. Excluding the mortgage segment operations and prior year losses on sales of OREO, noninterest income increased $690,000 or 11.5%, from the same period a year ago.

	For the Three Months Ended						
	03/31/12	12/31/11	$	%	03/31/11	$	%
Noninterest income:							
Service charges on deposit accounts	$ 2,130	$ 2,258	(128)	-5.7%	$ 2,058	$ 72	3.5%
Other service charges, commissions and fees	3,410	3,296	114	3.5%	2,924	486	16.6%
Losses (gains) on securities transactions, net	(5)	430	(435)	-101.2%	(16)	11	-68.8%
Gains on sales of loans	5,296	5,708	(412)	-7.2%	4,968	328	6.6%
Losses on sales of other real estate owned and bank premises, net	(58)	(1,088)	1,030	-94.7%	(299)	241	-80.6%
Other operating income	1,045	1,119	(74)	-6.6%	912	133	14.6%
Total noninterest income	**$11,818**	**$11,723**	**$ 95**	0.8%	**$10,547**	**$1,271**	12.1%

Table of Contents

Noninterest Expense

On a linked quarter basis, noninterest expense decreased $743,000, or 2.0%, to $35.6 million from $36.4 million when compared to the fourth quarter of 2011. Other operating expenses decreased $1.7 million, or 12.7%. Included in the decrease were lower OREO expenses of $575,000, primarily related to writedowns of $529,000 which occurred in the prior quarter, and lower marketing and advertising costs. Also adding to the decline were lower overdraft losses and recovery of previously charged off balances of $322,000 in the current quarter, and $230,000 lower FDIC insurance expense. Salaries and benefits expense increased $1.2 million related to timing of annual merit increases, the effect of certain annual salary tax caps effective in the prior quarter, and severance payments to affected employees. Excluding the mortgage segment operations, noninterest expense decreased $1.0 million, or 3.2%, compared to the fourth quarter of the prior year.

While the Company remains committed to growth, expense control continues to be a focus. During the current quarter the Company announced the closure of four branches; these closures are expected to take place during the second quarter of 2012. Total noninterest expense related to these branches was $221,000 during the current quarter and was made up of $65,000 of occupancy cost, $128,000 of personnel costs, and $28,000 of other operating costs. The Company reassigned the majority of branch personnel to other open positions within the Company.

For the quarter ended March 31, 2012, noninterest expense increased $842,000, or 2.4%, to $35.6 million from $34.8 million for the first quarter of 2011. Salaries and benefits expenses increased $1.9 million, primarily related to increased salary costs of $1.3 million related to additional personnel in acquired branches, higher group insurance costs of $216,000 due to additional employees and cost increases, higher profit sharing of $143,000 based on higher net income, and other employee benefit expenses of $225,000 related to severance payments to affected employees. Other operating expenses decreased $1.0 million, or 7.9%. This expense decrease included lower FDIC insurance expense of $1.0 million based on lower assessment and rate, lower amortization expense on the acquired deposit portfolio of $345,000, and lack of conversion costs in the current quarter compared to $294,000 in the first quarter 2011. Partially offsetting these decreases were higher marketing and advertising costs of $305,000 for free checking account campaigns, and higher account service costs of $196,000. Excluding the mortgage segment operations, noninterest expense increased $832,000, or 2.8%, compared to the first quarter of 2011.

	For the Three Months Ended						
	03/31/12	12/31/11	$	%	03/31/11	$	%
Noninterest expense:							
Salaries and benefits	$19,507	$18,342	$ 1,165	6.4%	$17,654	$ 1,853	10.5%
Occupancy expenses	2,647	2,797	(150)	-5.4%	2,754	(107)	-3.9%
Furniture and equipment expenses	1,763	1,823	(60)	-3.3%	1,662	101	6.1%
Other operating expenses	11,692	13,390	(1,698)	-12.7%	12,697	(1,005)	-7.9%
Total noninterest expense	**$35,609**	**$36,352**	**$ (743)**	-2.0%	**$34,767**	**842**	2.4%
Mortgage segment operations	$ (5,230)	$ (4,968)	$ (262)	5.3%	$ (4,928)	$ (302)	6.1%
Acquisition and conversion costs	—	—	—	—	(294)	294	-100.0%
Other non-recurring costs	—	—	—	—	—	—	—
Intercompany eliminations	115	118	(3)	-2.5%	117	(2)	-1.7%
	$30,494	**$31,502**	**$(1,008)**	-3.2%	**$29,662**	**$ 832**	2.8%

Securities

As of March 31, 2012, the Company maintained a diversified municipal bond portfolio with approximately 75% of its holdings in general obligation issues and the remainder backed by revenue bonds. Issuances within the Commonwealth of Virginia represented 11% and the State of Texas represented 25% of the municipal portfolio. No other state had a concentration above 10%. Approximately 87% of municipal holdings are considered investment grade by Moody's or Standard & Poor. 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 March 31, 2012. 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 months ended March 31, 2012 and 2011 was 28.3% and 25.2%, respectively.

Community Bank Segment

On a linked quarter basis, net interest income after provision for loan losses declined $1.2 million, from $35.8 million to $34.6 million in the prior quarter, primarily as a result of $1.1 million additional provision for loan losses and, to a lesser extent, yields on earning asset declining at a faster pace than the decline in cost of interest bearing liabilities, a result of a lack of higher yield investment options in the current low-rate environment.

Noninterest income increased $500,000, or 8.1%, to $6.6 million from $6.1 million in the fourth quarter. During the prior quarter, the Company incurred losses on disposal of Bank owned property, of approximately $1.0 million primarily related to a loss on disposal of Bank owned property of $351,000 and losses on sales of OREO of $737,000. Also during the prior quarter, the Company recorded gains on sales of investment securities of $430,000. Absent the prior period sales of Bank owned real estate, property, and securities transactions, noninterest income decreased $95,000 or 1.4%.

Noninterest expense decreased $1.0 million, or 3.2%, to $30.5 million from $31.5 million when compared to the fourth quarter of 2011. Other operating expenses decreased $1.5 million, or 12.2%. Included in the decrease were lower OREO expenses of $449,000, primarily related to writedowns of $530,000 which occurred in the prior quarter, and lower marketing and advertising costs of $472,000. Also adding to the decline were lower overdraft losses and favorable charge-off recoveries of $322,000 in the current quarter, and $230,000 of lower FDIC insurance expense. Salaries and benefits expense increased $782,000 or 5.4% a result of timing of annual merit increases, the effect of certain annual salary tax caps effective in the prior quarter, and severance payments to affected employees.

For the three months ended March 31, 2012, net interest income after provisions for loan losses increased $2.5 million, or 7.9%, from the same period in 2011, principally a result of a lower provision for loan loss of $2.8 million, and to a lesser extent, a decline in income from interest-earning assets outpacing lower costs on interest-bearing liabilities.

Noninterest income increased $942,000, or 16.5%, to $6.6 million from $5.7 million in the prior year's same quarter. Service charges on deposit accounts and other account fees increased $558,000, due to higher VISA interchange fee income, overdraft and return check charges, letter of credit fees, and ATM charges. During the first quarter 2011, the Company recorded losses on sales of OREO of $299,000 compared to $27,000 in the current quarter. Other operating income increased $132,000.

Noninterest expense increased $538,000, or 1.8%, to $30.5 million from $30.0 million for the first quarter of 2011. Salaries and benefits expenses increased $1.6 million, primarily related to increased salary costs of $1.0 million related to additional acquired branch personnel, higher group insurance costs of $202,000 due to additional employees and cost increases, higher profit sharing of $143,000 based on higher net income, and other employee benefit expenses of $225,000 related to severance payments to affected employees. Other operating expenses decreased $1.0 million, or 8.5%. This expense decrease included lower FDIC insurance expense of $1.0 million based on lower assessment and rate, lower amortization expense on the acquired deposit portfolio of $345,000, and lack of conversion costs in the current quarter compared to $294,000 in the first quarter 2011. Partially offsetting these decreases were higher marketing and advertising costs of $305,000 for free checking account campaigns, and higher account service costs of $196,000.

Mortgage Segment

On a linked quarter basis, the mortgage segment net income for the first quarter of 2012 decreased $420,000, or 64.2%, from $654,000 in the fourth quarter to $234,000, related to lower gains on sale of loans and additional salary and benefits expense. Gains on the sale of loans decreased $412,000, or 7.2%, due to compressed loan margins driven by refinance loan volume. Beginning in mid-February, the Company hired additional loan originators and support personnel who were formerly employed by a national mortgage company that exited the mortgage origination business. A portion of the $383,000 increase in salary and benefit expenses was related to the addition of these originators and related support personnel. These originators produced $10 million in mortgage loans in the first quarter and, as they continue to build their loan pipeline, the Company anticipates increased production from that group during the second quarter. Originations decreased by $2.6 million from $186.6 million to $184.0 million, or 1.4%, from the fourth quarter. Refinanced loans represented 56.5% of the originations during the first quarter compared to 52.2% during the fourth quarter. Loan related expenses were $172,000, decreasing $126,000, or 42.3% from the prior quarter as a result of write offs of uncollectible appraisals in the previous quarter.

For the three months ended March 31, 2012, the mortgage segment net income decreased $94,000 from $328,000 to $234,000, or 28.7%, compared to the same period last year, primarily due to narrower loan margins and higher salaries and benefits expense for additional personnel described above. Originations increased by $34.9 million from $149.1 million to $184.0 million, or 23.4%, from the first quarter last year. As a result, gains on the sale of loans increased $328,000, or 6.6%. Refinance loans represented 56.5% of originations during the first quarter of 2012 compared to 38.1% during the same period a year ago. Salaries and benefits increased $253,000 primarily as a result of additional personnel. In addition, interest income declined by $179,000, or 36.8% due to an increase in the warehouse line of credit borrowing rate.

BALANCE SHEET

At March 31, 2012, total cash and cash equivalents were $111.2 million, an increase of $14.5 million from December 31, 2011, and an increase of $26.4 million from March 31, 2011. During the fourth quarter, the Company paid the U.S. Treasury $35.7 million to redeem the preferred stock issued to the U.S.Treasury and assumed in the FMB acquisition. At March 31, 2012, investments in securities increased $60.1 million when compared to the prior year's first quarter. At March 31, 2012, net loans were $2.8 billion, an increase of $22.4 million from the prior quarter, and an increase of $35.0 million from March 31, 2011. Mortgage loans held for sale of $73.6 million decreased by $1.2 million, virtually unchanged from the prior quarter, and an increase of $23.0 million from March 31, 2011. At March 31, 2012, total assets were $3.9 billion, an increase of $40.7 million compared to the fourth quarter, and an increase of $135.1 million from $3.8 billion at March 31, 2011.

For three months ended March 31, 2012, total deposits grew $40.6 million, or 1.3%, when compared to December 31, 2011, and grew $149.1 million, or 4.9%, from March 31, 2011. Of this amount, interest bearing deposits increased $10.3 million compared to the fourth quarter driven by higher volumes in NOW and savings accounts due to favorable results of strategic marketing efforts during the quarter. Similarly, interest bearing deposits increased $91.8 million from March 31, 2011, as money market, NOW accounts, and saving accounts balances increases were partially offset by runoff in certificates of deposit. Total borrowings, including repurchase agreements, decreased $9.8 million on a linked quarter basis and decreased $12.7 million from March 31, 2011 as the Company experience lower demand for securities sold under agreements for repurchase. The Company's equity to assets ratio was 10.79% and 11.42% at March 31, 2012 and 2011, respectively. The decrease in the equity to assets ratio was due to the Company's redemption of the preferred stock described above. The Company's tangible common equity to tangible assets ratio was 8.97% and 8.51% at March 31, 2012 and 2011, respectively.

Table of Contents

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 a corporate line of credit with a large correspondent bank. Management considers the Company's overall liquidity to be sufficient to satisfy its depositors' requirements and to meet its customers' credit needs.

As of March 31, 2012, 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 33.4%, of total earning assets. As of March 31, 2012, approximately $977 million, or 34.4%, of total loans are scheduled to mature within one year. In addition to deposits, the Company utilizes Federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, to fund the growth in its loan portfolio, securities purchases, and periodically, wholesale leverage transactions.

Loan Portfolio

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

	March 31, 2012	% of Total Loans	December 31, 2011	% of Total Loans	March 31, 2011	% of Total Loans
Loans secured by real estate:						
Residential 1-4 family	**$ 458,234**	**16.1%**	$ 447,544	15.9%	$ 433,517	15.4%
Commercial	**1,009,342**	**35.6%**	985,934	34.9%	937,104	33.5%
Construction, land development and other land loans	**428,258**	**15.1%**	444,739	15.8%	484,835	17.3%
Second mortgages	**52,121**	**1.8%**	55,630	2.0%	62,572	2.2%
Equity lines of credit	**300,804**	**10.6%**	304,320	10.8%	298,634	10.6%
Multifamily	**123,556**	**4.3%**	108,260	3.8%	92,360	3.3%
Farm land	**27,370**	**1.0%**	26,962	1.0%	26,715	1.0%
Total real estate loans	**2,399,685**	**84.5%**	2,373,389	84.2%	2,335,737	83.3%
Commercial Loans	**174,520**	**6.1%**	169,695	6.0%	163,943	5.8%
Consumer installment loans						
Personal	**233,182**	**8.2%**	241,753	8.6%	264,142	9.4%
Credit cards	**19,319**	**0.7%**	19,006	0.7%	17,095	0.6%
Total consumer installment loans	**252,501**	**8.9%**	260,759	9.3%	281,237	10.0%
All other loans	**15,052**	**0.5%**	14,740	0.5%	26,011	0.9%
Gross loans	**$2,841,758**	**100.0%**	$2,818,583	100.0%	$2,806,928	100.0%

As reflected in the loan table, at March 31, 2012, 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 first quarter, the Company continued to monitor asset quality and take appropriate action to reduce nonperforming assets and related loss exposure. The reduced levels of nonaccrual loans were favorable while OREO balances increased as a result of a small number of larger loans, principally related to commercial real estate, transferred to OREO that were not on nonaccrual status during the previous quarter. Economic conditions are showing improvement and while the future remains uncertain, the Company's reduced trends in provisions for loan losses, increased allowance to nonperforming loans coverage ratio, and decreased levels of troubled debt restructurings and impaired loans demonstrate that its dedicated efforts to improve asset quality are continuing to having a positive impact. The magnitude of any change in the real estate market and its impact on the Company is still largely dependent upon continued recovery of commercial real estate and residential housing, and the pace at which the local economies in the Company's operating markets recover.

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.

Troubled Debt Restructurings ("TDRs")

On July 1, 2011 the Company adopted the amendments in Accounting Standards Update No. 2011-02 *Determination of Whether a Restructuring is a Troubled Debt Restructuring* ("ASU 2011-02"). The total recorded investment in TDRs as of March 31, 2012 was $99.8 million, a decrease of $12.8 million from $112.6 million at December 31, 2011. Of the $99.8 million of TDRs at March 31, 2012, $86.1 million, or 86.27%, were considered performing while the remaining $13.7 million were considered nonperforming. The primary cause for the decline in TDRs is related to restructured loans with a market rate of interest at the time of the restructuring; these loans were considered performing in accordance with their modified terms for a consecutive twelve month period and were no longer considered impaired.

The following table shows the Company's performing and nonperforming TDRs by modification type for the quarter ended (dollars in thousands):

	March 31, 2012	December 31, 2011	September 30, 2011
Performing			
Modified to interest only	$ 1,812	$ 699	$ 839
Term modification, at a market rate	75,455	87,920	91,039
Term modification, below market rate	8,797	10,215	10,254
Total performing	$ 86,064	$ 98,834	$ 102,132
Nonperforming			
Modified to interest only	$ 649	$ 1,190	$ 658
Term modification, at a market rate	4,290	3,660	4,187
Term modification, below market rate	8,804	8,954	9,398
Total nonperforming	$ 13,743	$ 13,804	$ 14,243
Total performing & nonperforming	$ 99,807	$ 112,638	$ 116,375

Table of Contents

Nonperforming Assets ("NPAs")

At March 31, 2012, nonperforming assets totaled $80.1 million, an increase of $3.0 million from the fourth quarter of last year and a decrease of $21.2 million compared to a year ago. In addition, NPAs as a percentage of total outstanding loans increased 8 basis points from 2.74% in the fourth quarter of last year and declined 79 basis points from 3.61% in the first quarter of the prior year to 2.82% at March 31, 2012. The current quarter increase in NPAs from the fourth quarter of last year related to a net increase in OREO of $5.4 million, partially offset by a net decrease in nonaccrual loans, excluding purchased impaired loans, of $2.4 million.

Nonperforming assets at March 31, 2012 included $42.4 million in nonaccrual loans (excluding purchased impaired loans), a net decrease of $2.4 million, or 5.36%, from the prior quarter. The following table shows the activity in nonaccrual loans for the quarter ended (dollars in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Beginning Balance	$44,834	$ 51,965	$61,716
Net customer payments	(2,778)	(6,556)	(2,163)
Additions	2,805	5,364	8,567
Charge-offs	(1,549)	(2,304)	(1,563)
Loans returning to accruing status	—	(1,950)	(502)
Transfers to OREO	(921)	(1,685)	(3,413)
Ending Balance	$42,391	$ 44,834	$62,642

The nonperforming loans added during the quarter were principally related to commercial real estate and mortgages as borrowers continued to experience financial difficulties with the prolonged economic recovery exhausting their cash reserves and other repayment sources.

The following table presents the composition of nonaccrual loans (excluding purchased impaired loans) and the coverage ratio, which is the allowance for loan losses expressed as a percentage of nonaccrual loans, at the quarter ended (dollars in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Raw Land and Lots	$13,064	$ 13,322	$22,808
Commercial Construction	9,835	10,276	11,489
Commercial Real Estate	6,299	7,993	10,015
Single Family Investment Real Estate	4,507	5,048	9,340
Commercial and Industrial	5,318	5,297	4,899
Other Commercial	233	238	509
Consumer	3,135	2,660	3,582
Total	$42,391	$ 44,834	$62,642
Coverage Ratio	94.84%	88.04%	64.49%

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.

Nonperforming assets at March 31, 2012 also included $37.7 million in OREO, a net increase of $5.4 million, or 16.72%, from the prior quarter. The following table shows the activity in OREO for the quarter ended (dollars in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Beginning Balance	$32,263	$ 34,464	$36,122
Additions	6,593	2,543	6,406
Improvements	319	197	37
Valuation Adjustments	—	(530)	(12)
Proceeds from sales	(1,485)	(3,674)	(3,580)
Gains (losses) from sales	(27)	(737)	(299)
Ending Balance	$37,663	$ 32,263	$38,674

The additions were principally related to residential and commercial real estate; sales from OREO were principally related to residential real estate and lots.

The following table presents the composition of the OREO portfolio at the quarter ended (dollars in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Land	$ 6,327	$ 6,327	$ 8,885
Land Development	11,559	11,309	12,192
Residential Real Estate	12,482	11,024	15,345
Commercial Real Estate	6,275	2,583	1,232
Land Previously Held for Branch Sites	1,020	1,020	1,020
Total	$37,663	$ 32,263	$38,674

Included in land development is $9.1 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 downs to fair values are recorded as impairment.

Charge-offs and Delinquencies

For the quarter ended March 31, 2012, net charge-offs of loans were $2.8 million, or 0.39%, on an annualized basis, compared to $4.2 million, or 0.59%, for the fourth quarter of 2011 and $4.3 million, or 0.62%, for the same quarter last year. Net charge-offs in the current quarter included commercial loans of $1.3 million and consumer loans of $1.5 million. At March 31, 2012, total accruing past due loans were $41.0 million, or 1.44%, of total loans, a slight increase from 1.40% at December 31, 2011 and a decrease from 1.52% a year ago.

Table of Contents

	March 31, 2012	December 31, 2011	March 31, 2011
Nonaccrual loans	**$ 42,391**	$ 44,834	$ 62,642
Foreclosed properties	**36,643**	31,243	37,654
Real estate investment	**1,020**	1,020	1,020
Total nonperforming assets	**$ 80,054**	$ 77,097	$ 101,316
Balances			
Allowance for loan losses	**$ 40,204**	$ 39,470	$ 40,399
Average loans, net of unearned income	**2,829,881**	2,804,500	2,812,412
Loans, net of unearned income	**2,841,758**	2,818,583	2,806,928
Ratios			
Allowance for loan losses to loans	**1.41%**	1.40%	1.44%
Allowance-to-legacy loans (Non-GAAP)	**1.77%**	1.83%	1.96%
Allowance for loan losses to NPLs	**94.84%**	88.04%	64.49%
Nonperforming assets to loans & other real estate	**2.78%**	2.70%	3.56%
Nonperforming assets to total outstanding loans	**2.82%**	2.74%	3.61%
Net charge-offs to loans (annualized)	**0.39%**	0.59%	0.62%

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 have adopted capital guidelines to supplement the existing definitions of capital for regulatory purposes and to establish minimum capital standards. Specifically, the guidelines categorize assets and off-balance sheet items into four risk-weighted categories. The minimum ratio of qualifying total assets is 8.0%, of which 4.0% must be Tier 1 capital, consisting of common equity, retained earnings and a limited amount of perpetual preferred stock, less certain intangible items. The Company had a ratio of total capital to risk-weighted assets of 14.64% and 15.12% on March 31, 2012 and 2011, respectively. The Company's ratio of Tier 1 capital to risk-weighted assets was 12.98% and 13.37% at March 31, 2012 and 2011, 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 2012 and 2011. The Company's equity to asset ratios at March 31, 2012 and 2011 were 10.79% and 11.42%, 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 as of December 31, 2010 resulted from the acquisition of First Market Bank. On February 6, 2009, First Market Bank issued and sold to the Treasury 33,900 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B and a warrant to purchase up to 1,695 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C. The Treasury immediately exercised the warrant for the entire 1,695 shares. In connection with the Company's acquisition of FMB, 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 paid 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 year. The 5.19% dividend rate was 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. During the fourth quarter of 2011, the Company received approval from the Treasury and its regulators to redeem the Preferred Stock issued to the Treasury and assumed by the Company as part of the 2010 merger with FMB. On December 7, 2011, the Company paid approximately $35.7 million, from cash, to the Treasury in full redemption of the Preferred Stock.

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

	March 31, 2012	December 31, 2011	March 31, 2011
Tier 1 capital	**$ 395,539**	$ 390,623	$ 404,271
Tier 2 capital	**50,525**	50,395	52,893
Total risk-based capital	**446,064**	441,018	457,164
Risk-weighted assets	**3,047,777**	3,039,099	3,023,431
Capital ratios:			
Tier 1 risk-based capital ratio	**12.98%**	12.85%	13.37%
Total risk-based capital ratio	**14.64%**	14.51%	15.12%
Leverage ratio (Tier 1 capital to average adjusted assets)	**10.34%**	10.14%	10.85%
Stockholders' equity to assets	**10.79%**	10.79%	11.42%
Tangible common equity to tangible assets	**8.97%**	8.91%	8.51%

NON-GAAP MEASURES

In reporting the results of March 31, 2012, 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 and trademark 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. Cash basis operating earnings per share was $0.34 and $0.28 for the three months ended March 31, 2012 and 2011, respectively. Cash basis return on average tangible common equity and assets for the three months ended, March 31, 2012 was 10.32% and 0.93%, respectively.

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.

Table of Contents

The following table reconciles these non-GAAP measures from their respective GAAP basis measures for the periods ended (dollars in thousands, except share and per share amounts):

	Three Months Ended March 31	
	2012	2011
Net income	**$ 7,923**	$ 6,194
Plus: core deposit intangible amortization, net of tax	**852**	1,076
Plus: trademark intangible amortization, net of tax	**65**	65
Cash basis operating earnings	**$ 8,840**	$ 7,335
Average assets	**$ 3,903,758**	$ 3,807,960
Less: average trademark intangible	**383**	782
Less: average goodwill	**59,400**	57,567
Less: average core deposit intangibles	**20,059**	25,994
Average tangible assets	**$ 3,823,916**	$ 3,723,617
Average equity	**$ 424,289**	$ 432,407
Less: average trademark intangible	**383**	782
Less: average goodwill	**59,400**	57,567
Less: average core deposit intangibles	**20,059**	25,994
Less: average preferred equity	**—**	34,448
Average tangible equity	**$ 344,447**	$ 313,616
Weighted average shares outstanding, diluted	**25,879,158**	25,980,698
Cash basis earnings per share, diluted	**$ 0.34**	$ 0.28
Cash basis return on average tangible assets	**0.93%**	0.80%
Cash basis return on average tangible equity	**10.32%**	9.49%

The allowance for loan losses as a percentage of the total loan portfolio includes net loans acquired in the FMB and the Harrisonburg branch acquisitions. The Company believes the presentation of the allowance-to-legacy loan ratio (non-GAAP) 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. The following table shows the allowance for loan losses as a percentage of the total loan portfolio, adjusted to remove acquired loans (dollars in thousands):

	For the Three Months Ended March 31,	
	2012	2011
Gross loans	$ 2,841,758	$ 2,806,928
Less: acquired loans without additional credit deterioration	(571,580)	(743,308)
Gross loans, net of acquired	$ 2,270,178	$ 2,063,620
Allowance for loan losses	$ 40,204	$ 40,399
Allowance for loan losses ratio	1.41%	1.44%
Allowance for loan losses ratio, net of acquired	1.77%	1.96%

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 loans and mortgage backed securities prepayment assumptions are based on industry estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Different interest rate scenarios and yield curves are used to measure the sensitivity of earnings to changing interest rates. Interest rates on different asset and liability accounts move differently when the prime rate changes and are reflected in the different rate scenarios.

The Company uses its simulation model to estimate earnings in rate environments where rates 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 for the Company across the rate paths modeled for balances ended March 31, 2012 (dollars in thousands):

	Change In Net Interest Income	
	%	**$**
Change in Yield Curve:		
+300 basis points	**4.68**	**7,385**
+200 basis points	**3.07**	**4,837**
+100 basis points	**1.31**	**2,069**
Most likely rate scenario	—	—
-100 basis points	**(1.41)**	**(2,221)**
-200 basis points	**(2.53)**	**(3,986)**
-300 basis points	**(2.73)**	**(4,301)**

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 March 31, 2012 (dollars in thousands):

	Change In Economic Value of Equity	
	%	**$**
Change in Yield Curve:		
+300 basis points	**(3.39)**	**(17,344)**
+200 basis points	**(0.84)**	**(4,319)**
+100 basis points	**0.44**	**2,260**
Most likely rate scenario	—	—
-100 basis points	**(5.54)**	**(28,373)**
-200 basis points	**(9.68)**	**(49,581)**
-300 basis points	**(11.23)**	**(57,489)**

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.

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"), that 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 Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and 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 Company's 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 March 31, 2012 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, 2011.

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

In December 2011, the Company was authorized to repurchase up to 350,000 shares of its common stock in the open market at prices that management determines to be prudent. No shares were repurchased during 2011. In February 2012, the Company entered into a Stock Purchase Agreement (the "Agreement") with a member of the board of directors. Pursuant to the Agreement, the Company repurchased 335,649 shares of its common stock for an aggregate purchase price of $4,363,437, or $13.00 per share. The repurchase was funded with cash on hand. The Company transferred 115,384 of the repurchased shares to its Employee Stock Ownership Plan for $13.00 per share. The remaining 220,265 shares were retired.

Table of Contents

ITEM 6 – EXHIBITS

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

Exhibit No.	Description
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.00	The following materials from the Company's 10-Q Report for the quarterly period ended March 31, 2012, 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

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: May 9, 2012	By:	/s/ G. William Beale G. William Beale, Chief Executive Officer
Date: May 9, 2012	By:	/s/ D. Anthony Peay D. Anthony Peay, Executive Vice President and Chief Financial Officer

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: May 9, 2012

/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: May 9, 2012

/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 March 31, 2012 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

May 9, 2012

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.