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, 2001

Commission File No. 0-20293

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

| | |
|---|---|
| Virginia | 54-1598552 |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

212 North Main Street
P.O. Box 446
Bowling Green, Virginia 22427
(Address of principal executive offices)

(804) 633-5031
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, $2 PAR VALUE

Union Bankshares Corporation (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 X NO ___

As of May 2, 2001, Union Bankshares Corporation had 7,536,140 shares of Common Stock outstanding.

UNION BANKSHARES CORPORATION
FORM 10-Q
March 31, 2001

## INDEX

PART 1 - FINANCIAL INFORMATION
Item 1. Financial Statements

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share information)

<TABLE>
<CAPTION>

| ASSETS | March 31, 2001 (unaudited) | December 31, 2000 | March 31, 2000 (unaudited) |
|---|---|---|---|
| Cash and cash equivalents: | | | |
| Cash and due from banks | $ 19,746 | $ 22,174 | $ 19,967 |
| Interest-bearing deposits in other banks | 749 | 315 | 565 |
| Federal funds sold | 202 | 380 | 76 |
| Total cash and cash equivalents | 20,697 | 22,869 | 20,608 |
| Securities available for sale, at fair value | 222,218 | 210,312 | 213,660 |
| Investment securities, at amortized cost | | | |
| Fair value of $0, $5,528 and $8,701, respectively | - | 5,465 | 8,761 |
| Total securities | 222,218 | 215,777 | 222,421 |
| Loans held for sale | 35,663 | 16,472 | 6,572 |
| Loans, net of unearned income | 589,779 | 580,790 | 570,484 |
| Less allowance for loan losses | 7,794 | 7,389 | 7,044 |
| Net loans | 581,985 | 573,401 | 563,440 |
| Bank premises and equipment, net | 19,585 | 20,077 | 21,208 |
| Other real estate owned | 1,528 | 1,701 | 1,889 |
| Other assets | 29,584 | 31,664 | 24,042 |
| Total assets | $ 911,260 | $ 881,961 | $ 860,180 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Noninterest-bearing demand deposits | $ 95,808 | $ 92,067 | $ 88,318 |
| Interest-bearing deposits: | | | |
| NOW accounts | 100,339 | 96,751 | 100,875 |
| Money market accounts | 62,638 | 62,438 | 62,323 |
| Savings accounts | 56,964 | 56,540 | 58,767 |
| Time deposits of $100,000 and over | 126,824 | 121,548 | 106,893 |
| Other time deposits | 269,892 | 263,128 | 248,912 |
| Total interest-bearing deposits | 616,657 | 600,405 | 577,770 |
| Total deposits | 712,465 | 692,472 | 666,088 |
| Federal funds and securities sold under agreement to repurchase | 28,703 | 25,114 | 30,540 |
| Other short-term borrowings | 28,032 | 6,000 | 12,850 |
| Long-term borrowings | 51,696 | 74,023 | 74,248 |
| Other liabilities | 5,759 | 6,000 | 5,999 |
| Total liabilities | 826,655 | 803,609 | 789,725 |

| | | | |
|---|---|---|---|
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock, $2 par value. Authorized 24,000,000 shares; issued and outstanding, 7,536,140; 7,516,534 and 7,494,202 shares, respectively | 15,072 | 15,033 | 14,988 |
| Surplus | 595 | 403 | 248 |
| Retained earnings | 65,871 | 63,201 | 60,025 |
| Accumulated other comprehensive income (loss) | 3,067 | (285) | (4,806) |
| Total stockholders' equity | 84,605 | 78,352 | 70,455 |
| Total liabilities and stockholders' equity | $ 911,260 | $ 881,961 | $ 860,180 |

</TABLE>

See accompanying notes to consolidated financ1al statements.



UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(dollars in thousands, except per share amounts)

| | Three Months Ended March 31, 2001 | 2000 |
|---|---|---|
| Interest and dividend income : | | |
| Interest and fees on loans | $ 13,145 | $ 11,898 |
| Interest on Federal funds sold | 72 | 19 |
| Interest on interest-bearing deposits in other banks | 8 | 6 |
| Interest and dividends on securities: | | |
| Taxable | 2,196 | 2,188 |
| Nontaxable | 1,182 | 1,245 |
| Total interest and dividend income | 16,603 | 15,366 |
| Interest expense: | | |
| Interest on deposits | 7,137 | 6,029 |
| Interest on short-term borrowings | 323 | 593 |
| Interest on long-term borrowings | 1,206 | 1,058 |
| Total interest expense | 8,666 | 7,680 |
| Net interest income | 7,937 | 7,686 |
| Provision for loan losses | 432 | 564 |
| Net interest income after provision for loan losses | 7,505 | 7,122 |
| Noninterest income: | | |
| Service charges on deposit accounts | 918 | 806 |
| Other service charges and fees | 569 | 484 |
| Gains on securities transactions, net | 21 | 22 |
| Gains on sales of loans | 1,810 | 1,045 |
| Gains on sales of other real estate owned and bank premises, net | 12 | 5 |
| Other operating income | 283 | 99 |
| Total noninterest income | 3,613 | 2,461 |
| Noninterest expenses: | | |
| Salaries and benefits | 4,472 | 4,643 |
| Occupancy expenses | 543 | 607 |
| Furniture and equipment expenses | 730 | 731 |
| Other operating expenses | 2,013 | 2,050 |
| Total noninterest expenses | 7,758 | 8,031 |
| Income before income taxes | 3,360 | 1,552 |
| Income tax expense | 690 | 131 |

| | | |
|---|---|---|
| Net income | $ 2,670 | $ 1,421 |
| | ======== | ======== |
| Basic net income per share | $ 0.36 | $ 0.19 |
| Diluted net income per share | $ 0.35 | $ 0.19 |

See accompanying notes to consolidated financial statements.



UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(dollars in thousands)

<TABLE>
<CAPTION>

| | Common Stock | Surplus | Retained Earnings |
|---|---|---|---|
| <S><C> | | | |
| Balance - December 31, 1999 | $ 14,976 | $ 163 | $ 58,603 |
| Comprehensive income: | | | |
| Net income - for three months ended March 31, 2000 | | | 1,421 |
| Unrealized holding gains arising during the period (net of tax, $80) | | | |
| Reclassification adjustment for gains included in net income (net of tax, $7) | | | |
| Other comprehensive income (net of tax, $73 ) | | | |
| Total comprehensive income | | | |
| Stock repurchased under Stock Repurchase Plan (11,300 shares) | (23) | (116) | 1 |
| Issuance of common stock in exchange for net assets in acquisition (17,673 shares) | 35 | 201 | |
| Balance - March 31, 2000 (unaudited) | $ 14,988 | $ 248 | $ 60,025 |
| Balance - December 31, 2000 | $ 15,033 | $ 403 | $ 63,201 |
| Comprehensive income: | | | |
| Net income - for three months ended March 31, 2001 | | | 2,670 |
| Unrealized holding gains arising during the period (net of tax, $1734 ) | | | |
| Reclassification adjustment for gains included in net income (net of tax, $7) | | | |
| Other comprehensive income (net of tax, $1727) | | | |
| Total comprehensive income | | | |
| Issuance of common stock in exchange for net assets in acquisition (19,606 shares) | 39 | 192 | |
| Balance - March 31, 2001 (unaudited) | $ 15,072 | $ 595 | $ 65,871 |

</TABLE>

<TABLE>
<CAPTION>

| | Accumulated Other Comprehensive Income (Loss) | Comprehensive Income (Loss) | Total |
|---|---|---|---|
| <S><C> | | | |

| | | | |
|---|---|---|---|
| Balance - December 31, 1999 | $ (4,948) | | $ 68,794 |
| Comprehensive income: | | | |
| Net income - for three months ended March 31, 2000 | | $ 1,421 | 1,421 |
| Unrealized holding gains arising during the period (net of tax, $80) | | 157 | |
| Reclassification adjustment for gains included in net income (net of tax, $7) | | (15) | |
| Other comprehensive income (net of tax, $73 ) | 142 | 142 | 142 |
| Total comprehensive income | | $ 1,563 | |
| Stock repurchased under Stock Repurchase Plan (11,300 shares) | | | (138) |
| Issuance of common stock in exchange for net assets in acquisition (17,673 shares) | | | 236 |
| Balance - March 31, 2000 (unaudited) | $ (4,806) | | $ 70,455 |
| Balance - December 31, 2000 | $ (285) | | $ 78,352 |
| Comprehensive income: | | | |
| Net income - for three months ended March 31, 2001 | | $ 2,670 | 2,670 |
| Unrealized holding gains arising during the period (net of tax, $1734) | | 3,366 | |
| Reclassification adjustment for gains included in net income (net of tax, $7) | | (14) | |
| Other comprehensive income (net of tax, $1727) | 3,352 | 3,352 | 3,352 |
| Total comprehensive income | | $ 6,022 | |
| Issuance of common stock in exchange for net assets in acquisition (19,606 shares) | | | 231 |
| Balance - March 31, 2001 (unaudited) | $ 3,067 | | $ 84,605 |

</TABLE>



UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2001 and 2000
(dollars in thousands)

<TABLE>
<CAPTION>

| | 2001 | 2000 |
|---|---|---|
| <S><C> | | |
| Operating activities: | | |
| Net income | $ 2,670 | $ 1,421 |
| Adjustments to reconcile net income to net cash and cash equivalents (used in) operating activities: | | |
| Depreciation of bank premises and equipment | 473 | 462 |
| Amortization | 318 | 172 |
| Provision for loan losses | 432 | 564 |
| (Gains) on sales of securities available for sale | (21) | (22) |
| (Gains) on sales of other real estate owned and fixed assets, net | (12) | (5) |
| (Increase) decrease in loans held for sale | (19,191) | 108 |
| (Increase) decrease in other assets | 408 | (258) |
| (Decrease) in other liabilities | (241) | (6,660) |
| Net cash and cash equivalents (used in) operating activities | (15,164) | (4,218) |

| | | |
|---|---|---|
| Investing activities: | | |
| Net (increase) in securities | (1,334) | (10,910) |
| Net (increase) in loans | (9,016) | (27,315) |
| Purchases of bank premises and equipment | (129) | (379) |
| Proceeds from sales of bank premises and equipment | 11 | 181 |
| Proceeds from sales of other real estate owned | 173 | 187 |
| Net cash and cash equivalents (used in) investing activities | (10,295) | (38,236) |
| Financing activities: | | |
| Net increase in noninterest-bearing deposits | 3,741 | 9,270 |
| Net increase in interest-bearing deposits | 16,252 | 9,952 |
| Net increase (decrease) in short-term borrowings | 25,621 | (2,299) |
| Net increase (decrease) in long-term borrowings | (22,327) | 26,358 |
| Repurchase of common stock | - | (138) |
| Net cash and cash equivalents provided by financing activities | 23,287 | 43,143 |
| Increase (decrease) in cash and cash equivalents | (2,172) | 689 |
| Cash and cash equivalents at beginning of period | 22,869 | 19,919 |
| Cash and cash equivalents at end of period | $ 20,697 | $ 20,608 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash payments for: | | |
| Interest | $ 8,692 | $ 7,406 |
| Income taxes | $ 262 | $ - |

</TABLE>

See accompanying notes to consolidated financial statements.



UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2001

1. ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Union Bankshares Corporation and its subsidiaries (the "Company"). Significant intercompany accounts and transactions have been eliminated in consolidation.

The information contained in the financial statements is unaudited and does not include all of the information and footnotes required by generally accepted accounting principles 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. Operating results for the three month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2000 Annual Report. Certain previously reported amounts have been reclassified to conform to current period presentation.

2. ALLOWANCE FOR LOAN LOSSES

The following summarizes activity in the allowance for loan losses for the three months ended March 31, (in thousands):

| | 2001 | 2000 |
|---|---|---|
| Balance, January 1 | $ 7,389 | $6,617 |
| Provisions charged to operations | 432 | 564 |
| Recoveries credited to allowance | 83 | 74 |
| Loans charged off | (110) | (211) |

| | | |
|---|---|---|
| Balance, March 31 | $ 7,794 | $7,044 |



3. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of shares outstanding during the period. Weighted average shares used for the computation of basic EPS were 7,516,752 and 7,494,470 for the three months ended March 31, 2001 and 2000. Diluted EPS is computed using the weighted number of common shares outstanding during the period, including the effect of dilutive potential common shares outstanding attributable to stock options. Weighted average shares used for the computation of diluted EPS were 7,534,057 and 7,514,395 for the three months ended March 31, 2001 and 2000. At March 31, 2001 stock options representing 86,140 shares were anti-dilutive and were not considered in the computation of EPS.

4. SEGMENT REPORTING DISCLOSURES

Union Bankshares Corporation has two reportable segments: traditional full service community banks and a mortgage loan origination business. The community bank business includes four banks which provide loan, deposit, investment, and trust services to retail and commercial customers throughout their locations in Virginia. The mortgage company provides a variety of mortgage loan products in a multi-state market. These loans are originated and sold principally in the secondary market through purchase commitments from investors which subject the company to only de minimis risk.

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

Both of the Company's reportable segments are service based. The mortgage business is a fee based business while the banks are driven principally by net interest income. The banks provide a distribution and referral network through their customers for the mortgage services. The mortgage company does not offer a similar network for the banks, due largely to the lack of overlapping geographic markets

Information about reportable segments and reconciliation of such information to the consolidated financial statements as of March 31, 2001 and March 31, 2000 follows:



<TABLE>
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| Three Months ended March 31, 2001 (in thousands) | Community Banks | Mortgage | Elimination | Consolidated Totals |
|---|---|---|---|---|
| Net interest income | $ 7,847 | $ 90 | $ - | $ 7,937 |
| Provision for loan losses | 432 | - | - | 432 |
| Net interest income after provision for loan losses | 7,415 | 90 | - | 7,505 |
| Noninterest income | 1,801 | 1,812 | - | 3,613 |
| Noninterest expenses | 6,059 | 1,699 | - | 7,758 |
| Income before income taxes | 3,157 | 203 | - | 3,360 |
| Income tax expense | 621 | 69 | - | 690 |

| | Community Banks | Mortgage | Elimination | Consolidated Totals |
|---|---|---|---|---|
| Net income | $ 2,536 | $ 134 | $ - | $ 2,670 |
| Assets | 913,679 | $ 36,892 | $ (39,311) | $ 911,260 |

</TABLE>

<TABLE>
<CAPTION>

| Three Months ended March 31, 2000 (in thousands) | Community Banks | Mortgage | Elimination | Consolidated Totals |
|---|---|---|---|---|
| Net interest income (loss) | $ 7,699 | $ (13) | $ - | $ 7,686 |
| Provision for loan losses | 564 | - | - | 564 |
| Net interest income (loss) after provision for loan losses | 7,135 | (13) | | 7,122 |
| Noninterest income | 1,416 | 1,045 | - | 2,461 |
| Noninterest expenses | 6,035 | 1,996 | - | 8,031 |
| Income (loss) before income taxes | 2,516 | (964) | - | 1,552 |
| Income tax expense (benefit) | 460 | (329) | - | 131 |
| Net income (loss) | $ 2,056 | $ (635) | $ - | $ 1,421 |
| Assets | $ 856,843 | $ 7,373 | $ (4,036) | $ 860,180 |

</TABLE>



5. RECENT ACCOUNTING STATEMENTS

In January 2001, the Company implemented the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and for hedging activities. As part of the implementation, the Company exercised an option in the standard to reclassify held to maturity investments to available for sale. As of January 1, 2001, $5,465,000 held to maturity investments were converted to available for sale. This has not had a material impact on the Company.

6. 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. Although the Company believes that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits.



Item 2 - MANAGMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Union Bankshares Corporation (the "Company") is a multi-bank holding company organized under Virginia law which provides financial services through its wholly-owned bank subsidiaries, Union Bank & Trust Company, Northern Neck State Bank, Rappahannock National Bank, Bank of Williamsburg, as well as Union Investment Services, Inc., and Mortgage Capital Investors, Inc. The four subsidiary banks are full service retail commercial banks offering a wide range of banking and related financial services, including demand and time deposits, as well as commercial, industrial, residential construction, residential mortgage and consumer loans. Union Investment Services Inc., is a full service discount brokerage company, which offers a full range of investment services and sells mutual funds, stocks and bonds. Mortgage Capital Investors, Inc., a subsidiary of Union Bank & Trust Company, provides a wide array of mortgage products.

The Company's primary trade area stretches from Rappahannock County to Fredericksburg, south to Hanover County, east to Williamsburg and throughout the Northern Neck region of Virginia. The corporate headquarters is located in Bowling Green, Virginia. Through its banking subsidiaries, the Company operates 29 branches in its primary trade area. In addition to the primary banking trade area, Mortgage Capital Investors, Inc. expands the Company's mortgage origination business to other strong housing markets.

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of the Company. The analysis focuses on the consolidated financial statements, the footnotes thereto, and the other financial data herein. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Amounts are rounded for presentation purposes, while the percentages presented are computed based on unrounded amounts.

Results of Operations

Net income for the first quarter of 2001 was $2.7 million, up from $1.4 million for the same period in 2000. This increase was the result of significant improvement in the mortgage segment's performance with net income of $134,000 for the period ended March 31, 2001 compared to a loss of $635,000 in the first quarter of last yar. In addition, the community banking segment continued to perform well showing a $480,000 increase in earnings or 23.3% over the prior year's first quarter. Diluted earnings per share amounted to $.35 in the first quarter of 2001, as compared to $.19 in the first quarter of 2000. The Company's annualized return on average assets for the first quarter of 2001 was 1.22% as compared to .68% a year ago. The Company's annualized return on average equity totaled 13.61% and 8.41% for the three months ended March 31, 2001 and 2000, respectively.

Net income from the Company's community banking segment increased from approximately $2.1 million in the first quarter of 2000 to over $2.5 million in the first quarter of 2001. Continued growth in existing markets, as well as the performance of acquired and denovo banks and branches and previously implemented initiatives to consolidate backoffice functions are reflected in the improved operating efficiencies and contributed to the improvement in the profitability of the community banking segment.



Rapidly falling interest rates, coupled with tighter credit criteria for loans and ongoing competition for deposits, have continued to compress the net interest margin. Deposits have grown well in the quarter with customers locking into higher rates in certificates of deposit. While this has caused an even more dramatic narrowing of the net interest margin, repricing of both earning assets and interest bearing deposits combined with the ability to refinance borrowings at lower rates should bring the margin back in line. The Company continues to seek lower cost sources of funds and anticipates continued loan growth going forward.

The mortgage banking segment reflects a year long effort by management to return it to profitability. Strategic changes during the last year to consolidate operations and close unprofitable offices, combined with a favorable interest rate environment in the first quarter contributed to this turn around. The Company is continuing to make adjustments to increase the production volumes and improve operating efficiencies of this segment of our business. Entering the second quarter, our mortgage loan pipeline remains strong and mortgage applications continue to grow. While lower interest rates have increased the level of refinance activity, these transactions represent less than a third of our first quarter's loan production.

Net Interest Income

Net interest income on a tax-equivalent basis for the first quarter of 2001 increased slightly by .8% to $8.65 million from $8.58 million for the same period a year ago. In the first quarter, the Company had slower earning asset growth, combined with strong deposit growth and a falling interest rate environment which caused customers and stock market investors to seek higher returns in relatively higher certificate of deposit rates. This is reflected in a 47 basis point increase in the cost of funds for the first quarter which was partially offset by a 17 basis point increase in interest income. The slowing in asset growth was planned in an effort to maintain a high asset quality level in our loan portfolio. It is anticipated that scheduled maturities and repricing of certificates in the later part of the year should provide some relief in interest expense. The current interest rate environment and competition for deposits continue to put pressure on net interest margins.

In addition, the subsidiary banks have periodically engaged in wholesale leverage transactions to invest in securities by borrowing funds at lower margins of 150 - 200 basis points. Although such transactions increase net income and return on equity, they have reduced the net interest margin. As of March 31, 2001 such transactions accounted for $25 million of the Company's total borrowings.

Average earning assets during the first quarter of 2001 increased by $44.5 million to $825.2 million from the first quarter of 2000, while average interest-bearing liabilities grew by $28.4 million to $713.5 million over this same period. Included in the earning assets is $13.3 million growth in loans held for sale. These assets lower the overall yield since they are very short term and set up on minimal spreads. These instruments generate most of their earnings in the noninterest category. The Company's yield on average earning assets was 8.51%, up 17 basis points from 8.34% a year ago, while its cost of average interest-bearing liabilities increased 47 basis points from 4.46% in the first quarter 2000 to 4.93% in first quarter 2001.



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

For the three months ended March 31,

(Dollars in thousands)

<S><C>

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Assets: | | | | | | |
| Securities: | | | | | | |
| Taxable . . . . . . . . . . . . . . . . . | $125,103 | $ 2,196 | 7.12% | $119,970 | $ 2,188 | 7.34% |
| Tax-exempt(1) . . . . . . . . . . . . . . | 93,533 | 1,790 | 7.76% | 98,611 | 1,887 | 7.70% |
| Total securities . . . . . . . . . . | 218,636 | 3,986 | 7.39% | 218,581 | 4,075 | 7.50% |
| Loans, net. . . . . . . . . . . . . . . . . . | 582,845 | 13,161 | 9.16% | 556,083 | 12,090 | 8.74% |
| Loans held for sale . . . . . . . . . . . . . | 17,579 | 90 | 2.08% | 4,257 | (13) | -1.23% |
| Federal funds sold . . . . . . . . . . . . . | 5,450 | 72 | 5.36% | 767 | 19 | 9.96% |
| Interest-bearing deposits in other banks . . . . . . . . . . . . . | 734 | 8 | 4.42% | 1,088 | 16 | 5.91% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total earning assets | 825,244 | 17,317 | 8.51% | 780,776 | 16,187 | 8.34% |
| Allowance for loan losses | (7,592) | | | (6,842) | | |
| Total non-earning assets | 69,177 | | | 66,115 | | |
| Total assets | $886,829 | | | $840,049 | | |
| Liabilities & Stockholders' Equity: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Checking | 95,882 | 451 | 1.91% | $ 97,134 | 502 | 2.08% |
| Money market savings | 62,024 | 474 | 3.10% | 63,162 | 506 | 3.22% |
| Regular savings | 57,884 | 321 | 2.25% | 58,689 | 351 | 2.41% |
| Certificates of deposit: | | | | | | |
| $100,000 and over | 126,926 | 1,891 | 6.04% | 103,638 | 1,363 | 5.29% |
| Under $100,000 | 265,221 | 4,000 | 6.12% | 248,018 | 3,307 | 5.36% |
| Total interest-bearing deposits | 607,937 | 7,137 | 4.76% | 570,641 | 6,029 | 4.25% |
| Other borrowings | 105,527 | 1,529 | 5.88% | 114,446 | 1,575 | 5.54% |
| Total interest-bearing liabilities | 713,464 | 8,666 | 4.93% | 685,087 | 7,604 | 4.46% |
| Noninterest bearing liabilities: | | | | | | |
| Demand deposits | 87,819 | | | 80,440 | | |
| Other liabilities | 5,998 | | | 6,727 | | |
| Total liabilities | 807,281 | | | 772,254 | | |
| Stockholders' equity | 79,548 | | | 67,795 | | |
| Total liabilities and stockholders' equity | $886,829 | | | $840,049 | | |
| Net interest income | | $ 8,651 | | | $ 8,583 | |
| Interest rate spread | | | 3.58% | | | 3.87% |
| Interest expense as a percent of average earning assets | | | 4.26% | | | 3.92% |
| Net interest margin | | | 4.25% | | | 4.42% |

</TABLE>

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<CAPTION>

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

For the three months ended March 31,

<S><C>

| | 1999 | | |
|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Assets: | | | |
| Securities: | | | |
| Taxable | $ 99,670 | $ 1,538 | 6.26% |
| Tax-exempt(1) | 85,819 | 1,624 | 7.67% |
| Total securities | 185,489 | 3,162 | 6.91% |
| Loans, net | 481,763 | 10,579 | 8.91% |

| | | | |
|---|---|---|---|
| Loans held for sale | 18,852 | 2 | 0.04% |
| Federal funds sold | 4,337 | 57 | 5.33% |
| Interest-bearing deposits in other banks | 1,919 | 26 | 5.49% |
| Total earning assets | 692,360 | 13,826 | 8.10% |
| Allowance for loan losses | (6,714) | | |
| Total non-earning assets | 46,277 | | |
| Total assets | $731,923 | | |
| Liabilities & Stockholders' Equity: | | | |
| Interest-bearing deposits: | | | |
| Checking | $ 82,283 | 461 | 2.27% |
| Money market savings | 64,041 | 515 | 3.26% |
| Regular savings | 57,841 | 398 | 2.79% |
| Certificates of deposit: | | | |
| $100,000 and over | 88,154 | 1,171 | 5.39% |
| Under $100,000 | 238,686 | 3,133 | 5.32% |
| Total interest-bearing deposits | 531,005 | 5,678 | 4.34% |
| Other borrowings | 45,673 | 606 | 5.38% |
| Total interest-bearing liabilities | 576,678 | 6,284 | 4.42% |
| Noninterest bearing liabilities: | | | |
| Demand deposits | 78,472 | | |
| Other liabilities | 3,566 | | |
| Total liabilities | 658,716 | | |
| Stockholders' equity | 73,207 | | |
| Total liabilities and stockholders' equity | $731,923 | | |
| Net interest income | | $ 7,542 | |
| Interest rate spread | | | 3.68% |
| Interest expense as a percent of average earning assets | | | 3.68% |
| Net interest margin | | | 4.42% |

</TABLE>

(1) Income and yields are reported on a taxable equivalent basis.



Provision for Loan Losses

The provision for loan losses totaled $432,000 for the first quarter of 2001, down from $564,000 for the first quarter of 2000. These provisions reflect the performance of the loan portfolio and management's assessment of the credit risk in the portfolio. (See Asset Quality)

Noninterest Income

Noninterest income for the three months ended March 31, 2001 totaled $3.6 million, up from $2.5 million for the same period a year ago. Gains on sales of loans in the mortgage banking segment comprised much of this improvement increasing $765,000 over the same period in 2000. Service charges on deposit accounts increased $112,000 and other service charges and fees increased $85,000, reflecting deposit growth and initiatives to enhance fee income. Other operating income increased $184,000 over the prior year, reflecting an ongoing transaction from the fourth quarter of 2000. Management continues to seek additional sources of noninterest income, including increased emphasis on cross-selling services and better leveraging the financial services available throughout the organization.

Noninterest Expense

Noninterest expense in the first quarter of 2001 totaled $7.8 million, a decrease of $273,000 over the same period in 2000. Personnel costs were down $171,000 over last year's first quarter. Occupancy expense was down $64,000 and furniture & equipment expense was down $1,000. Other operating expenses were down $37,000 over last year's first quarter. The decreases are largely the result of branch consolidation and closings and expense controls in the mortgage operation. The community banking segment is up slightly for the quarter.

## Financial Condition

Total assets as of March 31, 2001 were $911.2 million, an increase of 5.9% from $860.2 million at March 31, 2000. Asset growth was fueled principally by loan growth, as loans totaled $589.8 million at March 31, 2001, an increase of 3.4% from $570.5 million at March 31, 2000. The securities portfolio declined slightly to $222.2 million in the first quarter of 2001 versus $222.4 for the same period in 2000. Loans held for sale increased $29.1 million compared to the same period last year due to the increase in mortgage activity. Other assets are up $5.5 million over the same period last year. Stockholders' equity totaled $84.6 million at March 31, 2001, which represents a book value of $11.23 per share.



Deposit growth was good as the banks continued to increase market share. Total deposits at March 31, 2001 were $712.5 million, up 7.0% from $666.1 million at March 31, 2000. Other borrowings totaled $108.4 million at March 31, 2001, a 7.8% decrease over $117.6 million at March 31, 2000. As a result of the deposit growth over the period, the Company was able to decrease other borrowings, which represents a high cost of funds. The Company also periodically engages in wholesale leverage transactions to better leverage its capital position. The other borrowings reflect $25 million in net leverage transactions. These wholesale leverage transactions have typically been executed at spreads of approximately 150 to 200 basis points and, although they have negatively impacted the Company's net interest margin (as a percentage), they have had a positive effect on earnings and return on equity.

Continued competition for deposits, particularly as it impacts certificate of deposit rates, is reflected in the deposit mix. Management continues to focus on increasing lower cost deposit products, including noninterest-bearing demand deposits and savings accounts and effective management of competitive rates on interest sensitive products. Increased competition for funds, by banks seeking to fund loan growth and by non-bank lending companies, continues to contribute to a narrowing of the net interest margin.

## Asset Quality

The allowance for loan losses is an estimate of an amount adequate to provide for losses inherent in the loan portfolio. General economic trends, as well as conditions affecting individual borrowers, affect the level of credit losses. The allowance is also subject to regulatory examinations and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and comparison to peer groups. Declining nonperforming asset levels and prudent maintenance of the allowance have continued to strengthen asset quality.

The allowance for loan losses totaled $7.8 million at March 31, 2001 or 1.32% of total loans, as compared to 1.27% at December 31, 2000 and 1.23% at March 31, 2000.

| | March 31, 2001 | December 31, 2000 | March 31, 2000 |
|---|---|---|---|
| | (dollars in thousands) | | |
| Nonaccrual loans | $ 618 | $ 830 | $1,208 |
| Foreclosed properties | 1,536 | 1,711 | 1,889 |
| Nonperforming assets | $ 2,154 | $ 2,541 | $3,097 |
| Allowance for loan losses | $7,794 | $ 7,389 | $7,044 |
| Allowance as % of total loans | 1.32% | 1.27% | 1.23% |
| Nonperforming assets to loans and foreclosed properties | .36% | .44% | .54% |



## 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 the 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 absorb potential losses.

The Federal Reserve, along with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, has adopted capital guidelines to supplement the existing definitions of capital for regulatory purposes and to establish minimum capital standards. Specifically, the guidelines categorize assets and off-balance sheet items into four risk-weighted categories. The minimum ratio of qualifying total assets is 8.0%, of which 4.0% must be Tier 1 capital, consisting of common equity and retained earnings, less certain goodwill items.

At March 31, 2001, the Company's ratio of total capital to risk-weighted assets was 12.59% and its ratio of Tier 1 capital to risk-weighted assets was 11.41%. Both ratios exceed the fully phased-in capital requirements. The following summarizes the Company's regulatory capital and related ratios at March 31, 2001 (dollars in thousands):

| | |
|---|---|
| Tier 1 capital | $ 75,431 |
| Tier 2 capital | 7,794 |
| Total risk-based capital | 83,225 |
| Total risk-weighted assets | 661,147 |
| Capital Ratios: | |
| Tier 1 risk-based capital ratio | 11.41% |
| Total risk-based capital ratio | 12.59% |
| Leverage ratio (Tier 1 capital to average adjusted total assets) | 8.56% |
| Equity to assets ratio | 9.28% |

The Company's book value per share at March 31, 2001 was $11.23. Dividends to stockholders are typically paid semi-annually in June and December.

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, federal funds sold, securities available for sale and loans maturing within one year. The Company's ability to obtain deposits and purchase funds at favorable rates determines its liability liquidity. Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary through federal funds lines with several regional banks and a line of credit with the Federal Home Loan Bank. Management considers the Company's overall liquidity to be sufficient to satisfy its depositors' requirements and to meet its customers' credit needs.



At March 31, 2001 cash, interest-bearing deposits in other banks, federal funds sold, securities available for sale and loans maturing or repricing in one year were 32.4% of total earning assets. At March 31, 2001 approximately $186.7 million or 31.6% of total loans are scheduled to mature or reprice within the next year. The Company utilizes federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, in addition to deposits, to fund the growth in its loan portfolio, and to fund securities purchases, periodically, in wholesale leverage transactions.



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 Company's Asset and Liability Management Committee (ALCO) is responsible for reviewing the interest rate sensitivity position and establishing policies to monitor and limit exposure to this risk. The Board of Directors reviews the guidelines established by ALCO.

Interest rate risk is monitored through the use of three complimentary modeling tools: static gap analysis, earnings simulation modeling, and net present value estimation. Each of these models measure changes in a variety of interest rate scenarios. While each of the interest rate risk measures 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 is less utilized in the current environment but earnings simulation and market value models are utilized on a regular basis.

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 analysis such as the static gap analysis.

Assumptions used in the model, including loan and deposit growth rates, are derived from seasonal trends and management's outlook, as are the assumptions used to project yields and rates for new loans and deposits. 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 accounted for in the different rate scenarios.

The following table represents the interest rate sensitivity on net interest income for the Company using different rate scenarios as of:

| Change in Prime Rate | March 31, 2001 % Change in Net Interest Income | March 31, 2000 % Change in Net Interest Income |
|---|---|---|
| +200 basis points | -.52% | -.62% |
| Flat | 0 | 0 |
| -200 basis points | +.83% | +.31% |

Based on this model, the company is positioned to benefit from a falling rate environment.



Market Value Simulation

Market value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Market values are calculated based on discounted cash flow analysis. The net market value is the market value of all assets minus the market value of all liabilities. The change in net market value over different rate environments is an indication of the longer term repricing risk in the balance sheet. The same assumptions are used in the market value simulation as in the earnings simulation.

The following chart reflects the change in net market value over different rate environments as of March 31:

| Change in Prime Rate | Change in Net Market Value (dollars in thousands) 2001 | 2000 |
|---|---|---|
| +200 basis points | $ -21,519 | $-41,580 |
| +100 basis points | -6,993 | -25,092 |
| Flat | 4,761 | -15,477 |
| -100 basis points | 22,762 | 8,109 |
| -200 basis points | 28,208 | 23,040 |



PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) See attached list of exhibits



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 Bankshares Corporation
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(Registrant)

May 14, 2001 /s/ G. William Beale

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(Date) G. William Beale,
President, Chief Executive Officer
and Director

May 14, 2001 /s/ D. Anthony Peay

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(Date) D. Anthony Peay,
Senior Vice President and Chief
Financial Officer



UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Index to Exhibits
Form 10-Q /March 31, 2001

| Exhibit No. | Description | |
|---|---|---|
| 2 | Plan of acquisition, reorganization, arrangement, liquidation or succession - | Not Applicable |
| 4 | Instruments defining the rights of security holders, including indentures | Not Applicable |
| 10 | Material contracts | Not Applicable |
| 11 | Statement re: computation of per share earnings | Not Applicable |
| 15 | Letter re: unaudited interim financial information | Not Applicable |
| 18 | Letter re: change in accounting principles | Not Applicable |
| 19 | Previously unfiled documents | Not Applicable |
| 20 | Report furnished to security holders | Not Applicable |
| 22 | Published report re: matters submitted to vote of security holders | None |
| 23 | Consents of experts and counsel | Not Applicable |
| 24 | Power of Attorney | Not Applicable |
| 99 | Additional Exhibits | None |