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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998
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 I.D. No.)

212 NORTH MAIN STREET
P.O. BOX 446
BOWLING GREEN, VIRGINIA 22427
(Address of principal executive officers)

(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

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. X Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

The Aggregate Market Value of the Voting Stock Held by Nonaffiliates of the Registrant was $120,043,710 as of February 26, 1999.

As of February 26, 1999, Union Bankshares Corporation had 7,568,884 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 1998 are incorporated into Part II of this Form 10-K and portions of the Proxy Statement for the 1999 annual meeting are incorporated into Part III.

UNION BANKSHARES CORPORATION
FORM 10-K
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PART I

ITEM 1. - BUSINESS

GENERAL

Union Bankshares Corporation (the "Company") is a multi-bank holding company organized under Virginia law which is headquartered in Bowling Green, Virginia. The Company is committed to the delivery of financial services through its affiliated community banks, Union Bank & Trust Company ("Union Bank"), Northern Neck State Bank ("Northern Neck Bank"), Rappahannock National Bank ("Rappahannock Bank"), King George State Bank ("King George Bank") and the Bank of Williamsburg ("Bank of Williamsburg") (collectively, the "Subsidiary Banks") and three non-bank financial services affiliates, Union Investment Services, Inc. ("Union Investment"), Union Mortgage Company, LLC ("Union Mortgage") and Mortgage Capital Investors, Inc. ("MCI").

The Company was formed in connection with the July 12, 1993 merger of Northern Neck Bankshares Corporation with and into Union Bancorp, Inc.. On September 1, 1996, King George State Bank and on July 1, 1998, Rappahannock National Bank became wholly-owned subsidiaries of the Company. On February 22, 1999, Bank of Williamsburg began business as a newly organized bank focused on the Williamsburg market.

Each of the Subsidiary Banks is a full service retail commercial bank offering a wide range of banking and related financial services, including checking, savings, certificates of deposit and other depository services, commercial, industrial, residential mortgage and consumer loans. The Subsidiary Banks also issue credit cards and can deliver automated teller machine services through the use of reciprocally shared ATMs in the MOST, CIRRUS and PLUS networks.

Union Bankshares Corporation had assets of $734 million, deposits of $608 million, and shareholders' equity of $73 million at December 31, 1998. The Company serves, through its subsidiaries, the counties of Caroline, Hanover, King George, King William, Spotsylvania, Stafford, Richmond, Westmoreland, Essex, Lancaster, Northumberland and the City of Fredericksburg, Virginia. Through its four subsidiary banks, the Company operated twenty eight branches in its primary trade area at year end. Union Bank opened three branches in 1998: at Brock Road and Route 3 in Fredericksburg in January 1998; at Fall Hill Avenue in Fredericksburg in June 1998; and at 610 Mechanicsville Turnpike in Mechanicsville in September 1998. In addition, five new branches were established in February 1998 in connection with the purchase of the former Signet Bank branches in Burgess, Colonial Beach, Kilmarnock, Reedville and White Stone, Virginia. See "Acquisition Program--Branch Purchase."

On February 22, 1999, the Company opened the Bank of Williamsburg, a full service bank headquartered in Williamsburg, Virginia. The bank was organized and chartered under the laws of Virginia in February 1999. The main office of the Bank of Williamsburg is located at 5251 John Tyler Parkway and its primary trade area is Williamsburg and surrounding James City County.

Union Investment has provided securities brokerage and investment advisory services since February 1993. It is a full service discount brokerage company which offers a full range of investment services, and sells mutual funds, bonds and stocks.

Union Mortgage Company, LLC , a mortgage loan brokerage company and subsidiary of Union Bank, began operations on January 1, 1997. Union Mortgage provides a wide array of mortgage products to customers in the service areas of

the Subsidiary Banks.

On February 11, 1999, the Company acquired CMK Corporation t/a "Mortgage Capital Investors," a mortgage loan brokerage company headquartered in Springfield, Virginia, by merger of CMK Corporation into Mortgage Capital Investors, Inc., a wholly owned subsidiary of Union Bank ("Mortgage Capital"). See "Acquisition Program - Purchase of Mortgage Capital Investors, Inc." Mortgage Capital has offices in four states in the mid-Atlantic area and in Florida which provide a variety of mortgage products to customers in those states. The Company intends to combine the operations of Union Mortgage and Mortgage Capital Investors during 1999.

ACQUISITION PROGRAM

The Company looks to expand its market area and increase its market share through both internal growth and strategic acquisitions. During 1998, the Company engaged in the following acquisition transactions:

BRANCH PURCHASE. On February 17, 1998, Northern Neck Bank and King George Bank acquired certain assets and assumed certain deposit and other liabilities relating to five former branch offices of First Union National Bank (successor by merger with Signet Bank) (the "Branch Transaction"). In the aggregate, the affiliate banks assumed total net deposits of approximately $60 million. The Branch Transaction was consummated pursuant to a Purchase and Assumption Agreement, dated as of October 21, 1997, by and between Signet Bank and the Company (the "Purchase Agreement").

According to the Purchase Agreement, the Company's subsidiary banks were to acquire certain assets and assume certain deposit and other liabilities relating to seven branch offices of Signet Bank (in 1998 Signet Bank was acquired by First Union). However, because of market concentration restrictions placed on the transaction by federal regulators, two of the branch offices (Warsaw and Montross, Virginia) that were to be acquired by Northern Neck Bank were sold to Bank of Lancaster, Kilmarnock, Virginia, immediately following the closing of the Branch Transaction pursuant to a Purchase and Assumption Agreement, dated as of November 17, 1997, between Northern Neck Bank and Bank of Lancaster.

ACQUISITION OF RAPPAHANNOCK BANKSHARES. On February 25, 1998, the Company entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement") with Rappahannock Bankshares, Inc. ("Rappahannock"). According to the Reorganization Agreement, Rappahannock merged with and into the Company and Rappahannock Bank operates as a subsidiary bank of the Company. The Company consummated the transaction on July 1, 1998, after obtaining the applicable shareholder and regulatory approvals.

OPENING OF THE BANK OF WILLIAMSBURG. On February 22, 1999, the Company opened the Bank of Williamsburg in temporary headquarters in the Williamsburg Crossing Shopping Center at 5251 John Tyler Parkway in Williamsburg. This full service bank puts the Company in a new market area located in a rapidly growing region of Virginia.

PURCHASE OF MORTGAGE CAPITAL INVESTORS. On February 11, 1999, the Company purchased CMK Corporation t/a "Mortgage Capital Investors" to augment its mortgage origination business. Mortgage Capital Investors originates and sells mortgage loans in the mortgage market and is strategically designed to increase fee income with limited or no asset quality risk.

COMPETITION

The Company experiences competition in all aspects of its business. In its market area, the Company competes with large regional financial institutions, savings and loans and other independent community banks, as well as credit unions, mutual funds and life insurance companies. Competition has also increasingly come from out-of-state banks through their acquisitions of Virginia-based banks. Competition for deposits and loans is affected by factors such as interest rates offered, the number and location of branches and types of products offered, as well as the reputation of the institution.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state law. The following description briefly discusses certain provisions of federal and state laws and certain regulations and proposed regulations and the potential impact of such provisions on the Company and its Subsidiary Banks.

BANK HOLDING COMPANIES

As a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), the Company is subject to regulation by the Board of

Governors of the Federal Reserve System (the "Federal Reserve Board"). The Federal Reserve Board has jurisdiction under the BHCA to approve any bank or nonbank acquisition, merger or consolidation proposed by a bank holding company. The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity which is so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

Since September 1995, the BHCA has permitted bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including nationwide and state imposed concentration limits. Banks are also able to branch across state lines, provided certain conditions are met, including that applicable state law must expressly permit such interstate branching. Virginia has adopted legislation that permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the Federal Deposit Insurance Corporation (the "FDIC") insurance funds in the event the depository institution becomes in danger of default or in default. For example, under a policy of the Federal Reserve Board with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the "cross-guarantee" provisions of federal law, require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by either the Savings Association Insurance Fund ("SAIF") or the Bank Insurance Fund ("BIF") as a result of the default of a commonly controlled insured depository institution in danger of default. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the SAIF or the BIF or both. The FDIC's claim for damages is superior to claims of stockholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The Federal Deposit Insurance Act ("FDIA") also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general creditor or stockholder. This provision would give depositors a preference over general and subordinated creditors and stockholders in the event a receiver is appointed to distribute the assets of the bank.

The Company is registered under the bank holding company laws of Virginia. Accordingly, the Company and the Subsidiary Banks are subject to regulation and supervision by the State Corporation Commission of Virginia (the "SCC").

CAPITAL REQUIREMENTS

The Federal Reserve Board, the Office of the Comptroller of the Currency and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Under the risk-based capital requirements of these federal bank regulatory agencies, the Company and each of the Subsidiary Banks are required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8%. At least half of the total capital is required to be "Tier 1 capital", which consists principally of common and certain qualifying preferred shareholders' equity, less certain intangibles and other adjustments. The remainder ("Tier 2 capital") consists of a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments) and a limited amount of the general loan loss allowance. The Tier 1 and total capital to risk-weighted asset ratios of the Company as of December 31, 1998 were 12.47% and 13.70%, respectively, exceeding the minimum requirements.

In addition, each of the federal regulatory agencies has established a minimum leverage capital ratio (Tier 1 capital to average tangible assets). These guidelines provide for a minimum ratio of 3% for banks and bank holding companies that meet certain specified criteria, including that they have the highest regulatory examination rating and are not contemplating significant growth or expansion. All other institutions are expected to maintain a leverage ratio of at least 100 to 200 basis points above the minimum. The leverage ratio of the Company as of December 31, 1998, was 9.06%, which is above the minimum requirements. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain

strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

LIMITS ON DIVIDENDS AND OTHER PAYMENTS

The Company is a legal entity, separate and distinct from its subsidiary institutions. Substantially all of the revenues of the Company result from dividends paid to it by the Subsidiary Banks. There are various legal limitations applicable to the payment of dividends to the Company, as well as the payment of dividends by the Company to its respective shareholders.

Under federal law, the Subsidiary Banks may not, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, the Company or take securities of the Company as collateral for loans to any borrower. The Subsidiary Banks are also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

The Subsidiary Banks are subject to various statutory restrictions on their ability to pay dividends to the Company. Under the current supervisory practices of the Subsidiary Banks' regulatory agencies, prior approval from those agencies is required if cash dividends declared in any given year exceed net income for that year plus retained earnings of the two proceeding years. The payment of dividends by the Subsidiary Banks or the Company may also be limited by other factors, such as requirements to maintain capital above regulatory guidelines. Bank regulatory agencies have the authority to prohibit the Subsidiary Banks or the Company from engaging in an unsafe or unsound practice in conducting their business. The payment of dividends, depending on the financial condition of the Subsidiary Banks, or the Company, could be deemed to constitute such an unsafe or unsound practice.

Under the FDIA, insured depository institutions such as the Subsidiary Banks are prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" (as such term is used in the statute). Based on the Subsidiary Banks' current financial condition, the Company does not expect that this provision will have any impact on its ability to obtain dividends from the Subsidiary Banks.

THE SUBSIDIARY BANKS

The Subsidiary Banks are supervised and regularly examined by the Federal Reserve Board and the SCC. The various laws and regulations administered by the regulatory agencies affect corporate practices, such as the payment of dividends, incurring debt and acquisition of financial institutions and other companies, and affect business practices, such as the payment of interest on deposits, the charging of interest on loans, types of business conducted and location of offices.

The Subsidiary Banks are also subject to the requirements of the Community Reinvestment Act (the "CRA"). The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of the local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution's efforts in meeting community credit needs currently are evaluated as part of the examination process pursuant to twelve assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility.

As an institution with deposits insured by the BIF, the Bank also is subject to insurance assessments imposed by the FDIC. The FDIC has implemented a risk-based assessment schedule, imposing assessments ranging from zero (a minimum of $2,000) to 0.27% of an institution's average assessment base. The actual assessment to be paid by each BIF member is based on the institution's assessment risk classification, which is determined based on whether the institution is considered "well capitalized," "adequately capitalized" or "undercapitalized," as such terms have been defined in applicable federal regulations, and whether such institution is considered by its supervisory agency to be financially sound or to have supervisory concerns. In 1998, the Subsidiary Banks paid $63,238 in deposit insurance premiums.

OTHER SAFETY AND SOUNDNESS REGULATIONS

The federal banking agencies have broad powers under current federal law to make prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." All such terms are defined under uniform regulations defining such capital levels issued by each of the federal banking agencies.

ITEM 2. - PROPERTIES

The Company, through its subsidiaries, owns or leases buildings that are used in the normal course of business. The main office is located at 212 N. Main Street, Bowling Green, Virginia, in a building owned by the Company. The Company's subsidiaries own or lease various other offices in the counties and cities in which they operate. Northern Neck State Bank has its main office in Warsaw, Virginia and operated eight branches at December 31, 1998; Union Bank has its main office in Bowling Green, Virginia and operated fifteen branches at 1998 year end. At year end, King George Bank operated out of two locations, one in King George and the other in Westmoreland, Virginia. Union Investment's office is located in Bowling Green, Virginia. See Notes to Consolidated Financial Statements for information with respect to the amounts at which bank premises and equipment are carried and commitments under long-term leases.

On February 17, 1998, the Company acquired five former branch offices of Signet Bank, four of which were allocated to Northern Neck Bank and the remaining branch to King George Bank. See "Item 1--Business--Acquisition Program."

The properties on the following page are those owned or leased by the Company and its subsidiaries as of December 31, 1998.

LOCATIONS

CORPORATE HEADQUARTERS
- 212 North Main Street, Bowling Green, Virginia

BANKING OFFICES - UNION BANK & TRUST COMPANY
- 211 North Main Street, Bowling Green, Virginia
- Route 1, Ladysmith, Virginia
- Route 301, Port Royal, Virginia
- 4540 Lafayette Boulevard, Fredericksburg, Virginia
- Route 1 & Ashcake Road, Ashland, Virginia
- 4210 Plank Road, Fredericksburg, Virginia
- 10415 Courthouse Road, Fredericksburg, Virginia
- 10469 Atlee Station Road, Ashland, Virginia
- 700 Kenmore Avenue, Fredericksburg, Virginia
- Route 360, Manquin, Virginia
- 9534 Chamberlayne Road, Mechanicsville, Virginia
- Cambridge & Layhill Road, Falmouth, Virginia
- Massaponax Church Road & Route 1, Spotsylvania, Virginia
- Brock Road and Route 3, Fredericksburg, Virginia
- 2811 Fall Hill Avenue, Fredricksburg, Virginia
- 610 Mechanicsville Turnpike, Mechanicsville, Virginia

BANKING OFFICES - NORTHERN NECK STATE BANK
- 5839 Richmond Road, Warsaw, Virginia
- 4256 Richmond Road, Warsaw, Virginia
- Route 3, Kings Highway, Montross, Virginia
- Route 17 & Earl Street, Tappahannock, Virginia
- 1660 Tappahannock Blvd, Tappahannock, Virginia
- 15043 Northumberland Highway, Burgess, Virginia
- 284 North Main Street, Kilmarnock, Virginia
- 876 Main Street, Reedville, Virginia
- 485 Chesapeake Drive, White Stone, Virginia

BANKING OFFICES - KING GEORGE STATE BANK
- 10045 Kings Highway, King George, Virginia
- 840 McKinney Blvd., Colonial Beach, Virginia

BANKING OFFICES - RAPPAHANNOCK NATIONAL BANK
- 257 Gay Street, Washington, Virginia

UNION INVESTMENT SERVICES, INC.
- 111 Davis Court, Bowling Green, Virginia
- 10469 Atlee Station Road, Ashland, Virginia

UNION MORTGAGE COMPANY, LLC.
- 211 North Main Street, Bowling Green, Virginia

ITEM 3. - LEGAL PROCEEDINGS

In the ordinary course of its operations, the Company and its subsidiaries are parties 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.

ITEM 4. - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter.

PART II

ITEM 5. - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

This information is incorporated herein by reference from the inside back cover of the Annual Report to Shareholders for the year ended December 31, 1998.

ITEM 6. - SELECTED FINANCIAL DATA

This information is incorporated herein by reference from the section captioned "Selected Financial Data" on page 2 in the Annual Report to Shareholders for the year ended December 31, 1998.

ITEM 7. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information is incorporated herein by reference from the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 9 through 21 in the Annual Report to Shareholders for the year ended December 31, 1998.

ITEM 7A. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's primary market risk is interest rate risk. The main objective of interest rate risk management is to avoid large fluctuations in net interest income from changes in interest rates on interest-sensitive assets and interest-sensitive liabilities. The Asset/Liability Management Committee of the Company ("ALCO") is responsible for monitoring and limiting exposure to interest rate risk. Management uses balance sheet repositioning as a tool to manage interest rate risk. This is accomplished through pricing of asset and liability accounts. The expected result of pricing is the development of appropriate maturity and repricing opportunities in those accounts to produce consistent net interest income during changing interest rate environments. The ALCO also sets policy guidelines and establishes strategies with respect to interest rate exposures. The ALCO meets quarterly to review the Company's interest rate exposure in relation to present and prospective market and business conditions, and reviews balance sheet management strategies intended to ensure the potential impact of changes in interest rates on earnings is within acceptable standards.

The Company uses three methods to measure interest rate risk; static gap analysis, earnings simulation analysis and market value simulation analysis.

STATIC GAP ANALYSIS

Gap analysis measures the amount of repricing risk in the balance sheet. It does this by taking the difference between the amount of rate sensitive assets and rate sensitive liabilities which reprice within a specified time period. This is the least reliable measurement of interest rate risk because it only measures rate sensitive assets minus rate sensitive liabilities at one point in time. It does not reflect the different degrees of rate sensitivity each asset and liability account have. An example of this: If prime rate changes by 100 bps, the interest rate change on a money market account might be 25 bps and that of a certificate of deposit might be 75 bps. The best information obtained from a gap report is the amount of assets or liabilities which can be repriced at any one point in the future, not the degree of rate sensitivity.

The following table shows the Company's gap report over the next five years. To reflect anticipated prepayments, mortgage backed securities are included in the table based on estimated rather than contractual maturity dates.

<TABLE>
<CAPTION>

INTEREST SENSITIVITY ANALYSIS
(dollars in thousands)

	DECEMBER 31, 1998 (1)			
	WITHIN 90	90-365	1-5	OVER 5

<S>	DAYS <C>	DAYS <C>	YEARS <C>	YEARS <C>	TOTAL <C>
EARNING ASSETS:					
Loans, net of unearned income (2)	$ 104,454	$38,229	$206,801	$127,525	$477,009
Investment securities	-	2,920	10,049	3,173	16,142
Securities available for sale	2,176	3,097	41,393	114,562	161,228
Other short-term investments	1,413	-	-	-	1,413
Total Earning Assets	108,043	44,246	258,243	245,260	655,792
INTEREST-BEARING LIABILITIES:					
Interest checking (3)	-	-	81,514	-	81,514
Regular savings (3)	-	8,156	53,125	-	61,281
Money market savings	-	64,331	-	-	64,331
Certificates of deposit:					
$100,000 and over	26,974	35,019	18,833	100	80,926
Under $100,000	33,810	105,454	98,848	136	238,248
Short-term borrowings	19,476	-	-	-	19,476
Long-term borrowings	5,075	75	17,275	5,900	28,325
Total Interest-Bearing Liabilities	85,335	213,035	269,595	6,136	574,101
Period Gap	22,708	(168,789)	(11,352)	239,124	
Cumulative Gap	$22,708	$(146,081)	$(157,433)	$ 81,691	$81,691
Ratio of cumulative gap to total earning assets	3.46%	(22.28)%	(24.01)%	12.46%	

</TABLE>

(1) THE REPRICING DATES MAY DIFFER FROM MATURITY DATES FOR CERTAIN ASSETS DUE TO PREPAYMENT ASSUMPTIONS.

(2) EXCLUDES NON-ACCRUAL LOANS

(3) THE COMPANY HAS DETERMINED THAT INTEREST-BEARING CHECKING DEPOSITS AND REGULAR SAVINGS DEPOSITS ARE NOT SENSITIVE TO CHANGES IN RELATED MARKET RATES AND THEREFORE, IT HAS PLACED THEM PREDOMINATELY IN THE "1-5 YEARS" COLUMN.

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 include 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:

CHANGE IN PRIME RATE	% CHANGE IN NET INTEREST INCOME
+200 basis points	-2.75%
Flat	0

-200 basis points	+2.20%

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 larger 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:

CHANGE IN PRIME RATE	CHANGE IN NET MARKET VALUE (DOLLARS IN THOUSANDS)
+200 basis points	$-15,639
+100 basis points	-4,733
Flat	2,387
-100 basis points	15,846
-200 basis points	24,896

ITEM 8. - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

This information is incorporated herein by reference from the Consolidated Financial Statements on pages 22 through 39 and the Quarterly Earnings Summary on the inside front cover of the Annual Report to Shareholders for the year ended December 31, 1998.

ITEM 9. - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no disagreements between the Company and its independent accountants.

PART III

ITEM 10. - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information, as applicable to directors, is incorporated herein by reference from pages 2 and 3 of the Proxy Statement for the Annual Meeting of Shareholders to be held April 20, 1999 ("Proxy Statement") from the section titled "Election of Directors." Executive officers of the Company as of December 31, 1998 are listed on the following page:

NAME (AGE)	TITLE AND PRINCIPAL OCCUPATION DURING PAST FIVE YEARS
G. William Beale (49)	President and Chief Executive Officer of the Company since its inception; President of Union Bank since 1991.
E. Peyton Motley (54)	Executive Vice President and Chief Operating Officer of the Company since its inception; President of Northern Neck Bank since 1978.
D. Anthony Peay (39)	Vice President and Chief Financial Officer since December 1994; Certified Public Accountant, Senior Manager - Deloitte & Touche.
John C. Neal (49)	Executive Vice President and Chief Operating Officer - Union Bank
Myles W. H. Gaythwaite (54)	Vice President - Sales, Marketing and Human Resources

Information on Section 16(a) beneficial ownership reporting compliance for the directors and executive officers of the Company is incorporated herein by reference from page 4 of the Proxy Statement from the section titled "Section 16(a) Beneficial Ownership Reporting Compliance".

ITEM 11 - EXECUTIVE COMPENSATION

This information is incorporated herein by reference from page 3 and pages 5 trough 10 of the Proxy Statement from the sections titled "Election of Directors--Directors' Fees" and "Executive Compensation".

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference from page 4 of the Proxy Statement from section titled "Ownership of Company Common Stock."

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference from page 11 of the Proxy Statement from the section titled "Interest of Directors and Officers in Certain Transactions."

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

(1) FINANCIAL STATEMENTS
The following consolidated financial statements of Union Bankshares Corporation and subsidiaries included in the 1998 Annual Report to Shareholders are incorporated by reference in this report:

- Consolidated Balance Sheets
- Consolidated Statements of Income and Comprehensive Income
- Consolidated Statements of Changes in Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
- Independent Auditors' Report

(2) FINANCIAL STATEMENT SCHEDULES
All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(3) EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated by reference to Form S-4 Registration Statement - 33-60458)
3.2	By-Laws (incorporated by reference to Form S-4 Registration Statement - 33-60458)
10.1	Form of Employment Agreement of G. William Beale and E. Peyton Motley, respectively (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 1998)
11.0	Statement re Computation of Per Share Earnings (incorporated by reference to note 11 of the notes to consolidated financial statements included in the 1998 Annual Report to Shareholders)
13.0	1998 Annual Report to Shareholders
21.0	Subsidiaries of the Registrant
27.0	Financial Data Schedule

(4) REPORTS ON FORM 8-K
No reports were filed on Form 8-K during the fourth quarter ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: / s/ G. William Beale

G. William Beale — Date: March 31, 1999 — President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on March 31, 1999.

<TABLE>
<CAPTION>

SIGNATURE	TITLE
<S>	<C>
/ s/ G. William Beale G. William Beale	President, Chief Executive Officer and Director
/ s/ E. Peyton Motley E. Peyton Motley	Executive Vice President, Chief Operating Officer and Director
/ s/ D. Anthony Peay D. Anthony Peay	Vice President and Chief Financial Officer
Ronald L. Hicks	Chairman of the Board of Directors
/ s/ Charles H. Ryland Charles H. Ryland	Vice Chairman of the Board of Directors
/ s/ W. Tayloe Murphy, Jr. W. Tayloe Murphy, Jr.	Director
/s/ Walton Mahon Walton Mahon	Director
M. Raymond Piland, III	Director
A.D. Whittaker	Director

</TABLE>

EXHIBIT 13

Business Profile

Union Bankshares Corporation is a multi-bank holding company committed to the delivery of financial services through affiliated independent community banks and other financial services companies. The Company serves the Central and Northern Neck regions of Virginia through its five banking subsidiaries, Union Bank & Trust Company, Northern Neck State Bank, King George State Bank, BANK OF WILLIAMSBURG and Rappahannock National Bank and its non-bank companies, Union Investment Services, Inc. and Mortgage Capital Investors. The banking subsidiaries are Federal Reserve member banks whose deposits are insured by the Federal Deposit Insurance Corporation. Each is a full-service commercial bank offering commercial and consumer deposit accounts and loans, credit cards, automated teller machines and many other services to its customers. Each is also independently operated by local management and boards of directors to meet the needs of their communities.

Through its 16 locations, Union Bank & Trust Company serves customers in a primary service area which stretches from its headquarters in Bowling Green along the I-95 corridor from Fredericksburg to central Hanover County and east to King William County. Northern Neck State Bank serves the Northern Neck and Middle Peninsula regions through nine locations spanning the Northern Neck. King George State Bank has two locations, in King George County and Colonial Beach enhancing the Company's market presence in both the Fredericksburg and Northern Neck service areas. The Bank of Williamsburg was opened on February 28, 1999 at the Williamsburg Crossing Shopping Center bringing a locally based community bank back to the area. Rappahannock National serves the community surrounding Washington, Virginia.

Union Investment Services is a full-service brokerage firm and provides a wide variety of investment choices to investors throughout the Company's service area. Mortgage Capital Investors (MCI), acquired on February 11, 1999, offers a full array of mortgage products to residents of our markets and throughout its 16 origination offices. The former Union Mortgage operations is merging into MCI.

As of December 31, 1998, Union Bankshares Corporation and subsidiaries had 295 employees, 2,178 shareholders of record, and assets totaling $734 million.

Mission Statement

"The primary mission of Union Bankshares Corporation and its subsidiaries is to enhance shareholder value by remaining a strong, independent financial services organization, providing exemplary customer service, a rewarding work environment for its employees and a growing return for its shareholders."

Union Bankshares Corporation and Subsidiaries

<TABLE>
<CAPTION>
Selected Financial Data

	1998	1997	1996	1995	1994
Results of Operations	(dollars in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Interest income	$ 51,062	$ 44,821	$ 42,068	$ 39,154	$ 32,903
Interest expense	24,463	21,057	19,650	18,155	13,417
Net interest income	26,599	23,764	22,418	20,999	19,486
Provision for loan losses	3,044	1,182	895	977	1,102
Net interest income after provision for loan losses	23,555	22,582	21,523	20,022	18,384
Other income	5,567	4,495	3,572	2,763	3,081
Other expenses	20,622	16,628	14,982	13,551	12,629
Income before income taxes	8,500	10,449	10,113	9,234	8,836
Income tax expense	1,678	2,283	2,374	2,192	1,958
Net income	$ 6,822	$ 8,166	$ 7,739	$ 7,042	$ 6,878

Key Performance Ratios

Return on average assets (ROA)	1.00%	1.41%	1.38%	1.34%	1.43%
Return on average equity (ROE)	9.58%	12.80%	12.62%	12.50%	13.84%
Efficiency ratio	61.24%	56.20%	54.06%	52.77%	53.05%
Per Share Data					
Net income per share	$ 0.91	$ 1.10	$ 1.04	$ 0.95	$ 0.93
Net income per share - diluted	0.91	1.09	1.04	0.95	0.93
Cash dividends declared	0.38	0.37	0.32	0.28	0.26
Book value at period-end	9.77	9.16	8.23	7.57	6.72
Financial Condition					
Total assets	$ 733,947	$ 615,716	$ 559,782	$ 523,613	$ 480,844
Total deposits	607,629	489,256	455,718	431,330	405,722
Total loans, net of unearned income	479,822	399,351	356,038	331,452	299,605
Stockholders' equity	73,359	68,427	61,344	56,352	49,706
Asset Quality					
Allowance for loan losses	$ 6,407	$ 4,798	$ 4,612	$ 4,274	$ 4,320
Allowance as % of total loans	1.33%	1.20%	1.29%	1.28%	1.44%
other Data					
Market value per share at period-end	$ 17.50	$ 21.94	$ 12.50	$ 13.00	$ 12.00
Price to earnings ratio	19.2	19.9	12.0	13.7	12.9
Price to book value ratio	179%	240%	152%	172%	179%
Dividend payout ratio	41.76%	32.73%	30.76%	29.47%	27.96%
Weighted average shares outstanding	7,489,873	7,455,369	7,447,637	7,402,485	7,377,678

</TABLE>

Letter from management

Dear Fellow Shareholder,

Union Bankshares Corporation (UBSH) is more diverse and larger than any community bank or community bank holding company in Virginia, yet, the geographic and earnings diversity, and size of UBSH is much less than regional or state-wide banking groups. Like a gangly teenager we are bigger than our friends, but not as large as our older brother. Like most adolescents we experience many types of challenges related to growth and maturation.

Regardless of our size, in most ways, we look like a community bank. Our style, local decision-making, individual bank autonomy, customer base, and the communities we serve all mirror community banking. That's one of our major strengths.

Relatively speaking, like most community banks we are a closely held organization. The employees and directors of our affiliates hold over 13% of our outstanding shares. This percentage grows consistently, as this group is an active buyer of UBSH stock. Excluding shares held in street name, residents of the home counties of our two largest banks hold over 35% of our stock and shareholders residing in the markets we serve hold almost 60% of the company. Truly, we are a community banking organization proud to call many of our investors customers and co-workers. However, there are many ways in which we more closely resemble a much larger organization.

Similar to a regional financial services company, UBSH began building diversity in its earnings through the formation of Union Investment Services ("UISI") and Union Mortgage Company. Our acquisition of Mortgage Capital Investors, a mortgage brokerage company with 16 offices in five states, led by Kevin Keegan, will add significant non-interest income to our company. This acquisition was completed on February 11, 1999.

All of the above speaks to the question that I am most often asked, "What is happening to our stock?" Our company doesn't look like a regional bank. It more closely resembles a community bank. Therefore, our stock is going to respond differently than a regional bank, the Dow Jones Industrial Average or the S&P 500. Though trading volumes have increased significantly in the last four years, for now, we are a relatively closely held, thinly traded stock with little following outside of our immediate markets. At this time, supply, demand, and takeover speculation will have a greater effect on our stock price than any other factors.

1998 was a year of mixed results, with many more positives than negatives.

[PHOTO]
From left to right: D. Anthony Peay, Vice President; E. Peyton Motley, Executive Vice President; John C. Neal, Executive Vice President - Union Bank and Trust; David S. Wilson, Executive Vice President; G. William Beale, President and CEO; Myles Gaythwaite, Vice President.

We proceeded through our assessment, validation and testing steps for the Y2K issue. This process required some changes in software and hardware, all of which were completed in 1998. UBSH does not operate any legacy systems, nor do we write any of our own software. Our company uses only standard, widely used software products. By June 30, 1999 UBSH expects to have completed testing of all identified systems, implementing any changes that need to be put in place. As a result of our efforts we expect that January 1, 2000 will be uneventful from a systems standpoint.

On the acquisition front, we were successful in closing two transactions. Five branches were purchased from Signet/First Union in February 1998. Unlike most branch acquisitions where the buyer experiences deposit runoff, each of these branches has grown since the purchase. This is a credit to the fine staff that came to us from Signet. This purchase made our affiliate, Northern Neck State Bank, the dominant bank in the Northern Neck of Virginia with a more than 10% market share in the entire Northern Neck, good growth potential and a stronger branch network than any other organization.

Rappahannock National Bank of Washington, VA was acquired in July, 1998. Under the leadership of Michael Leake we expect to offer a progressive approach to financial services in this market.

The "North Carolina effect" impacted Union Bank & Trust Company in a very positive way. As you know, three large Virginia banks were acquired by North Carolina-based banks in March of 1998. As a result, Union Bank saw a more than 14% growth in loans and deposits in 1998. This growth helped solidify Union Bank's number one market position in Fredericksburg -- one of the fastest growing communities in the state. Union Bank also saw its Hanover market share increase to more than 10%, and with the addition of our latest FasMart branch in Mechanicsville, we are positioned to take advantage of the strong growth Hanover County is experiencing.

Our company now serves five of the 16 fastest growing counties in Virginia. We hold strong market share in our markets, with our deposit growth outpacing the deposit growth of the communities we serve.

[CHART]

	LOANS	DEPOSITS	ASSETS
1994	299,605	408,722	480,844
1995	331,452	431,550	523,613
1996	356,038	455,718	559,782
1997	399,351	469,256	615,716
1998	479,822	607,629	733,847

[PHOTO]
Pictured with an artist's rendering of the Bank's office to be completed in the third quarter of 1999: J. Michael Johnson, President, Bank of Williamsburg; Tina Lester, Branch Manager; and Johnella Carter, Teller (seated).

[PHOTO]
Mortgage Capital Investors is led by Kevin Keegan, pictured here (front row center, gray suit) with some of his associates.

Bank of Williamsburg, which opened in February 1999 in James City County, the 10th fastest growing market in Virginia, has been well received by the community. We expect the bank to grow quickly and to reach profitability ahead of schedule. It is also likely that our new mortgage company will open an office in Williamsburg to take advantage of the residential growth in this dynamic market.

Our non-bank subsidiaries performed well in 1998. Union Mortgage Company which has been merged into Mortgage Capital, reflected increased profits in its second year of operation. Union Investment Services, Inc., our investment brokerage company improved performance as well. 1998 saw UISI expand its brokerage staff and reach the small business market with management of qualified employee deferred compensation plans, such as 401(k)'s. As a reflection of his contribution and leadership, Bern Mahon has been named President of UISI. Our investment in Banker's Title Insurance Agency-Fredericksburg continued to provide steady returns, offering a competitive option for consumers.

We are disappointed by the special loan loss provision related to a sizable loan. In the third quarter, a charge to earnings was made to increase the allocation for losses in anticipation of possible losses on this loan. Management of our organization has been working with the borrower and we feel confident that we will be able to work through this matter.

With the exception of the special provision, earnings were at the level anticipated by management. A number of factors contributed to the flat operating earnings. The most significant factor was the narrowing interest margin. Declining interest rates and aggressive pricing by competitors in the commodity products - indirect lending, credit cards, and home equity loans, decreased our overall margin by 17 basis points, or $1.1 million based on our earning asset level. Our portfolio of residential mortgages saw a decrease of 56 basis points in its yield.

Other factors that slowed earnings growth were merger and acquisition expenses, operational expenses related to three new branches at Union Bank & Trust Company and the narrow margin between the earning asset yield and cost of funds at the branches acquired from Signet.

Your board and management are focused on building long term value in the organization. We are willing to make moves that might have short term earnings impact, to build a stronger franchise in the long term.

In 1999, your management team will focus on improving efficiency, providing better customer service, enhancing our sales culture and internal growth. In 1998, a consulting company helped management draft a road map for process improvement and back office consolidation. By year end, we expect item processing, financial accounting, customer accounting, purchasing, a customer

service call center, and credit administration to be consolidated in a central location. When completed, these moves will result in reduced non-interest expense and improved efficiency.

[PHOTO]
Featured are the employees of Rappahannock National Bank. From left to right: Frank Moffett, Helen Sealocks, Georgia Gilpin, Tommy Thompson, Pat Grigsby, Sherry Shaw, and Mike Leake, Vice President.

[CHART]

	DIVIDENDS PER SHARE	NET INCOME PER SHARE
1994	0.26	0.83
1995	0.28	0.95
1996	0.32	1.04
1997	0.37	1.10
1998	0.38	0.91

The quality and depth of our back office team plays a major part in our ability to grow and provide service to our customers. We are pleased that David "Smokey" Wilson, a seasoned technology manager joined our team in January, 1999.

In late 1998, we invested over $1 million to upgrade our item processing operation. This move will facilitate the consolidation of two processing centers into one. Additionally, early in the second quarter our banks will begin offering imaged statements to their customers. The result will be reduced mail expense, improved customer service and the prospect of generating some modest fee income by providing our commercial customers their monthly bank statements on CD-ROM. Hardware upgrades are scheduled for Northern Neck State Bank in 1999, and our platform and teller software will be standardized at all banks.

Narrow interest margins will continue to impact earnings in 1999. Refinancing of mortgage loans currently in our portfolio will have the greatest impact. Start up costs associated with the Bank of Williamsburg will also affect earnings. Some of this will be offset by the addition of the Mortgage Capital earnings stream as we anticipate 1999 will be another good year for mortgage origination. Overall, we are well-positioned to meet the diverse financial service needs in our communities.

On behalf of management and the Board, I would like to thank our shareholders for their support. We believe we are making decisions appropriate for building shareholder value over the long term.

I received a great deal of shareholder input this year. I appreciate your active interest and questions. Thank you.

Sincerely,

/s/ G. William Beale

G. William Beale

[CHART]

	COST OF INTEREST BEARING LIABILITIES	YIELD ON EARNINGS ASSETS
1994	3.80	8.14
1995	4.63	8.66
1996	4.61	8.68
1997	4.66	8.64
1998	4.60	8.46

Retail Locations

[MAP]

Directors of Union Bankshares Corporation

[PHOTO]

(Standing, l to r): W. Tayloe Murphy, Jr., Ronald L. Hicks, G. William Beale, and E. Peyton Motley. (Seated, l to r): M. Raymond Piland III, Charles H. Ryland, A.D. Whittaker, and Walton Mahon.

Directors

RONALD L. HICKS
Chairman

CHARLES H. RYLAND
Vice Chairman

G. WILLIAM BEALE

WAL

Directo
E. PEYTON MOTLEY
W. TAYLOE MURPHY, JR.

M. RAYMOND PILAND, III

A.D. WHITTAKER

Officers
G. WILLIAM BEALE
President and Chief Executive Officer

E. PEYTON MOTLEY
Executive Vice President and Chief Operating Officer

D. ANTHONY PEAY
Vice President, Chief Financial Officer and
Corporate Secretary

DAVID "SMOKEY" WILSON
Senior Vice President

MYLES W. H. GAYTHWAITE
Vice President

JOHN A. LANE
Vice President

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides information about the major components of the results of operations and financial condition, liquidity and capital resources of Union Bankshares Corporation and subsidiaries (the "Company" or "Union Bankshares"). This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements presented elsewhere in this Annual Report.

OVERVIEW

Union Bankshares Corporation's net income for 1998 totaled $6.8 million or $0.91 per share on a diluted basis, down 16.5% from $8.2 million or $1.09 per share on a diluted basis for 1997. Profitability as measured by return on average assets (ROA) for 1998 was 1.00% as compared to 1.41% a year earlier, while return on average equity (ROE) for 1998 was 9.58% as compared to 12.80% in 1997. Core profitability continued to improve as net interest income increased by 11.9% and service fees on deposit accounts by 33.2%.

Union Bankshares Corporation's financial performance in 1998 was reflective of the many changes experienced throughout the banking industry and the State of Virginia during the year. Continued consolidation in the industry provided opportunities for expansion within existing markets as demonstrated in the acquisition of five branches from Signet/First Union. In addition, three de novo branches were opened during the year. As expected, these branches created a short-term drag on earnings, but have postured our Company to better serve our customers and benefit from the growth in those communities. Since 1993, the Company has opened seven de novo branches and purchased six other branches, representing half of our existing branch network. Despite this growth, the Company has continued to generate strong profits each year.

The Company's performance was also impacted by continued compression of the net interest margin. Competitive pricing for loan products and alternative deposit options for consumers impacted all financial services companies in 1998 and will likely continue to have a negative impact in 1999. Our net interest margin, on a taxable equivalent basis, declined from 4.73% to 4.56% during 1998. This 17 basis point decline represented nearly $1.1 million in potential net interest income. Despite this net interest margin decline, the impact of increases in the

volume of earning assets exceeded the impact of declining rates, resulting in a net increase of $3.0 million in net interest income on a taxable equivalent basis.

The financial services industry has increasingly focused on noninterest income as interest margins have compressed. Our investment brokerage and mortgage brokerage operations contributed $555,000 and $669,000, respectively to noninterest income in 1998, up from $361,000 and $359,000 in 1997. In addition, our focus on providing competitive products and customer service has provided additional sources of fee income.

During the third quarter of 1998, the Company recorded a special loan loss provision of $975,000 related to a single credit relationship. While this special provision negatively impacted earnings for 1998, it is not indicative of any decline in the overall quality of the Company's loan portfolio. The Company is aggressively pursuing collection on this credit, but chose to make this provision due to the uncertainties surrounding the credit.

Assets grew to $733.9 million at December 31, 1998, up 19.2% from $615.7 million a year ago. Loans grew to $479.8 million, up 20.2% over year end 1997 totals. Deposits increased from $489.3 million at December 31, 1997 to $607.6 million at December 31, 1998, a 24.2% increase. Capital growth slowed to 7.2% as management leveraged the Company's strong capital position through the acquisition of five branches. The Company's capital position remains strong with an equity to assets ratio of 10.0%.

In 1998, Union Bankshares Corporation also received the necessary regulatory approvals for the Bank of Williamsburg which opened in temporary headquarters in the Williamsburg Crossing Shopping Center on February 22, 1999. The Bank's main office is expected to be completed and opened during third quarter of 1999 on an outparcel of that shopping center. Also in 1998, Union Bankshares announced it had agreed to purchase Mortgage Capital Investors (MCI), a mortgage brokerage company with 13 locations in Virginia, Maryland, North Carolina, South Carolina and Florida. The acquisition closed on February 11, 1999.

The Company's performance in 1997 was strong with net income of $8.2 million or $1.09 per share, on a diluted basis up 5.5% from 1996. Profitability as measured by ROA was 1.41%, up from 1.38% in 1996, while ROE was 12.80%, up from 12.62% in 1996. These returns were achieved despite asset growth of 10.0% and capital growth of 11.5%.

Net Interest Income

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

During 1998, net interest income, on a taxable equivalent basis, totaled $28.5 million, an increase of 11.6% from $25.5 million in 1997. The Company's net interest margin declined slightly to 4.55% in 1998, as compared to 4.73% in 1997 and 4.79% in 1996. The yield on earning assets declined to 8.45% from 8.64% in 1997 while the cost of interest-bearing liabilities also declined slightly from 4.66% in 1997 to 4.62% in 1998. Average interest-bearing liabilities increased by $77.5 million, or 17.1% while average earning assets grew by $88.1 million, or 15.9%. As a result, the Company was able to realize an increase of $3.0 million in net interest income on a taxable equivalent basis compared to 1997 (see Volume and Rate Analysis table).

The following table depicts interest income on earning assets and related average yields, as well as interest expense on interest-bearing liabilities and related average rates paid for the periods indicated.

Average Balances, Income and Expenses, Yields and Rates (Taxable Equivalent Basis)

<TABLE>
<CAPTION>

	Years Ended December 31,								
	1998			1997			1996		
		Interest			Interest			Interest	

	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(dollars in thousands)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:									
Securities:									
Taxable	$ 94,814	$ 6,107	6.44%	$ 87,272	$ 5,622	6.44%	$ 79,601	$ 4,903	6.16%
Tax-exempt(1)	74,068	5,847	7.89%	68,361	5,569	8.15%	66,559	5,508	8.27%
Total securities ..	168,882	11,954	7.08%	155,633	11,191	7.19%	146,160	10,411	7.12%
Loans, net..............	444,463	40,395	9.09%	375,328	34,939	9.31%	347,748	32,821	9.44%
Federal funds sold	12,549	581	4.63%	7,148	384	5.37%	9,744	519	5.33%
Interest-bearing deposits in other banks........	1,058	71	6.71%	702	53	7.55%	822	46	5.72%
Total earning assets	626,952	53,001	8.45%	538,811	46,567	8.64%	504,474	43,797	8.68%
Allowance for loan losses	(5,339)			(4,693)			(4,525)		
Total non-earning assets	59,942			48,049			44,585		
Total assets	$ 681,555			$582,167			$544,534		
Liabilities & Stockholders' Equity:									
Interest-bearing deposits:									
Checking.............	$ 73,263	$ 1,745	2.38%	$ 56,495	$ 1,452	2.57%	$ 47,685	$ 1,202	2.52%
Regular savings	58,490	1,749	2.99%	53,200	1,638	3.08%	64,260	2,190	3.41%
Money market savings .	60,674	2,065	3.40%	51,119	1,723	3.37%	55,048	1,802	3.27%
Certificates of deposit:									
$100,000 and over.....	68,703	3,789	5.52%	56,481	2,967	5.25%	50,896	2,631	5.17%
Under $100,000........	223,362	12,559	5.62%	192,441	10,949	5.69%	171,112	9,986	5.84%
Total interest-bearing deposits	484,492	21,907	4.52%	409,736	18,729	4.57%	389,001	17,811	4.58%
Other borrowings	45,236	2,556	5.65%	42,449	2,328	5.48%	37,528	1,839	4.90%
Total interest-bearing liabilities	529,728	24,463	4.62%	452,185	21,057	4.66%	426,529	19,650	4.61%
Non-interest bearing liabilities:									
Demand deposits.......	75,278			60,512			56,801		
Other liabilities.....	4,937			5,005			4,650		
Total liabilities...	609,943			517,702			487,980		
Stockholders' equity	71,612			64,465			56,554		
Total liabilities and stockholders' equity .	$ 681,555			$582,167			$544,534		
Net interest income......		$ 28,538			$25,510			$24,147	
Interest rate spread			3.83%			3.98%			4.07%
Interest expense as a percent of average earning assets			3.92%			3.91%			3.90%
Net interest margin......			4.55%			4.73%			4.79%

</TABLE>

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

The following table analyzes changes in net interest income attributable to changes in the volume of interest-bearing assets and liabilities compared to changes in interest rates. Nonaccrual loans are included in average loans outstanding.

Volume and Rate Analysis*
(Taxable Equivalent Basis)

<TABLE>
<CAPTION>

	Years ended December 31,					
	1998 vs. 1997 Increase (Decrease) Due to Changes in:			1997 VS. 1996 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total

(in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
EARNING ASSETS:						
Securities:						
Taxable..................	$ 485	$ -	$ 485	$ 488	$ 231	$ 719
Tax-exempt	454	(176)	278	146	(85)	61
Loans, net.................	6,300	(844)	5,456	2,572	(454)	2,118
Federal funds sold..........	256	(59)	197	(139)	4	(135)
Interest-bearing deposits in other banks...........	24	(6)	18	(7)	14	7
Total earning assets...	7,519	(1,085)	6,434	3,060	(290)	2,770
INTEREST-BEARING LIABILITIES:						
Interest checking...........	405	(112)	293	227	23	250
Regular savings............	159	(48)	111	(354)	(198)	(552)
Money market savings........	327	15	342	(131)	52	(79)
CDs $100,000 and over......	669	153	822	293	43	336
CDs (less than)$100,000....	1,742	(132)	1,610	1,217	(254)	963
Total interest-bearing deposits...........	3,302	(124)	3,178	1,252	(334)	918
Other borrowings............	157	71	228	257	232	489
Total interest-bearing liabilities........	3,459	(53)	3,406	1,509	(102)	1,407
Change in net interest income	$ 4,060	$(1,032)	$3,028	$ 1,551	$ (188)	$ 1,363

</TABLE>

* The change in interest, due to both rate and volume, has been allocated to change due to volume and change due to rate in proportion to the relationship of the absolute dollar amounts of the change in each.

Interest Sensitivity

An important element of earnings performance and the maintenance of sufficient liquidity is proper management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest sensitive assets and interest sensitive liabilities in a specific time interval. This gap can be managed by repricing assets or liabilities, which can be effected by replacing an asset or liability at maturity or by adjusting the interest rate during the life of the asset or liability. Matching the amounts of assets and liabilities maturing in the same time interval helps to hedge interest rate risk and to minimize the impact on net interest income in periods of rising or falling interest rates.

The Company determines the overall magnitude of interest sensitivity risk and then formulates policies governing asset generation and pricing, funding sources and pricing, and off-balance sheet commitments. These decisions are based on management's expectations regarding future interest rate movements, the state of the national and regional economy, and other financial and business risk factors. The Company uses computer simulations to measure the effect of various interest rate scenarios on net interest income. This modeling reflects interest rate changes and the related impact on net income over specified time horizons.

At December 31, 1998, the Company had $146.1 million more liabilities than assets subject to repricing within one year and was, therefore, in a liability-sensitive position. A liability-sensitive Company's net interest margin and net interest income generally will be impacted favorably by declining interest rates, while that of an asset-sensitive Company generally will be impacted favorably by increasing interest rates.

Computer simulation shows UBSH's net interest income to increase when interest rates rise and fall when interest rates decline, although the gap report shows the Company to be liability sensitive. The explanation for this is interest rate changes affect bank products differently. For example: if the prime rate changes by 1.0% (100 bps), the change on certificates of deposit will be around 0.75% (75 bps), while other interest bearing deposit accounts may only change 0.1% (10 bps). Also, despite their fixed terms, loan products are often refinanced as rates decline.

Interest Sensitivity Analysis
<TABLE>
<CAPTION>

	DECEMBER 31, 1998 (1)				
	WITHIN 90 DAYS	90-365 DAYS	1-5 YEARS	OVER 5 YEARS	TOTAL

			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
EARNING ASSETS:					
Loans, net of unearned income (3)	$ 104,454	$ 38,229	$ 206,801	$ 127,525	$ 477,009
Investment securities	-	2,920	10,049	3,173	16,142
Securities available for sale...	2,176	3,097	41,393	114,562	161,228
Other short-term investments....	1,413	-	-	-	1,413
Total earning assets........	108,043	44,246	258,243	245,260	655,792
INTEREST-BEARING LIABILITIES:					
Interest checking (2)	-	-	81,514	-	81,514
Regular savings (2)	-	8,156	53,125	-	61,281
Money market savings............	-	64,331	-	-	64,331
Certificates of deposit:					
$100,000 and over..........	26,974	35,019	18,833	100	80,926
Under $100,000.............	33,810	105,454	98,848	136	238,248
Short-term borrowings	19,476	-	-	-	19,476
Long-term borrowings	5,075	75	17,275	5,900	28,325
Total interest-bearing liabilities	85,335	213,035	269,595	6,136	574,101
Period gap......................	22,708	(168,789)	(11,352)	239,124	-
Cumulative gap..................	$ 22,708	$(146,081)	$(157,433)	$ 81,691	$ 81,691
Ratio of cumulative gap to total earning assets.......	3.46%	-22.28%	-24.01%	12.46%	

</TABLE>

(1) The repricing dates may differ from maturity dates for certain assets due to prepayment assumptions.

(2) The Company has determined that interest-bearing checking deposits and regular savings deposits are not sensitive to changes in related market rates and therefore, it has placed them predominantly in the "1 - 5 Years"column.

(3) Excludes non-accrual loans.

Other Income

Other income increased by 23.9% from $4.5 million in 1997 to $5.6 million in 1998. This increase is largely attributable to the gains in deposit service charges and other service charges of $721,000 and $613,000, respectively. The later charges were fueled by continued growth in mortgage income of $272,640 over 1997 and Union Investment's increase of $194,143 over 1997. Deposit fees grew from the larger base. The remaining increase in non-interest income is reflective of management's efforts to maximize fee-based income and from steady growth in its principal source of non-interest income, service fees.

In 1997, other income increased by 25.8% from $3.6 million in 1996 to $4.5 million. This increase was largely attributable to gains on the sales of other real estate of $446,000, an increase in mortgage origination income of $359,000 and an increase of $89,000 in commissions earned by Union Investment Services.

Other Expenses

Other expenses totaled $20.6 million in 1998, up 24.0% over $16.6 million in 1997. Increases in personnel and operating costs are largely attributable to the growth of the Company which bought five branches from Signet/First Union and opened three other de novo branches. Management considers a portion of such costs to be an investment in the future as we establish the base to provide new products and more convenient service to our customers. Not considering the de novo branches and branches purchased in 1998, other expenses were consistent with 1997, with personnel expense up 12.5% over 1997 which was up 14.7% over 1996. Though the Company's efficiency ratio increased to 61.2% due largely to this growth, we expect this measure to return to lower levels as these branches mature.

Other expenses totaled $16.6 million in 1997, up 11.0% over $15.0 million in 1996 and, like 1998, was reflective of the overall growth of the Company and emphasis on putting the right systems and the right people in place to achieve our corporate goals.

Loan Portfolio

Loans, net of unearned income, totaled $479.8 million at December 31, 1998, an increase of 20.1% over $399.4 million at December 31, 1997. Union Bankshares has achieved a rate of growth consistent with the economies of the markets within

which it operates and has maintained or increased its market share in each. Loans secured by real estate comprised 68.0% of the total loan portfolio at December 31, 1998. Of this total, single-family, residential loans comprised 32.5% of the total loan portfolio at December 31, 1998, up slightly from 31.3% in 1997. Loans secured by commercial real estate comprised 22.5% of the total loan portfolio at December 31, 1998, as compared to 23.3% in 1997, and consist principally of commercial and industrial loans where real estate constitutes a secondary source of collateral. The Company attempts to reduce its exposure to the risk of the local real estate markets by limiting the aggregate size of its commercial real estate portfolio, and by making such loans primarily on owner-occupied properties. Real estate construction loans accounted for only 7.9% of total loans outstanding at December 31, 1998. The Company's charge-off rate for all loans secured by real estate has historically been low.

Loan Portfolio

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1998	1997	1996	1995	1994
			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
Commercial.........................	$ 61,678	$ 45,541	$ 37,375	$ 37,041	$ 40,382
Loans to finance agriculture production and other loans to farmers	2,595	1,590	3,080	2,894	3,118
Real estate:					
Real estate construction	38,128	28,206	13,961	17,479	11,863
Real estate mortgage:					
Residential (1 - 4 family)..	155,843	125,205	114,945	99,821	90,220
Home equity lines...........	18,737	21,061	21,964	22,561	22,503
Multi-family................	3,979	1,905	1,501	1,440	1,509
Commercial(1)...............	108,063	93,568	80,830	72,992	59,233
Agricultural................	2,536	2,292	2,262	2,776	2,943
TOTAL REAL ESTATE...........	327,286	272,237	235,463	217,069	188,271
Loans to individuals:					
Consumer........................	79,492	77,505	76,826	70,788	65,447
Credit card.....................	3,232	2,682	2,567	2,235	1,714
TOTAL LOANS TO INDIVIDUALS..	82,724	80,187	79,393	73,023	67,161
All other loans.....................	6,559	879	2,125	2,619	2,029
TOTAL LOANS.................	480,842	400,434	357,436	332,646	300,961
Less unearned income................	1,020	1,083	1,398	1,194	976
TOTAL NET LOANS................	$ 479,822	$ 399,351	$ 356,038	$ 331,452	$ 299,985

</TABLE>

(1) This category generally consists of commercial and industrial loans where real estate constitutes a secondary source of collateral.

The Company's consumer loan portfolio, its second largest category, consists principally of installment loans. Total loans to individuals for household, family and other personal expenditures totaled 16.6% of total loans at December 31, 1998, down from 19.4% in 1997. Commercial loans, secured by non-real estate business assets comprised 12.9% of total loans at the end of 1998, an increase from 11.4% at the end of 1997. Loans to the agricultural industry totaled less than 1.0% of the loan portfolio in each of the last five years.

Maturity Schedule of Loans

<TABLE>
<CAPTION>

	1 Year or Less	1 - 5 Years	After 5 Years	Total
		(in thousands)		
<S>	<C>	<C>	<C>	<C>
DECEMBER 31, 1998..........	$155,160	$179,068	$146,614	$ 480,842
December 31, 1997..........	138,935	144,220	117,279	400,434
December 31, 1996..........	142,608	142,271	72,557	357,436

</TABLE>

Loans, net of unearned income, totaled $399.3 million at December 31, 1997, an increase of 12.1% over $356.1 million at December 31, 1996, fueled largely by residential mortgage growth.

The Company is focused on providing community-based financial services and

discourages the origination of loans outside of its principal trade area. The Company maintains a policy not to originate or purchase loans to foreign entities or loans classified by regulators as highly leveraged transactions. To manage the growth of the real estate loans in the loan portfolio, facilitate asset/liability management and generate additional fee income, the Company sells a portion of conforming first mortgage residential real estate loans to the secondary market as they are originated. Union Mortgage serves as a mortgage brokerage operation, selling the majority of its loan production in the secondary market while retaining loans meeting the banks' current asset/liability management needs. This venture has provided the banks' customers with enhanced mortgage products and the Company with improved efficiencies through the consolidation of this function. The addition of MCI should significantly expand and enhance this function.

Asset Quality - Allowance/Provision for Loan Losses

The allowance for loan losses represents management's estimate of the amount adequate to provide for potential losses inherent in the loan portfolio. Among other factors, management considers the Company's historical loss experience, the size and composition of the loan portfolio, the value and adequacy of collateral and guarantors, non-performing credits and current and anticipated economic conditions. There are additional risks of future loan losses which cannot be precisely quantified nor attributed to particular loans or classes of loans. Because those risks include general economic trends as well as conditions affecting individual borrowers, the allowance for loan losses is an estimate. 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 size of the allowance in comparison to peer companies identified by regulatory agencies.

Management maintains a list of loans which have a potential weakness that may need special attention. This list is used to monitor such loans and is used in the determination of the sufficiency of the Company's allowance for loan losses. As of December 31, 1998, the allowance for loan losses was $6.4 million, or 1.33% of total loans as compared to $4.8 million, or 1.20% in 1997. The provision for loan losses increased from $1.2 million in 1997 to $3.0 million due largely to a special provision against a single credit (SEE NON-PERFORMING ASSETS).

The allowance for loan losses as of December 31, 1997 was $4.8 million, or 1.20% of total loans as compared to $4.6 million, or 1.29% in 1996. The provision for loan losses in 1997 totaled $1,182,000 as compared to $895,000 in 1996.

Allowance for Loan Losses

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, BEGINNING OF YEAR................	$ 4,798	$ 4,612	$ 4,274	$ 4,320	$ 4,019
Loans charged-off:					
Commercial............................	597	247	114	643	441
Real estate...........................	34	4	59	185	273
Consumer	1,078	958	795	429	363
Total loans charged-off...........	1,709	1,209	968	1,257	1,077
RECOVERIES:					
Commercial............................	126	8	275	112	29
Real estate...........................	18	49	10	16	92
Consumer..............................	130	156	126	106	184
TOTAL RECOVERIES..................	274	213	411	234	305
NET LOANS CHARGED-OFF.....................	1,435	996	557	1,023	772
Provision for loan losses.................	3,044	1,182	895	977	1,073
BALANCE, END OF YEAR......................	$ 6,407	$ 4,798	$ 4,612	$ 4,274	$ 4,320
Ratio of allowance for loan losses to total loans outstanding at end of year	1.33%	1.20%	1.29%	1.28%	1.44%
Ratio of net charge-offs to average loans outstanding during year	0.32%	0.27%	0.16%	0.32%	0.28%

</TABLE>

Nonperforming Assets

During the third quarter of 1998, the Company recorded a special provision for loan losses of $975,000 related to a single credit relationship. Management believes this special provision is not indicative of any decline in the overall quality of the Company's loan portfolio. The Company is working with the borrower to resolve this situation and is aggressively pursuing collection on this credit, but chose to make this provision due to the uncertainties surrounding the credit. The collateral supporting the credit has been appraised and should protect the Company from any further loss on the credit.

Nonperforming Assets

<TABLE>
<CAPTION>

	December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Nonaccrual loans....................	$ 2,813	$ 2,244	$ 523	$ 669	$ 1,731
Foreclosed properties...............	1,101	1,746	4,056	3,620	1,842
Real estate investment..............	730	1,050	2,970	-	-
Total nonperforming assets......	$ 4,644	$ 5,040	$ 7,549	$ 4,289	$ 3,573
Loans past due 90 days and accruing interest..............	$ 2,979	$ 2,675	$ 3,165	$ 3,126	$ 1,671
Nonperforming assets to year-end loans, foreclosed properties and real estate investment..........	0.97%	1.26%	2.10%	1.28%	1.18%
Allowance for loan losses to nonaccrual loans................	227.73%	213.81%	881.84%	638.86%	239.86%

</TABLE>

As of December 31, 1998, nonperforming assets includes approximately $730,000 representing an investment in income-producing property and included in other assets. This property consists of 11 single family homes which are either rented or listed for sale and are located near Fredericksburg, Virginia. The Company had previously acquired a limited interest in this property through settlement of a loan and, in 1996, acquired the remaining ownership and control from the general partner. The carrying value of this investment in real estate is supported by residential appraisals of the homes which are being sold in an orderly manner, and management expects no loss on this investment. Because the initial downpayment on many of these houses was insufficient to qualify for full accrual sale treatment, they are being carried as nonaccrual loans until such time as the borrowers' investment in the property exceeds the required threshold.

Most of the nonperforming assets are secured by real estate within the Company's trade area. Based on the estimated fair values of the related real estate, management considers these amounts to be recoverable, with any individual deficiency considered in the allowance for loan losses.

Non-accrual loans and foreclosed properties were $4.0 million at December 31, 1997, down from $4.6 million at December 31, 1996. Non-accrual loans increased by $1,721,000 in 1997 while other real estate owned decreased from $4.1 million to $1.7 million.

Securities

At December 31, 1998, $161.2 million, or over 90%, of the Company's securities were classified as available for sale, as compared to $143.7 million at December 31, 1997. Investment securities totaled $16.1 million at December 31, 1998 and consists of securities which management intends to hold to maturity.

At December 31, 1997, $143.7 million, or over 88%, of the Company's securities were classified as available for sale, as compared to $129.9 million at December 31, 1996. Investment securities totaled $17.8 million at December 31, 1997 and consists of securities which management intends to hold to maturity.

The Company seeks to diversify its portfolio to minimize risk and to maintain a large amount of securities issued by states and political subdivisions due to the tax benefits such securities provide. It also purchases mortgage backed securities because of the reinvestment opportunities from the cashflows and the higher yield offered from these securities. The investment portfolio has a high percentage of municipals and mortgage backed securities which is the main reason for the high yield the portfolio attains compared to its peers.

Maturities of Investment Securities and Securities available for Sale

<TABLE>
<CAPTION>

	DECEMBER 31, 1998				
	1 YEAR OR LESS	1 - 5 YEARS	5 - 10 YEARS	OVER 10 YEARS & EQUITY SECURITIES	TOTAL
	(dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
U.S. government and agency securities:					
Amortized cost..................	$ 1,500	$ 10,100	$ 796	$ 998	$ 13,394
Fair value......................	1,505	10,193	802	998	13,498
Weighted average yield(1).......	6.13%	6.11%	6.19%	6.36%	6.14%
Mortgage backed securities:					
Amortized cost..................	$ 3,697	$ 22,300	$ 13,462	$ 29,556	$ 69,015
Fair value......................	3,724	22,474	13,563	29,635	69,396
Weighted average yield(1).......	7.06%	6.77%	6.66%	6.45%	6.62%
Municipal bonds:					
Amortized cost..................	$ 2,455	$ 17,337	$ 35,381	$ 27,115	$ 82,288
Fair value.	2,474	17,910	37,435	27,650	85,469
Weighted average yield(1).......	7.93%	7.90%	7.88%	7.14%	7.64%
Other securities:					
Amortized cost..................	$ 504	$ 1,015	$ -	$ 7,604	$ 9,123
Fair value.	512	1,040	-	7,765	9,317
Weighted average yield(1).......	7.62%	6.58%	-	7.57%	7.46%
Total securities:					
Amortized cost..................	$ 8,156	$ 50,751	$ 49,640	$ 65,273	$ 173,820
Fair value......................	8,215	51,617	51,800	66,048	177,680
Weighted average yield(1).......	7.19%	7.02%	7.52%	6.86%	7.11%

</TABLE>

(1) Yields on tax-exempt securities have been computed on a tax-equivalent basis.

Deposits

In 1998, the opening and purchase of branches fueled deposit growth; however without these additions, the total deposits at existing branches still grew at a 9.2% increase over 1997 balances which was an improvement over the 7.4% growth in 1997 over 1996. Competition for deposits is aggressive and the Company continues to focus on products and services that attract deposit customers.

Total deposits grew from $489.3 million at December 31, 1997 to $607.6 million at December 31, 1998. Over this same period, average interest-bearing deposits were $484.5 million, or 18.2% over the 1997 average of $409.7 million. The majority of this increase in average deposits is represented by a $43.1 million increase in certificates of deposit and a $9.5 million increase in money market accounts. In 1998, all categories increased with the Company's lowest cost source of funds, non-interest-bearing demand deposits increasing by a total of $15.6 million. The Company has no brokered deposits.

Average Deposits and Rates Paid

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,					
	1998		1997		1996	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Non-interest-bearing accounts	$ 75,278	-	$ 60,512	-	$ 56,801	-
Interest-bearing accounts:						
Interest checking..................	73,263	2.38%	56,495	2.57%	47,685	2.52%
Money market.......................	60,674	3.40%	51,119	3.37%	55,048	3.27%
Regular savings....................	58,490	2.99%	53,200	3.08%	64,260	3.41%
Certificates of deposit:						
Less than $100,000............	223,362	5.61%	192,441	5.69%	171,112	5.84%
$100,000 and over.............	68,703	5.52%	56,481	5.25%	50,896	5.17%
Total interest-bearing................	484,492	4.51%	409,736	4.57%	389,001	4.58%

Total average deposits............	$ 559,770	$ 470,248	$445,802
	=========	=========	========

</TABLE>

Maturities of Certificates of Deposit of $100,000 and Over

<TABLE>
<CAPTION>

	WITHIN 3 MONTHS	3 - 6 MONTHS	6 - 12 MONTHS	OVER 12 MONTHS	TOTAL	PERCENT OF TOTAL DEPOSITS
			(dollars in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AT DECEMBER 31, 1998..........	$ 26,974	$ 16,014	$ 19,005	$ 18,933	$ 80,926	13.32%
At December 31, 1997..........	14,116	29,408	13,924	3,723	61,171	12.94%
At December 31, 1996..........	15,917	11,663	12,346	14,459	54,385	12.37%

</TABLE>

Total deposits grew from $455.7 million at December 31, 1996 to $489.3 million at December 31, 1997. Over this same period, average interest-bearing deposits were $409.7 million, or 5.3% over the 1996 average of $389.0 million.

Capital Resources

Capital resources represents 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 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-weighed 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 goodwill items. The Company had a ratio of risk-weighted assets to total capital of 13.70% and 17.45% on December 31, 1998 and 1997, respectively. The Company's ratio of risk-weighted assets to Tier 1 capital was 12.47% and 16.28% at December 31, 1998 and 1997, respectively. Both of these ratios exceeded the fully phased-in capital requirements in 1998 and 1997.

The Company's strategic plan includes targeted capital levels between 8% and 9%. The addition of the five Signet branches brings the Company's capital levels down, but still above the targeted range. Future earnings should increase the return on average equity.

Analysis of Capital

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
	(dollars in thousands)	
<S>	<C>	<C>
TIER 1 CAPITAL:		
Common stock................................	$ 15,015	$ 14,937
Surplus.....................................	311	55
Retained earnings...........................	55,690	51,728
Total equity............................	71,016	66,720
Less: core deposit intangibles..............	(5,846)	(237)
Total Tier 1 capital	65,170	66,483
TIER 2 CAPITAL:		
Allowance for loan losses	6,407	4,798
Allowable long-term debt....................	-	-
Total Tier 2 capital	6,407	4,798

Total risk-based capital....................	$ 71,577	$ 71,281
Risk-weighted assets	$ 522,533	$ 408,422
CAPITAL RATIOS:		
Tier 1 risk-based capital ratio.............	12.47%	16.28%
Total risk-based capital ratio..............	13.70%	17.45%
Tier 1 capital to average adjusted total assets	9.06%	11.45%
Equity to total assets	10.00%	11.11%

</TABLE>

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, investments and loans maturing within one year. The Company's ability to obtain deposits and purchase funds at favorable rates determines its liability liquidity. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity which is sufficient to satisfy its depositors' requirements and to meet it customers' credit needs.

At December 31, 1998, cash and cash equivalents and securities classified as available for sale were 27.6% of total assets, compared to 27.9% at December 31, 1997. Asset liquidity is also provided by managing loan and securities maturities and cash flows.

Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary. The subsidiary banks maintain federal funds lines with several regional banks totaling approximately $48 million at December 31, 1998. At year end 1998, the Banks had outstanding $14.9 million of borrowings pursuant to securities sold under agreements to repurchase transactions with a maturity of one day. The Company also had a line of credit with the Federal Home Loan Bank of Atlanta for $68 million at December 31, 1998.

Year 2000

Many companies have existing computer applications which use only two digits to identify a year in the date field. They were designed and developed without considering the impact of the change of the century. If not corrected these computer applications may fail or create erroneous results in the Year 2000. Because UBSH relies on information processing and communications the Year 2000 issue is of concern. To address Y2K concerns, management established a Year 2000 team in September of 1997. The project's scope includes all information technology (IT).

The awareness and assessment phases for its material IT systems ("mission-critical systems") are complete and the company is currently in the remediation and testing phases. We anticipate that we will complete the remediation and testing phases for our mission-critical IT systems by March 31, 1999.

Additionally we have been in contact with our material business partners to determine their state of readiness and the potential impact on the Company. Where we have determined that a relationship with a business partner is material to our ability to conduct normal operations, we have sent letters to the business partner requesting an update on the status of its own Year 2000 initiative. Where necessary, we are following-up to obtain further information. There can be no assurances that all material business partners will be compliant. Such noncompliance could have an effect on the Company's financial position and results of operations. We expect to complete our review of material business partners by March 31, 1999.

The Bank is preparing its contingency plans should mission critical systems not be ready to process Year 2000 transactions. Contingency plan alternatives include using a backup processing site, preparing transactions manually, and making system modifications. At this time, Management believes the most likely worst case scenario concerning Year 2000 would not have a material effect on the Bank's results of operations, liquidity, and financial condition for the year ending December 31, 2000. However, the Bank is dependent on numerous outside vendors whom we cannot control. Additionally, the Management of the Bank believes that no entity can address the virtually unlimited possible circumstances related to Year 2000 issues, including risks outside the Bank's marketplace. While unlikely, it is acknowledged that the Bank's failure to successfully implement its Year 2000 plan or to adequately assess the likelihood of events relating to the Year 2000 issue, could have a material adverse impact on operations.

We expect to incur internal staff costs as well as consulting and other expenses related to the infrastructure and facilities enhancements necessary to prepare its systems for the Year 2000. Testing and conversion of system applications is expected to cost approximately $250,000. This estimate includes some costs that will qualify as depreciable assets for accounting purposes, with the related depreciation expense recognized over the estimated lives of the related assets. The majority of the costs will be expensed as incurred. A significant portion of these costs are not likely to be incremental costs, but rather a redeployment of existing information technology resources. Approximately $65,000 of this amount was incurred as of December 31, 1998. The remainder of the estimated cost of the project is expected to be incurred in 1999. All costs of the Year 2000 project have been expensed as incurred.

Recent Accounting Pronouncements

In June 1998, the FASB issued Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which is required to be adopted in years beginning after June 15, 1999. The Company expects to adopt the new Statement effective January 1, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

The Accounting Standards Executive Committee (AcSEC) of the AICPA has issued Statement of Position (SOP) 98-5, REPORTING ON THE COSTS OF START-UP ACTIVITIES. In the past, some entities have capitalized certain start-up costs while other entities expense start-up costs as incurred. Entities that have capitalized certain start-up costs have used diverse amortization periods for those capitalized costs. AcSEC developed SOP 98-5 to reduce these diversities in financial reporting. SOP 98-5 requires that the costs of start-up activities, including organization costs, be expensed as incurred. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. Initial application of the SOP should be as of the beginning of the fiscal year in which the SOP is first adopted and should be reported as the cumulative effect of a change in accounting principle as described in APB Opinion No. 20, Accounting Changes. Management does not anticipate the impact of this pronouncement to be material to the Company's financial position of results of operations.

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 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.

Consolidated Balance Sheets

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
December 31, 1998 and 1997
(dollars in thousands)

<TABLE>
<CAPTION>

ASSETS	1998	1997
<S>	<C>	<C>
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 39,607	$ 20,959
Interest-bearing deposits in other banks	1,413	790
Federal funds sold	-	6,932
TOTAL CASH AND CASH EQUIVALENTS	41,020	28,681
SECURITIES AVAILABLE FOR SALE, AT FAIR VALUE (NOTE 2)	161,228	143,711
INVESTMENT SECURITIES, AT AMORTIZED COST (NOTE 2)		
Fair value of $16,452 and $18,057, respectively	16,142	17,769
TOTAL SECURITIES	177,370	161,480

	1998	1997
LOANS, NET OF UNEARNED INCOME (NOTES 3 AND 10)	479,822	399,351
Less allowance for loan losses (note 4)	6,407	4,798
NET LOANS	473,415	394,553
BANK PREMISES AND EQUIPMENT, NET (NOTE 5)	21,057	16,978
OTHER REAL ESTATE OWNED	1,101	1,746
OTHER ASSETS (NOTE 7)	19,984	12,278
TOTAL ASSETS	$ 733,947	$ 615,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
NON-INTEREST-BEARING DEMAND DEPOSITS	$ 81,329	$ 65,706
INTEREST-BEARING DEPOSITS:		
Savings accounts	61,281	55,014
NOW accounts	81,514	60,010
Money market accounts	64,331	50,387
Time deposits of $100,000 and over	80,926	61,171
Other time deposits	238,248	196,968
TOTAL INTEREST-BEARING DEPOSITS	526,300	423,550
TOTAL DEPOSITS	607,629	489,256
SHORT-TERM BORROWINGS (NOTE 6)	19,476	27,245
LONG-TERM BORROWINGS (NOTE 6)	28,325	23,715
OTHER LIABILITIES (NOTE 8)	5,158	7,073
TOTAL LIABILITIES	660,588	547,289
STOCKHOLDERS' EQUITY (NOTES 8 AND 12):		
Common stock, $2 par value. Authorized 24,000,000 shares; issued and outstanding, 7,507,394 shares in 1998 and 7,468,292 shares in 1997	15,015	14,937
Surplus	311	55
Retained earnings	55,690	51,728
Accumulated other comprehensive income:		
Unrealized net gain on securities available for sale, net of taxes of $1,207 and $879, respectively	2,343	1,707
TOTAL STOCKHOLDERS' EQUITY	73,359	68,427
COMMITMENTS AND CONTINGENCIES (NOTES 5 AND 9)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 733,947	$ 615,716

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Years ended December 31, 1998, 1997 and 1996
(dollars in thousands, except per share amounts)

<TABLE>
<CAPTION>

<S>	1998	1997	1996
Interest income:			
Interest and fees on loans (note 3)	$ 40,395	$ 34,939	$ 32,821
Interest on securities:			
U.S. government and agency securities	1,505	3,569	4,489
Obligations of states and political subdivisions	4,145	3,954	3,837
Other securities	4,365	1,922	356
Interest on Federal funds sold	581	384	519
Interest on interest-bearing deposits in other banks	71	53	46
Total interest income	51,062	44,821	42,068
Interest expense:			
Interest on deposits	21,907	18,729	17,811
Interest on other borrowings	2,556	2,328	1,839
Total interest expense	24,463	21,057	19,650

Net interest income	26,599	23,764	22,418
Provision for loan losses (note 4)	3,044	1,182	895
Net interest income after provision for loan losses	23,555	22,582	21,523
Other income:			
Service charges on deposit accounts	2,894	2,173	2,009
Other service charges and fees	1,973	1,360	780
Gains (losses) on securities transactions, net	71	(29)	(33)
Gains on sales of loans	-	-	47
Gains (losses) on sales of other real estate owned and bank premises, net	297	446	(11)
Other operating income	332	545	780
Total other income	5,567	4,495	3,572
Other expenses:			
Salaries and benefits	10,902	8,990	7,871
Occupancy expenses	1,280	971	922
Furniture and equipment expenses	1,617	1,435	1,214
Other operating expenses	6,823	5,232	4,975
Total other expenses	20,622	16,628	14,982
Income before income taxes	8,500	10,449	10,113
Income tax expense (note 7)	1,678	2,283	2,374
Net income	$ 6,822	$ 8,166	$ 7,739
Other comprehensive income:			
Unrealized holding gains (losses) arising during the period, net of taxes of $352, $729 and $202 for 1998, 1997 and 1996	683	1,416	(393)
Less reclassification adjustments for (gains) losses included in net income, net of taxes of $24, $10 and $11 for 1998, 1997 and 1996	(47)	19	(22)
Total other comprehensive income	636	1,435	(415)
Comprehensive income	$ 7,458	$ 9,601	$ 7,324
Basic net income per share (note 11)	$ 0.91	$ 1.10	$ 1.04
Diluted net income per share (note 11)	$ 0.91	$ 1.09	$ 1.03
Cash dividends per share of common stock	$ 0.38	$ 0.37	$ 0.32

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes
in Stockholders' Equity

UNION BANKSHARES CORPORATION AND SUBSIDIARIES Years ended December 31, 1998, 1997 and 1996 (dollars in thousands)

<TABLE>
<CAPTION>

	COMMON STOCK				ACCUMULATED OTHER	
	SHARES	AMOUNT	SURPLUS	RETAINED EARNINGS	COMPREHENSIVE INCOME	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE - DECEMBER 31, 1995, AS PREVIOUSLY REPORTED	7,123,940	$ 14,248	$ 66	$ 38,722	$ 647	$ 53,683
Pooling of interest with Rappahannock (Note 1)	316,418	633	(333)	2,057	(4)	2,353
Cash dividends declared	-	-	-	(2,315)	-	(2,315)
Issuance of common stock under Dividend Reinvestment Plan	22,290	45	227	-	-	272

Stock repurchased under Stock Repurchase Plan	(12,400)	(26)	(133)	-	-	(159)
Change in net unrealized losses on securities available for sale, net of taxes $185	-	-	-	-	(371)	(371)
Net income - 1996	-	-	-	7,739	-	7,739
BALANCE - DECEMBER 31, 1996	7,450,248	14,900	(173)	46,203	272	61,202
Cash dividends declared	-	-	-	(2,641)	-	(2,641)
Issuance of common stock under Dividend Reinvestment Plan	21,044	43	261	-	-	304
Stock purchased under Stock Repurchase Plan	(3,000)	(6)	(33)	-	-	(39)
Change in net unrealized gains on securities available for sale, net of taxes $728	-	-	-	-	1,435	1,435
Net income -1997	-	-	-	8,166	-	8,166
BALANCE - DECEMBER 31, 1997	7,468,292	14,937	55	51,728	1,707	68,427
Cash dividends declared	-	-	-	(2,860)	-	(2,860)
Issuance of common stock under Dividend Reinvestment Plan	17,326	35	289	-	-	324
Issuance of common stock under Incentive Stock Option Plan	21,776	43	(33)	-	-	10
Change in net unrealized gains on securities available for sale, net of taxes $328	-	-	-	-	636	636
Net income -1998	-	-	-	6,822	-	6,822
BALANCE - DECEMBER 31, 1998	7,507,394	$ 15,015	$ 311	$ 55,690	$2,343	$ 73,359

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Years ended December 31, 1998, 1997 and 1996
(dollars in thousands)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Operating activities:			
Net income	$ 6,822	$ 8,166	$ 7,739
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization of bank premises and equipment	1,482	1,359	1,131
Provision for loan losses	3,044	1,182	895
(Gains) losses on securities transactions, net	71	29	33
Gains on sale of loans	-	-	(47)
Gains on sales of other real estate owned, net	(297)	(446)	(11)
Deferred income tax expense (benefit)	(567)	(173)	(173)
Decrease (increase) in accrued interest receivable	114	(292)	88
Other, net	(9,044)	2,188	(1,671)
Net cash and cash equivalents provided			

by operating activities	1,625	12,013	7,984
Investing activities:			
Purchases of investment securities	(1,646)	(8,949)	(8,078)
Proceeds from maturities of investment securities	3,269	6,695	11,022
Purchases of securities available for sale	(82,381)	(37,565)	(48,265)
Proceeds from sales of securities available for sale	56,472	2,857	18,677
Proceeds from maturities of securities available for sale	8,838	26,662	27,564
Net increase in loans	(82,056)	(45,164)	(25,730)
Purchases of bank premises and equipment	(5,642)	(4,003)	(5,143)
Proceeds from sales of bank premises and equipment	80	-	2
Proceeds from sales of other real estate owned	1,092	3,611	212
Net cash and cash equivalents used in investing activities	(101,974)	(55,856)	(29,739)
Financing activities:			
Net increase in non-interest-bearing deposits	15,623	6,242	5,518
Net increase in interest-bearing deposits	102,750	27,440	18,976
Net decrease in short-term borrowings	(7,769)	(158)	(3,705)
Proceeds from long-term borrowings	4,745	12,800	10,000
Repayment of long-term borrowings	(135)	(210)	(150)
Cash dividends paid	(2,860)	(2,791)	(2,490)
Issuance of common stock	334	304	272
Purchases of common stock	-	(39)	(159)
Net cash and cash equivalents provided by financing activities	112,688	43,588	28,262
Increase (decrease) in cash and cash equivalents	12,339	(255)	6,507
Cash and cash equivalents at beginning of year	28,681	28,936	22,429
Cash and cash equivalents at end of year	$ 41,020	$ 28,681	$ 28,936
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest	$ 24,267	$ 21,053	$ 19,719
Income taxes	$ 2,747	$ 2,517	$ 2,162

</TABLE>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Years ended December 31, 1998, 1997 and 1996

1 Summary of Significant Accounting Policies

The accounting policies and practices of Union Bankshares Corporation and subsidiaries (the "Company") conform to generally accepted accounting principles and to general practice within the banking industry. Major policies and practices are described below:

(A) Principles of Consolidation

The consolidated financial statements include the accounts of Union Bankshares Corporation and its wholly-owned subsidiaries. Union Bankshares Corporation is a bank holding company that owns all of the outstanding common stock of its banking subsidiaries, Union Bank and Trust Company ("Union Bank"), Northern Neck State Bank ("Northern Neck"), King George State Bank ("King George"), Rappahannock National Bank ("Rappahannock") and its non-banking subsidiaries, Union Investment Services, Inc. and Union Mortgage Company, LLC. All significant intercompany balances and transactions have been eliminated. Rappahannock was merged with and into the Company on July 1, 1998. The merger was accounted for as a pooling-of-interests and, accordingly, the amounts in the consolidated financial statements include the accounts and results of Rappahannock for all periods presented.

The accompanying consolidated financial statements for prior periods reflect certain reclassifications in order to conform with the 1998 presentation.

(B) Investment Securities and Securities Available for Sale

When securities are purchased, they are classified as investment securities when management has the intent and the Company has the

ability to hold them to maturity. Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using a method that approximates the interest method.

Securities available for sale are those that management intends to hold for an indefinite period of time, including securities used as part of the Company's asset/liability strategy, and that may be sold in response to changes in interest rates, liquidity needs or other similar factors. Securities available for sale are recorded at estimated fair value. The net unrealized gains or losses on securities available for sale, net of deferred taxes, are included in accumulated comprehensive income in stockholders' equity. Gains and losses on the sale of securities are determined using the specific identification method.

(C) Loans

Interest on loans is calculated using the simple interest method on daily balances of principal amounts outstanding. The accrual of interest is discontinued when the collection of principal and/or interest is legally barred or considered by management to be highly unlikely. After a loan is classified as nonaccrual, interest income is generally recognized only when collected.

Loan origination fees and direct loan origination costs for completed loans are netted and then deferred and amortized into interest income as an adjustment of yield.

(D) Allowance for Loan Losses

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 collectibility 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 measures the value of impaired loans based on the present value of the expected future cash flows discounted at the loan's effective rate, or the fair value of the loan's collateral and establishes an allowance for loan losses based on this measurement period. The Company includes, as a component of its allowance for loan losses, amounts it deems adequate to cover estimated losses related to impaired loans. Interest income on impaired loans is recognized on a cash basis.

(E) Bank Premises and Equipment

Bank premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using either the straight-line or accelerated method based on the type of asset involved. It is the policy of the Company to capitalize additions and improvements and to depreciate the cost thereof over their estimated useful lives. Maintenance, repairs and renewals are expensed as they are incurred.

(F) Intangible assets

Core deposit intangibles are included in other assets and are being amortized on a straight-line basis over the period of expected benefit, which approximates 15 years. Core deposits, net of

amortization amounted to $5,846,000 and $237,000 at December 31, 1998 and 1997, respectively.

(G) Income Taxes

Deferred income tax assets and liabilities are recorded for differences between the financial statement and income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

(H) Other Real Estate Owned

Foreclosed assets are carried at the lower of (a) fair value minus estimated costs to sell or (b) cost at the time of foreclosure. Such determination is made on an individual asset basis. If the fair value of the asset minus the estimated costs to sell the asset is less than the cost of the asset, the deficiency is recognized as a valuation allowance. If the fair value of the asset minus the estimated costs to sell the asset subsequently increases and is more than its carrying amount, the valuation allowance is reduced, but not below zero. Increases or decreases in the valuation allowance are charged or credited to income. Recovery of the carrying value of such real estate is dependent to a great extent on economic, operating and other conditions that may be beyond the Company's control.

(I) Consolidated Statements of Cash Flows

For purposes of reporting cash flows, the Company defines cash and cash equivalents as cash, due from banks, interest-bearing deposits in other banks and Federal funds sold. Other real estate owned increased in the amount of $150,000, $880,000 and $635,000 during the years ended December 31, 1998, 1997 and 1996, respectively, as a result of loan foreclosures. These represent non-cash investing activities for purposes of the consolidated statements of cash flows.

(J) Pension Plan

The Company computes the net periodic pension cost of its pension plan in accordance with Statement of Financial Accounting Standards No. 87, "EMPLOYERS' ACCOUNTING FOR PENSIONS." Costs of the plan are determined by independent actuaries.

(K) Earnings per share

Basic earings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is computed using the weighted average number of common shares outstanding during the year, including the dilutive effect of stock options.

(L) Segment Information

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards and disclosure requirements for the way companies report information about operating segments, including related product information, both in annual and interim reports issued to stockholders. This standard is effective for financial statements issued for periods beginning after December 15, 1997, including interim periods. Management has determined that for the purpose of this disclosure the Company has only one segment.

(M) Comprehensive Income

Comprehensive income represents all changes in equity of an enterprise that result from recognized transactions and other economic events of the period. Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income, such as unrealized gains and losses on certain investments in debt and equity securites.

(N) Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions of certain amounts in the financial statements. Actual results could differ from these estimates.

2 Investment Securities and Securities Available for Sale

The amortized cost, gross unrealized gains and losses of investment securities and estimated fair value at December 31, 1998 and 1997 are summarized as follows (in thousands):

<TABLE>
<CAPTION>

1998	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. government and agency securities	$ 5,747	$ 40	$ -	$ 5,787
Obligations of states and political subdivisions	8,765	241	-	9,006
Corporate and other bonds	1,630	29	-	1,659
	$ 16,142	$ 310	$ -	$ 16,452

<CAPTION>

1997	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. government and agency securities	$ 5,678	$ 27	$ -	$ 5,705
Obligations of states and political subdivisions	8,235	218	5	8,448
Corporate and other bonds	3,856	50	2	3,904
	$ 17,769	$ 295	$ 7	$ 18,057

</TABLE>

The amortized cost, estimated fair value and gross unrealized gains and losses of securities available for sale at December 31, 1998 and 1997 are summarized as follows (in thousands):

<TABLE>
<CAPTION>

1998	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. government and agency securities	$ 7,647	$ 64	$ -	$ 7,711
Obligations of states and political subdivisions	73,523	2,979	39	76,463
Corporate and other bonds	4,175	98	-	4,273
Mortgage-backed securities	69,015	489	108	69,396
Federal Reserve Bank stock	484	-	-	484
Federal Home Loan Bank stock	2,517	-	-	2,517
Other securities	317	67	-	384
	$ 157,678	$ 3,697	$ 147	$ 161,228

<CAPTION>

1997	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>

U.S. government and agency securities	$ 22,631	$ 78	$ 36	$ 22,673
Obligations of states and political subdivisions	63,387	2,282	5	65,664
Corporate and other bonds	1,498	27	-	1,525
Mortgage-backed securities	50,060	411	244	50,227
Federal Reserve Bank stock	424	-	-	424
Federal Home Loan Bank stock	2,806	16	-	2,822
Other securities	322	54	-	376
	$ 141,128	$ 2,868	$ 285	$ 143,711

</TABLE>

The amortized cost and estimated fair value of investment securities and securities available for sale at December 31, 1998, by contractual maturity, are shown below. 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.

<TABLE>
<CAPTION>

	INVESTMENT SECURITIES		SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 2,920	$ 2,942	$ 5,236	$ 5,273
Due after one year through five years	10,049	10,221	40,702	41,393
Due after five years through ten years	1,388	1,424	48,252	50,379
Due after ten years	1,785	1,865	60,170	60,798
	16,142	16,452	154,360	157,843
Federal Reserve Bank stock	-	-	484	484
Federal Home Loan Bank stock	-	-	2,517	2,517
Other securities	-	-	317	384
	$ 16,142	$ 16,452	$ 157,678	$ 161,228

</TABLE>

Investment securities with an amortized cost of approximately $43,297,000 at December 31, 1998 were pledged to secure public deposits, repurchase agreements and for other purposes.

Sales of securities available for sale produced the following results for the years ended December 31, 1998, 1997 and 1997 (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Proceeds	$ 56,472	$ 2,857	$ 18,677
Gross gains	$ 195	$ 58	$ 126
Gross losses	(124)	(87)	(159)
Net gains (losses)	$ 71	$ (29)	$ (33)

</TABLE>

3 Loans

Loans are stated at their face amount, net of unearned income, and consist of the following at December 31, 1998 and 1997 (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Real estate loans	$ 327,286	$ 272,237
Commercial loans	61,678	45,541
Loans to individuals for household, family and other personal expenditures	82,724	80,187
All other loans	9,154	2,469
	480,842	400,434
Less unearned income on loans	1,020	1,083
	$ 479,822	$ 399,351

</TABLE>

At December 31, 1998 and 1997, the recorded investment in loans which have been identified as impaired loans, in accordance with Statement of Financial Accounting Standards No. 114, "ACCOUNTING BY CREDITORS FOR IMPAIRMENT OF A LOAN" (SFAS 114), as amended by SFAS 118, totaled $2,813,000 and $2,244,000, respectively.

Nonaccrual loans totaled approximately $2,813,000 at December 31, 1998. The gross interest income that would have been recorded during 1998, 1997 and 1996 had the Company's nonaccrual loans been current with their original terms, was approximately $397,000, $208,000 and $96,000, respectively. The amount of interest income recorded by the Company during 1998, 1997 and 1996 on nonaccrual loans was approximately $61,000, $102,000 and $44,000, respectively.

4 Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31, 1998, 1997 and 1996 are summarized below (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Balance, beginning of year	$ 4,798	$ 4,612	$ 4,274
Provision charged to operations	3,044	1,182	895
Recoveries credited to allowance	274	213	411
Total	8,116	6,007	5,580
Loans charged off	1,709	1,209	968
Balance, end of year	$ 6,407	$ 4,798	$ 4,612

</TABLE>

5 Bank Premises and Equipment

Bank premises and equipment as of December 31, 1998 and 1997 are as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Land	$ 5,386	$ 4,902
Land improvements and buildings	13,328	10,551
Leasehold improvements	383	382
Furniture and equipment	11,031	9,835
Construction in progress	762	177
	30,890	25,847
Less accumulated depreciation and amortization	9,833	8,869
Bank premises and equipment, net	$ 21,057	$ 16,978

</TABLE>

Depreciation and amortization expense for 1998, 1997 and 1996 was $1,482,000, $1,359,000 and $1,133,000, respectively. Future minimum rental payments required under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 1998 are approximately $139,000 for 1999, $141,000 for 2000, $144,000 for 2001, $25,000 for 2002, $25,000 for 2003, and $500,000 thereafter.

6 Other Borrowings

Short-term borrowings consist of the following at December 31, 1998, 1997 and 1996 (dollars in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Federal funds purchased	$ 4,500	$ 9,000	$ 6,295
Securities sold under agreements to repurchase	14,856	11,645	11,698

Other short-term borrowings	120	6,600	9,410
Total	$ 19,476	$ 27,245	$ 27,403
Weighted interest rate	3.92%	5.94%	5.27%
Average for the year ended December 31:			
Outstanding	$ 15,150	$ 20,716	$ 26,344
Interest rate	5.26%	4.99%	4.58%
Maximum month-end outstanding	$ 41,621	$ 28,422	$ 31,023

</TABLE>

Federal funds purchased and securities sold under agreements to repurchase are due within one year. The subsidiary banks maintain Federal funds lines with several regional banks totaling approximately $48 million at December 31, 1998. The Company also had a line of credit with the Federal Home Loan Bank of Atlanta for $68 million at December 31, 1998. Long-term debt consisted of the following at December 31, 1998 and 1997 (dollars in thousands):

	1998	1997
Federal Home Loan Bank borrowings:		
Floating rate, due April 24, 2000	$ 5,000	$ 5,000
5.51%, due March 26, 2008	5,000	-
5.60%, due June 6, 2001	10,000	10,000
5.97%, due July 10, 2002	6,000	6,000
5.81%, due January 10, 2004	275	325
6.08%, due February 15, 2004	275	325
6.61%, due March 17, 2004	275	325
Floating Rate Note Payable to Crestar, due July 1, 2004	1,500	1,740
Total long-term debt	$ 28,325	$ 23,715

7 Income Taxes

The components of the 1998, 1997 and 1996 income tax expense (benefit) are as follows (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Current taxes - Federal	$ 2,245	$ 2,456	$ 2,547
Deferred taxes - Federal	(567)	(173)	(173)
Income tax expense	$ 1,678	$ 2,283	$ 2,374

</TABLE>

The reasons for the difference between actual income tax expense and the amount computed by applying the statutory Federal income tax rate to income before income taxes are shown below (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Computed "expected" tax expense	$ 2,890	$ 3,553	$ 3,439
Increase (reduction) in taxes resulting from:			
Tax-exempt interest	(1,203)	(1,181)	(1,151)
Other, net	(9)	(89)	86
Income tax expense	$ 1,678	$ 2,283	$ 2,374

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are as follows (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Deferred tax assets:		
Loans, principally due to the allowance for loan losses	$ 1,799	$ 1,192

Benefit plans	484	430
Other	135	259
Total deferred tax assets	2,418	1,881
Deferred tax liabilities:		
Unrealized gains on securities available for sale	1,207	879
Bank premises and equipment, principally due to depreciation	326	291
Other	96	161
Total deferred tax liabilities	1,629	1,331
Net deferred tax asset (included in other assets)	$ 789	$ 550

</TABLE>

In assessing the realizability of deferred tax assets, management considers the scheduled reversal of temporary differences, projected future taxable income, and tax planning strategies. Management believes it is more likely than not the Company will realize its deferred tax assets and, accordingly, no valuation allowance has been established.

8 Employee Benefits

The Company has a noncontributory, defined benefit pension plan covering all full-time employees. Significant assumptions used in determining net periodic pension cost and projected benefit obligation for 1998 and 1997 were:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Expected long-term rate of return on assets	9.0%	9.0%
Discount rate	7.5%	7.5%
Salary increase rate	5.0%	5.0%
Average remaining service	21 YEARS	22 years

</TABLE>

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 1998 and 1997 (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 3,756	$ 3,179
Service cost	384	323
Interest cost	281	237
Actuarial (gain) loss	(275)	43
Benefits paid	(26)	(26)
Benefit obligation at end of year	4,120	3,756
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	3,271	2,723
Actual return on plan assets	(136)	394
Employer contribution	-	180
Benefits paid	(26)	(26)
Fair value of plan assets at end of year	3,109	3,271
Funded status	(1,011)	(485)
Unrecognized net obligation at transition	6	8
Unrecognized actuarial loss	(692)	(872)
Unrecognized prior service cost	279	300
Accrued pension liability (included in other liabilities)	(1,418)	(1,049)

</TABLE>

Net periodic pension cost for 1998, 1997 and 1996 included the following components (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Service cost	$ 384	$ 323	$ 287
Interest cost	281	238	218
Expected return on assets	(293)	(281)	(298)
Net amortization and deferral	(3)	33	69
Net periodic pension cost	$ 369	$ 313	$ 276

</TABLE>

There were no contributions to the plan in 1998. Contributions to the plan totaled were approximately $180,000 for 1997. The Company also contributes to an employees' profit-sharing plan which covers all full-time employees with vesting at various intervals over seven years. Contributions are made annually at the discretion of the subsidiary banks' Board of Directors. The payments to the plan for the years 1998, 1997 and 1996 were approximately $567,000, $621,000 and $521,000, respectively.

The Company has an obligation to certain members of the subsidiary banks' Boards of Directors under deferred compensation plans in the amount of $1,030,000 and $1,014,000 at December 31, 1998 and 1997, respectively. A portion of the benefits will be funded by life insurance.

The Company has a stock option plan (the "Plan") adopted in 1993 that authorizes the reservation of up to 400,000 shares of common stock and provides for the granting of incentive options to certain employees. Under the Plan, the option price cannot be less than the fair market value of the stock on the date granted. An option's maximum term is ten years from the date of grant. Options granted under the Plan may be subject to a graded vesting schedule. A summary of changes for the Plan for the years 1998, 1997 and 1996 and other information for December 31, 1998 are as follows (shares exercised reflects 4,272 shares retired in a cashless exchange):

<TABLE>
<CAPTION>

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Year ended December 31,	1998		1997		1996	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding, January 1	73,240	$ 8.66	63,240	$ 8.06	50,240	$ 6.91
Granted	98,940	20.13	10,000	12.50	13,000	12.50
Exercised	(26,048)	8.03	-	-	-	-
Options outstanding, December 31	146,132	$ 17.25	73,240	$ 8.66	63,240	$ 8.06

<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
$ 6.53	5,040	1.27 yrs.	$ 6.53	5,040	1.27 yrs.	$ 6.53
11.00	20,000	6.05	11.00	12,000	6.05	11.00
12.50	22,152	7.50	12.50	7,021	7.35	12.50
20.13	98,940	9.06	20.13	-	-	-
$ 6.53 - 20.13	146,132	8.14	$ 17.25	24,061	5.43	$ 10.50

</TABLE>

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized for the Company's stock options. Had compensation cost been determined based on the fair value at the grant dates consistent with the alternative method of Statement of Financial Accounting Standards No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," the Company's net income and net income per share as reported in the accompanying Consolidated Statements of Income would not have been impacted by a material amount based upon the following assumptions using the Black-Scholes option pricing model: expected volatility of 23%; dividend yield of 2.4%; risk-free interest rate of 4.99% and an expected

option life of 9.1 years.

9 Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contractual amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit written is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with credit risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of the commitments 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 December 31, 1998 and 1997, the Company had outstanding loan commitments approximating $46,978,000 and $46,601,000, respectively.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. 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 $5,962,000 and $6,198,000 at December 31, 1998 and 1997, respectively.

A geographic concentration exists within the Company's loan portfolio as most of the Bank's business activity is with customers located in areas from Rappahannock to Hanover County, Virginia and in the Northern Neck area of Virginia.

10 Related Party Transactions

The Company has entered into transactions with its directors, principal officers and affiliated companies in which they are principal stockholders. Such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties totaled $8,847,000 and $7,646,000 as of December 31, 1998 and 1997, respectively. During 1998 new advances to such related parties amounted to $12,432,000 and repayments amounted to $11,231,000.

11 Earnings per share

The following is a reconciliation of the denominators of the basic and diluted EPS computations for December 31, 1998, 1997 and 1996:

<TABLE>
<CAPTION>

	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER-SHARE AMOUNT
	(DOLLARS AND SHARES INFORMATION IN THOUSANDS)		
<S>	<C>	<C>	<C>
For the Year Ended December 31, 1998			
Basic EPS	$ 6,822	7,490	$ .91
Effect of dilutive stock options	-	26	-

Diluted EPS	$ 6,822	7,516	$ .91
For the Year Ended December 31, 1997			
Basic EPS	$ 8,166	7,455	$ 1.10
Effect of dilutive stock option	-	27	-
Diluted EPS	$ 8,166	7,482	$ 1.09
For the Year Ended December 31, 1996			
Basic EPS	$ 7,739	7,448	$ 1.04
Effect of dilutive stock options	-	38	-
Diluted EPS	$ 7,739	7,486	$ 1.03

</TABLE>

12 Regulatory Matters

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

accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998, that the Company meets all capital adequacy requirements to which it is subject.

The most recent notification from the Federal Reserve Bank as of June 30, 1998, categorized the Company as well capitalized under the regulatory framework for prompt corrective action (PCA). To be categorized as adequately capitalized the Company must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's category.

The Company's actual capital amounts and ratios are also presented in the table.

<TABLE>
<CAPTION>

	ACTUAL		REQUIRED FOR CAPITAL ADEQUACY PURPOSES		REQUIRED IN ORDER TO BE WELL CAPITALIZED UNDER PCA	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AS OF DECEMBER 31, 1998						
Total capital to risk weighted assets						
Consolidated	$ 71,577	13.70%	$ 41,797	8.00%	$ 52,246	10.00%
Union Bank & Trust	37,318	11.24%	26,558	8.00%	33,197	10.00%
Northern Neck State Bank	17,247	13.30%	10,374	8.00%	12,967	10.00%
King George State Bank	7,258	14.25%	4,075	8.00%	5,094	10.00%
Rappahannock National Bank	2,932	48.53%	483	8.00%	604	10.00%
Tier 1capital to risk weighted assets						
Consolidated	65,170	12.47%	20,905	4.00%	31,357	6.00%
Union Bank & Trust	33,919	10.22%	13,279	4.00%	19,918	6.00%
Northern Neck State Bank	15,739	12.14%	5,187	4.00%	7,780	6.00%
King George State Bank	5,900	11.58%	2,037	4.00%	3,056	6.00%
Rappahannock National Bank	2,791	46.19%	242	4.00%	363	6.00%
Tier 1capital to average adjusted assets						
Consolidated	65,170	9.06%	28,773	4.00%	35,966	5.00%
Union Bank & Trust	33,919	7.57%	17,934	4.00%	22,417	5.00%
Northern Neck State Bank	15,739	8.31%	7,578	4.00%	9,473	5.00%
King George State Bank	5,900	8.10%	2,914	4.00%	3,643	5.00%
Rappahannock National Bank	2,791	15.55%	718	4.00%	897	5.00%
AS OF DECEMBER 31, 1997						

Total capital to risk weighted assets						
Consolidated	$ 71,281	17.45%	$ 32,679	8.00%	$ 40,849	10.00%
Union Bank & Trust	40,980	15.06%	21,771	8.00%	27,214	10.00%
Northern Neck State Bank	20,220	21.24%	7,615	8.00%	9,518	10.00%
King George State Bank	5,753	15.39%	2,991	8.00%	3,738	10.00%
Rappahannock National Bank	2,894	48.96%	473	8.00%	591	10.00%
Tier 1capital to risk weighted assets						
Consolidated	66,483	16.28%	16,335	4.00%	24,502	6.00%
Union Bank & Trust	38,310	14.08%	10,886	4.00%	16,328	6.00%
Northern Neck State Bank	18,706	19.65%	3,807	4.00%	5,711	6.00%
King George State Bank	5,372	14.37%	1,495	4.00%	2,243	6.00%
Rappahannock National Bank	2,661	45.02%	236	4.00%	355	6.00%
Tier 1capital to average adjusted assets						
Consolidated	66,483	11.45%	23,226	4.00%	29,032	5.00%
Union Bank & Trust	38,310	10.60%	14,450	4.00%	18,063	5.00%
Northern Neck State Bank	18,706	12.92%	5,790	4.00%	7,238	5.00%
King George State Bank	5,372	10.00%	2,148	4.00%	2,685	5.00%
Rappahannock National Bank	2,661	15.77%	675	4.00%	843	5.00%

</TABLE>

13 Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

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

Investment Securities and Securities Available for Sale

For investment securities and securities available for sale, fair value is determined by quoted market price. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

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

Deposits

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

Borrowings

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

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 December 31, 1998 and 1997, the carrying amount and fair value of loan commitments and standby letters of credit were immaterial.

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash and cash equivalents	$ 41,020	$ 41,020	$ 28,681	$ 28,681
Investment securities	16,142	16,452	17,769	18,057
Securities available for sale	161,228	161,228	143,711	143,711
Net loans	479,822	483,013	399,351	404,671
Financial liabilities:				
Deposits	607,629	611,834	489,256	491,869
Borrowings	47,801	48,145	50,960	50,923

14 Subsequent event

On February 11, 1999, the Company announced that it had acquired Mortgage Capital Investors ("MCI"), an independent mortgage banking company headquartered in Springfield, Virginia. Mortgage Capital Investors originates, underwrites, closes and sells residential mortgage loans through a network of thirteen (13) loan application centers located in Virginia, Maryland, North Carolina, South Carolina and Florida. MCI reported total mortgage loan originations of $323 million (unaudited) in its fiscal year ended March 31, 1998 and originations for the first nine months of its fiscal year ending March 31, 1999 exceeding $400 million (unaudited). MCI will operate as a subsidiary of Union Bank and Trust Company and will consolidate the existing mortgage operations of Union Mortgage Company into its operations.

15 Parent Company Financial Information

The primary source of funds for the dividends paid by Union Bankshares Corporation (the "Parent Company") is dividends received from its subsidiary banks. The payment of such dividends by the subsidiary banks and the ability of the banks to loan or advance funds to the Parent Company are subject to certain statutory limitations which contemplate that the current year earnings and earnings retained for the two preceding years may be paid to the Parent Company without regulatory approval. Financial information for the Parent Company follows:

UNION BANKSHARES CORPORATION ("PARENT COMPANY ONLY")
Balance Sheets
December 31, 1998 and 1997
(dollars in thousands)

	1998	1997
ASSETS:		
Cash	$ 1,927	$ 73
Certificates of deposit	29	125
Securities available for sale	273	283
Premises and equipment, net	3,809	3,353
Other assets	2,239	331
Due from subsidiaries	115	177
Investment in subsidiaries	66,765	65,701
Total assets	$ 75,157	$ 70,043
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Other liabilities	$ 1,798	$ 1,616
Common stock	15,015	14,937
Surplus	311	55
Retained earnings	55,690	51,728
Unrealized gains on securities available for sale	2,343	1,707
Total liabilities and stockholders' equity	$ 75,157	$ 70,043

Condensed Statements of Income
Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996

INCOME:			
Interest income	$ 11	$ 11	$ 67
Dividends received from subsidiaries	7,250	3,434	2,315
Equity in undistributed net income of subsidiaries	511	5,052	5,736
Other income	-	62	2
Total income	7,772	8,559	8,120
Interest expense	115	64	-
Operating expenses	835	329	381
Total expense	950	393	381
Net income	$ 6,822	$ 8,166	$ 7,739

</TABLE>

Condensed Statements of CASH FLOWS
Years Ended December 31, 1998, 1997 and 1996

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
OPERATING ACTIVITIES:			
Net income	$ 6,822	$ 8,166	$ 7,739
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(511)	(4,902)	(5,561)
Decrease (increase) in other assets	(1,312)	(144)	34
Other (net)	299	(162)	197
Net cash provided by operating activities	5,298	2,958	2,409
INVESTING ACTIVITIES:			
Purchase of securities	-	-	(63)
Proceeds from maturity of securities	-	55	1,006
Purchase of equipment	(894)	(2,585)	(1,076)
Net cash used by investing activities	(894)	(2,530)	(133)
FINANCING ACTIVITIES:			
Net increase (decrease) in borrowings	(120)	1,740	-
Cash dividends paid	(2,860)	(2,791)	(2,490)
Issuance of common stock under plans	334	304	272
Repurchase of common stock under plans	-	(39)	(159)
Net cash used in financing activities	(2,646)	(786)	(2,377)
Increase (decrease) in cash and cash equivalents	1,758	(358)	(101)
Cash and cash equivalents at beginning of year	198	556	657
Cash and cash equivalents at end of year	$ 1,956	$ 198	$ 556

</TABLE>

Independent Auditors' Report

[KPMG LOGO]

The Board of Directors
Union Bankshares Corporation

We have audited the accompanying consolidated balance sheets of Union Bankshares Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Union Bankshares Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Richmond, Virginia
February 9, 1999, except as to Note 14, which is as of February 11, 1999

Directory of Union Bankshares Corporation

Northern Neck
State Bank

Officers
E. Peyton Motley, PRESIDENT
N. Byrd Newton, SENIOR VICE PRESIDENT & SECRETARY
Russell G. Brown, VICE PRESIDENT
William E. Harrison, VICE PRESIDENT & CASHIER
C. Wayne Penick, VICE PRESIDENT
Marion B. Rowe, VICE PRESIDENT
Gail S. Smith, VICE PRESIDENT
William M. Wright, VICE PRESIDENT

Directors
William E. Bowen
S. Bryan Chandler
Richard A. Farmar, Jr.
W. D. Gray
Edward L. Hammond
William H. Hughes
E. Peyton Motley
W. Tayloe Murphy, Jr.
Louis G. Packett
Dexter C. Rumsey, III
Charles H. Ryland
Charles H. Williams, III
William M. Wright

Honorary Directors
Robert B. Delano
James V. Garland, Jr.
Thomas S. Herbert

King George
State Bank

Officers
Sylvia Buffkin, VICE PRESIDENT
David F. Clare, VICE PRESIDENT
Scott Q. Nininger, VICE PRESIDENT

Directors
E.R. Morris, Jr., CHAIRMAN
John S. Cheadle
Frederick G. Davies
William B. Gallahan
C. Newell Thompson
E.P. Woodworth

Mortgage
Capital Investors

Officers
Kevin P. Keegan, PRESIDENT & CHIEF EXECUTIVE OFFICER

Directors
G. William Beale, CHAIRMAN
Kevin P. Keegan
John C. Neal

Brian T. O'Reilly
D. Anthony Peay

Union Bank & Trust Company

Officers
G. William Beale, PRESIDENT & CHIEF EXECUTIVE OFFICER
John C. Neal, EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER
Robert K. Bailey, III, SENIOR VICE PRESIDENT
William H. Hutton, SENIOR VICE PRESIDENT
John M. Randolph, SENIOR VICE PRESIDENT
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David K. Bohmke, VICE PRESIDENT
Thomas J. Boyd, III, VICE PRESIDENT
Jeannette B. Burke, VICE PRESIDENT
F. Kent Cox, VICE PRESIDENT
Charles Gravatt, VICE PRESIDENT
Sherry C. Gravatt, VICE PRESIDENT
Raymond C. Ratcliffe, Jr., VICE PRESIDENT
George Washington, Jr., VICE PRESIDENT

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Ronald L. Hicks, CHAIRMAN
Walton Mahon, VICE CHAIRMAN
G. William Beale
Daniel I. Hansen
Michael N. Manns
M. Raymond Piland, III
James E. Small, III
A.D. Whittaker

Honorary Directors
Estelle H. Kay
Guy C. Lewis, Jr.
H. Ashton Taylor
R.F. Upshaw, Jr.

Union Investment Services, Inc.

Officers
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Randall W. Vaughan, VICE PRESIDENT

Directors
G. William Beale, CHAIRMAN
David F. Clare
Ronald L. Hicks
Estelle H. Kay
Bernard W. Mahon, Jr.
Michael N. Manns
William M. Wright

Bank of Williamsburg

Officers
J. Michael Johnson, PRESIDENT

Directors
Henry Aceto, Jr.
G. William Beale
A. G. W. Christopher
Randall K. Cooper
L. Mark Griggs
J. Michael Johnson
Christopher A. Mayer
Alison Morrison
D. Anthony Peay
Joseph R. Potter, Jr.

Rappahannock National Bank

Officers
Michael T. Leake, VICE PRESIDENT

Directors

Elisabeth J. Jones, CHAIRMAN
G. William Beale
Alphaeus F. Cannon
James W. Fletcher, III
Thomas B. Massie
Mary L. Payne
George E. Williams

EXHIBIT 21

SUBSIDIARIES OF UNION BANKSHARES CORPORATION

SUBSIDIARY	STATE OF INCORPORATION
Union Bank & Trust Company	Virginia
Northern Neck State Bank	Virginia
King George State Bank	Virginia
Rappahannock National Bank	Virginia
Union Investment Services, Inc.	Virginia
Union Mortgage Company, LLC	Virginia
Bank of Williamsburg	Virginia
Mortgage Capital Investors, Inc.	Virginia

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