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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2003

Commission File No. 0-20293

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b–2 of the Exchange Act). YES ☒ NO ☐

As of October 31, 2003, Union Bankshares Corporation had 7,607,737 shares of Common Stock outstanding.

UNION BANKSHARES CORPORATION

FORM 10-Q

September 30, 2003

INDEX

Table of Contents

PART 1 - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 27,224	$ 29,104
Interest-bearing deposits in other banks	4,740	909
Money market investments	105	15,142
Federal funds sold	18,728	1,247
Total cash and cash equivalents	50,797	46,402
Securities available for sale, at fair value	239,405	272,755
Loans held for sale	40,627	39,771
Loans, net of unearned income	836,984	714,764
Less allowance for loan losses	11,065	9,179
Net loans	825,919	705,585
Bank premises and equipment, net	25,624	21,577
Other real estate owned	444	774
Other assets	32,614	28,861
Total assets	$ 1,215,430	$ 1,115,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$ 164,943	$ 134,172
Interest-bearing deposits:		
NOW accounts	140,853	128,764
Money market accounts	97,423	88,440
Savings accounts	91,676	84,983
Time deposits of $100,000 and over	165,507	152,968
Other time deposits	328,802	308,315
Total interest-bearing deposits	824,261	763,470
Total deposits	989,204	897,642
Securities sold under agreements to repurchase	36,757	43,227
Other short-term borrowings	—	1,550
Long-term borrowings	66,498	62,219
Other liabilities	7,595	5,595
Total liabilities	1,100,054	1,010,233
Commitments and contingencies		
Stockholders' equity:		
Common stock, $2 par value. Authorized 24,000,000 shares; issued and outstanding, 7,607,677 , and 7,579,707 shares, respectively	15,215	15,159
Surplus	1,828	1,442
Retained earnings	92,271	81,997
Accumulated other comprehensive income	6,062	6,894
Total stockholders' equity	115,376	105,492
Total liabilities and stockholders' equity	$ 1,215,430	$ 1,115,725

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Interest and dividend income :				
Interest and fees on loans	**$ 14,033**	$ 12,827	**$ 40,595**	$ 37,496
Interest on Federal funds sold	**8**	58	**73**	151
Interest on interest-bearing deposits in other banks	**5**	5	**17**	12
Interest on money market investments	—	1	**22**	12
Interest and dividends on securities:				
Taxable	**1,855**	2,396	**6,201**	7,270
Nontaxable	**1,044**	1,154	**3,314**	3,486
Total interest and dividend income	**16,945**	16,441	**50,222**	48,427
Interest expense:				
Interest on deposits	**4,908**	5,048	**15,030**	15,297
Interest on Federal funds purchased	**38**	—	**46**	2
Interest on short-term borrowings	**80**	136	**216**	357
Interest on long-term borrowings	**941**	930	**2,759**	2,765
Total interest expense	**5,967**	6,114	**18,051**	18,421
Net interest income	**10,978**	10,327	**32,171**	30,006
Provision for loan losses	**903**	650	**1,935**	2,219
Net interest income after provision for loan losses	**10,075**	9,677	**30,236**	27,787
Noninterest income:				
Service charges on deposit accounts	**1,679**	1,079	**3,962**	2,939
Other service charges, commissions and fees	**635**	657	**1,891**	1,962
Gains (losses) on securities transactions, net	—	1	**(14)**	(160)
Gains on sales of loans	**4,084**	2,722	**10,833**	6,936
Gains on sales of other real estate owned and bank premises, net	**10**	77	**27**	159
Other operating income	**275**	188	**871**	548
Total noninterest income	**6,683**	4,724	**17,570**	12,384
Noninterest expenses:				
Salaries and benefits	**6,920**	5,510	**19,265**	15,655
Occupancy expenses	**687**	589	**1,985**	1,697
Furniture and equipment expenses	**669**	639	**1,861**	1,993
Other operating expenses	**2,683**	2,329	**7,392**	7,020
Total noninterest expenses	**10,959**	9,067	**30,503**	26,365
Income before income taxes	**5,799**	5,334	**17,303**	13,806
Income tax expense	**1,604**	1,323	**4,828**	3,284
Net income	**$ 4,195**	$ 4,011	**$ 12,475**	$ 10,522
Basic net income per share	**$ 0.55**	$ 0.53	**$ 1.64**	$ 1.39
Diluted net income per share	**$ 0.55**	$ 0.52	**$ 1.63**	$ 1.38

See accompanying notes to condensed consolidated financial statements.

Table of Contents

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(dollars in thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance - December 31, 2001	**$ 15,052**	**$ 446**	**$ 71,419**	**$ 2,062**		**$ 88,979**
Comprehensive income:						
Net income - for the nine months ended September 30, 2002			**10,522**		**$ 10,522**	**10,522**
Unrealized holding gains arising during the period (net of tax, $3,066)					**5,951**	
Reclassification adjustment for losses included in net income (net of tax, $54)					**106**	
Other comprehensive income (net of tax, $3,120)				**6,057**	**6,057**	**6,057**
Total comprehensive income					**$ 16,579**	
Cash dividends - 2002 ($.25 per share)			**(1,884)**			**(1,884)**
Issuance of common stock under Dividend Reinvestment Plan (9,549 shares)	**19**	**196**	**—**			**215**
Issuance of common stock under Incentive Stock Option Plan (8,200 shares)	**17**	**83**				**100**
Issuance of common stock in exchange for net assets in acquisition (17,156 shares)	**34**	**299**				**333**
Balance - September 30, 2002 (Unaudited)	**$ 15,122**	**$ 1,024**	**$ 80,057**	**$ 8,119**		**$ 104,322**
Balance - December 31, 2002	**$ 15,159**	**$ 1,442**	**$ 81,997**	**$ 6,894**		**$ 105,492**
Comprehensive income:						
Net income - for the nine months ended September 30, 2003			**12,475**		**$ 12,475**	**12,475**
Unrealized holding losses arising during the period (net of tax, $,434)					**(841)**	
Reclassification adjustment for losses included in net income (net of tax, $5)					**9**	
Other comprehensive income (net of tax, $429)				**(832)**	**(832)**	**(832)**
Total comprehensive income					**$ 11,643**	
Cash dividends - 2003 ($.29 per share)			**(2,201)**			**(2,201)**
Issuance of common stock under Dividend Reinvestment Plan (8,600 shares)	**17**	**205**	**—**			**222**
Stock repurchased under Stock Repurchase Plan (1,000 shares)	**(2)**	**(22)**				**(24)**
Issuance of common stock under Incentive Stock Option Plan (20,370 shares)	**41**	**203**				**244**
Balance - September 30, 2003 (Unaudited)	**$ 15,215**	**$ 1,828**	**$ 92,271**	**$ 6,062**		**$ 115,376**

See accompanying notes to condensed consolidated financial statements.

Table of Contents

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2003 and 2002
(dollars in thousands)

	2003	2002
Operating activities:		
Net income	**$ 12,475**	$ 10,522
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation of bank premises and equipment	**1,475**	1,462
Amortization	**1,297**	1,416
Provision for loan losses	**1,935**	2,219
Losses on sales of securities available for sale	**14**	160
Gains on sales of other real estate owned and bank premises, net	**(27)**	(159)
(Increase) decrease in loans held for sale	**(856)**	3,741
Decrease in other assets	**(3,419)**	(380)
Increase in other liabilities	**2,000**	5,776
Net cash and cash equivalents provided by operating activities	**14,894**	24,757
Investing activities:		
Purchase of securities available for sale	**(46,805)**	(36,438)
Proceeds from sale of securities available for sale	**4,433**	6,280
Proceeds from maturities of securities available for sale	**73,562**	30,165
Net increase in loans	**(122,269)**	(87,329)
Purchases of bank premises and equipment	**(5,845)**	(4,254)
Proceeds from sales of bank premises and equipment	**15**	220
Proceeds from sales of other real estate owned	**348**	501
Net cash and cash equivalents used in investing activities	**(96,561)**	(90,855)
Financing activities:		
Net increase in noninterest-bearing deposits	**30,771**	20,105
Net increase in interest-bearing deposits	**60,791**	47,934
Net decrease in short-term borrowings	**(8,020)**	(1,164)
Net increase (decrease) in long-term borrowings	**4,279**	(721)
Issuance of common stock	**466**	315
Purchase of common stock	**(24)**	—
Cash dividends paid	**(2,201)**	(1,884)
Net cash and cash equivalents provided by financing activities	**86,062**	64,585
Increase (decrease) in cash and cash equivalents	**4,395**	(1,513)
Cash and cash equivalents at beginning of period	**46,402**	38,915
Cash and cash equivalents at end of period	**$ 50,797**	$ 37,402
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	**$ 17,929**	$ 18,657
Income taxes	**$ 4,954**	$ 3,292

See accompanying notes to condensed consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2003

1. ACCOUNTING POLICIES

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

The information contained in the financial statements is unaudited and does not include all of the information and footnotes required by auditing standards generally accepted in the United States of America for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2002 Annual Report on Form 10-K. If needed, certain previously reported amounts have been reclassified to conform to current period presentation.

2. STOCK COMPENSATION

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.

The Company accounts for the Plan under the recognition and measurement principles of APB Opinion No. 25,*Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under the Plan have an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to stock-based compensation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(dollars in thousands, except per share amounts)			
Net income, as reported	**$4,195**	$4,011	**$12,475**	$10,522
Total stock-based compensation expense determined under fair value based method for all awards	**(84)**	(50)	**(253)**	(151)
Pro forma net income	**$4,111**	$3,961	**$12,222**	$10,371
Earning per share:				
Basic - as reported	**$ 0.55**	$ 0.53	**$ 1.64**	$ 1.39
Basic - pro forma	**$ 0.54**	$ 0.52	**$ 1.61**	$ 1.37
Diluted - as reported	**$ 0.55**	$ 0.52	**$ 1.63**	$ 1.38
Diluted - pro forma	**$ 0.53**	$ 0.52	**$ 1.59**	$ 1.36

3. **ALLOWANCE FOR LOAN LOSSES**

The following summarizes activity in the allowance for loan losses for the nine months ended September 30, (in thousands):

	2003	2002
Balance, January 1	**$ 9,179**	$7,336
Provisions charged to operations	**1,935**	2,219
Recoveries credited to allowance	**696**	384
Loans charged off	**(745)**	(993)
Balance, September 30	**$11,065**	$8,946

4. **EARNINGS PER SHARE**

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares outstanding attributable to stock options. At September 30, 2003 and 2002, there were no stock options that were anti-dilutive. The following is a reconcilement of the denominators of the basic and diluted EPS computations for the three and nine months ended September 30, 2003 and 2002.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(In thousands except per share data)			
Earnings per common share computation:				
Numerator: Net Income	**$ 4,195**	$ 4,011	**12,475**	$ 10,522
Denominator: Average common shares outstanding	**7,607**	7,560	**7,599**	7,550
Earnings per common share	**0.55**	0.53	**1.64**	1.39
Diluted earnings per common share computation:				
Numerator: Net Income	**4,195**	4,011	**12,475**	10,522
Denominator: Average common shares outstanding	**7,607**	7,560	**7,599**	7,550
Effect of dilutive stock options	**78**	74	**69**	64
Average diluted common shares outstanding	**7,685**	7,634	**7,668**	7,614
Diluted earnings per common share	**0.55**	0.52	**1.63**	1.38

5. **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In addition to commitments to extend credit and issue standby letters of credit, the Company's subsidiary, the Bank of Williamsburg is a guarantor on the warehousing line used for short term funding of loans held for sale by Johnson Mortgage Company. The total amount of potential liability is $2.4 million. This is a requirement of the lender and generates only de minimis risk for the Company since the collateral loans have commitments from investors before they are made.

6. **RECENT ACCOUNTING PRONOUNCEMENTS**

In November 2002, the FASB issued FASB Interpretation No. 45,*"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"* ("FIN 45"). The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Interpretation requires disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of the Interpretation were effective beginning January 1, 2003. Management does not anticipate that the recognition requirements of this Interpretation will have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities*" ("FIN 46"). This Interpretation provides guidance with respect to the identification of variable interest entities and when the assets, liabilities, noncontrolling interests, and results of operations of a variable interest entity need to be included in a corporation's consolidated financial statements. The Interpretation requires consolidation by business enterprises of variable interest entities in cases where the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, which is provided through other interests that will absorb some or all of the expected losses of the entity, or in cases where the equity investors lack one or more of the essential characteristics of a controlling financial interest, which include the ability to make decisions about the entity's activities through voting rights, the obligations to absorb the expected losses of the entity if they occur, or the right to receive the expected residual returns of the entity if they occur. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and applies to previously existing entities beginning in the fourth quarter of 2003. Management is currently evaluating the applicability of FIN 46 but the adoption of this Interpretation is not expected to have a material impact on the Company's consolidated financial statements.

In April 2003, the Financial Accounting Standards Board issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003 and is not expected to have an impact on the Company's consolidated financial statements.

In May 2003, the Financial Accounting Standards Board issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. Adoption of the Statement did not result in an impact on the Company's consolidated financial statements.

7. SEGMENT REPORTING DISCLOSURES

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

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

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

The community bank segment provides the mortgage segment with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest. These transactions are eliminated in the consolidation process. A management fee for support services (including data processing, item processing, accounting, human resources and other services) is charged to all subsidiaries and eliminated in the consolidation totals.

Information about reportable segments and reconciliation of such information to the consolidated financial statements for the three and nine months ended September 30, 2003 and 2002 follows:

Table of Contents

Union Bankshares Corporation
Segment Report

	Community Banks	Mortgage	Elimination	Consolidated Totals
		(in thousands)		
Three Months ended September 30, 2003				
Net interest income	$ 10,418	$ 560	$ —	$ 10,978
Provision for loan losses	903	—	—	903
Net interest income after provision for loan losses	9,515	560	—	10,075
Noninterest income	2,651	4,081	(49)	6,683
Noninterest expenses	7,717	3,291	(49)	10,959
Income before income taxes	4,449	1,350	—	5,799
Income tax expense	1,084	520	—	1,604
Net income	$ 3,365	$ 830	$ —	$ 4,195
Total assets	$ 1,215,157	$ 44,318	$ (44,045)	$ 1,215,430
Three Months ended September 30, 2002				
Net interest income	$ 10,082	$ 245	$ —	$ 10,327
Provision for loan losses	650	—	—	650
Net interest income after provision for loan losses	9,432	245	—	9,677
Noninterest income	2,046	2,722	(44)	4,724
Noninterest expenses	6,834	2,277	(44)	9,067
Income before income taxes	4,644	690	—	5,334
Income tax expense	1,088	235	—	1,323
Net income	$ 3,556	$ 455	$ —	$ 4,011
Total assets	$ 1,065,167	$ 42,723	$ (36,519)	$ 1,071,371
Nine Months ended September 30, 2003				
Net interest income	$ 30,772	$ 1,399	$ —	$ 32,171
Provision for loan losses	1,935	—	—	1,935
Net interest income after provision for loan losses	28,837	1,399	—	30,236
Noninterest income	6,886	10,830	(146)	17,570
Noninterest expenses	22,156	8,493	(146)	30,503
Income before income taxes	13,567	3,736	—	17,303
Income tax expense	3,386	1,442	—	4,828
Net income	$ 10,181	$ 2,294	$ —	$ 12,475
Total assets	$ 1,215,157	$ 44,318	$ (44,045)	$ 1,215,430
Nine Months ended September 30, 2002				
Net interest income	$ 29,241	$ 765	$ —	$ 30,006
Provision for loan losses	2,219	—	—	2,219
Net interest income after provision for loan losses	27,022	765	—	27,787
Noninterest income	5,580	6,935	(131)	12,384
Noninterest expenses	20,287	6,209	(131)	26,365
Income before income taxes	12,315	1,491	—	13,806
Income tax expense	2,777	507	—	3,284
Net income	$ 9,538	$ 984	$ —	$ 10,522
Total assets	$ 1,065,167	$ 42,723	$ (36,519)	$ 1,071,371

8. STOCK REPURCHASE

The Company received authorization from the Board of Directors of Union Bankshares in November 2002 to buy up to 100,000 shares of the Company's outstanding common stock in the open market at prices that management and the Board of Directors determine are prudent. The Company considers current market conditions and the Company's current capital level, in addition to other factors, when deciding whether to repurchase stock. It is anticipated that any repurchased shares will be used primarily for general corporate purposes, including the dividend reinvestment plan, incentive stock option plan and other employee benefit plans.

During the first nine months of 2003 the Company repurchased 1,000 shares of its common stock in the open market at an average cost of $24.07. In 2002, for the same time period, the Company repurchased no shares of its common stock.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Union Bankshares Corporation
Bowling Green, Virginia

We have reviewed the condensed consolidated balance sheet of Union Bankshares Corporation and Subsidiaries as of September 30, 2003 and the related condensed consolidated statements of income, stockholders' equity and cash flows for the three and nine month periods ended September 30, 2003 and 2002. These condensed financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Union Bankshares Corporation as of December 31, 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the year ended (not presented herein); and in our report dated January 15, 2003, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ Yount, Hyde & Barbour, P.C.
Winchester, Virginia
November 12, 2003

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

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

Critical Accounting Policies

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. For example, the Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that are used. Also, the fair value of the investment portfolio is based on period end valuations but changes daily with the market. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of these transactions would be the same, the timing of events that would impact these transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) Statement of Financial Accounting Standard ("SFAS") No. 5, *Accounting for Contingencies,* which requires that losses be accrued when they are probable of occurring and estimatable and (ii) SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company's allowance for loan losses model has three basic components: the formula allowance, the specific allowance and a calculation for unfunded loans. Each of these components is determined based upon estimates that can and do change when actual events occur. These estimates are reevaluated at least quarterly as part of a review of the adequacy of the allowance for loan loss. The allowance formula uses historical losses and current economic and business conditions in developing estimated loss factors as an indicator of future losses for various loan classifications; as a result, the estimated losses could differ from the losses incurred in the future. The specific allowance uses various techniques such as historical loss information, expected cash flows and fair market value of collateral to arrive at an estimate of losses. The use of these values is inherently subjective and actual losses could be greater or less than the estimates. The allowance calculation for unfunded loans uses historical factors to determine the losses that are attributable to these loans. Management periodically reassesses the approach taken in these estimates in order to enhance the process.

Goodwill and Intangibles

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets will be subject to at least an annual impairment review and more frequently if certain impairment indicators are in evidence. SFAS No. 142 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

Results of Operations

Net income for the third quarter of 2003 was $4.2 million, up 4.6% from $4.0 million for the same period in 2002. This increase was the result of continued strong volumes in the mortgage segment and steady growth in the community bank segment. The mortgage segment's earnings improved by $375,000 or 82.4% with net income totaling $830,000 for the quarter ended September 30, 2003 compared to $455,000 in the comparable quarter of last year. The community banking segment earnings decreased by $191,000 or 5.4% to $3.4 million compared to $3.6 million in the prior year's third quarter. Third quarter 2003 diluted earnings per share for the Company amounted to $.55, as compared to $.52 in the same quarter of 2002. The Company's annualized return on average assets for the three months ended September 30, 2003 was 1.37% as compared to 1.53% a year ago. The Company's annualized return on average equity was 14.66% and 15.72% for the three months ended September 30, 2003 and 2002, respectively.

Through most of the third quarter, the mortgage segment continued to generate high levels of mortgage originations in a historically low mortgage rate environment. These low interest rates drifted higher later in the quarter slowing production, particularly in the refinance market. During the third quarter of 2003 mortgage refinancings represented 49% of our mortgage segment's total originations, down from 59% for the first quarter and 55% in the second quarter of 2003, but up significantly from 36% for the same quarter a year ago. Despite the higher refinancing levels within the mortgage segment in 2003, management believes they are lower than current industry levels. In a more stable interest rate environment, management expects refinance activity to represent 15-20% of origination volumes. MCI's strategy continues to focus its efforts toward the new and resale home purchase market, working with home buyers, builders, realtors and other referral sources to provide a more stable loan production platform. This strategy should generate a steady flow of business in a more normal rate environment. It is anticipated that rising mortgage rates will significantly reduce mortgage refinancing activity and, to a lesser extent, financings of new and resale homes. Industry forecasts anticipate a reduction in mortgage originations of over 50% in 2004. The Company will continue to closely monitor production volumes so adjustments in staffing and other fixed costs can be made in an appropriate and timely manner.

Net income from the Company's community bank segment decreased from $3.6 million in the third quarter of 2002 to $3.4 million in the third quarter of 2003. This decrease was attributable to an increase in noninterest expense of $883,000 which included expansion programs, partially offset by a slight improvement in net interest income and higher noninterest income. The improvement in net interest income was driven by continued increases in loan volumes and lower deposit interest expense on higher deposit balances. Loan growth between year end 2002 and September 30, 2003 amounted to $122.2 million while deposits grew $91.6 million over the same period. This growth in loans continued to help offset the impact of declining rates on interest earning assets. In addition, interest expense continued to decline, albeit at a much slower pace, in a low interest rate environment with both other borrowings expense and interest on deposits declining when comparing third quarter 2003 to 2002.

Total assets as of September 30, 2003 were $1.215 billion, an increase of 8.9% from $1.116 billion at December 31, 2002. Loans totaled $837.0 million at September 30, 2003, an increase of $122.2 million or 17.1% from $714.8 million at December 31, 2002. The securities portfolio decreased to $239.4 million at the end of the third quarter of 2003 versus $272.8 million at year end 2002 principally as a result of calls, maturities and prepayments of mortgage backed securities. Loans held for sale increased $856,000 to $40.6 million compared to the December 31, 2002 balance of $39.8 million.

Total deposits at September 30, 2003 were $989.2 million, up 10.2% from $897.6 million at December 31, 2002. Other borrowings totaled $103.3 million at September 30, 2003, a 3.5% decrease from $107.0 million at year end 2002. While short term funding continued to trail off, the Company locked in some longer term funding at lower rates. The other borrowings change is the result of a $6.5 million decrease in securities sold under agreements to repurchase (principally with customers) and a $1.5 million decrease in other short term borrowings (Federal funds purchased) and a $4.3 net increase in long term borrowings. Stockholders' equity totaled $115.4 million at September 30, 2003, which represents a book value of $15.17 per share and an increase of $9.9 million or 9.4% from December 31, 2002.

On a year-to-year basis, deposits at September 30, 2003 are up 16.1% at $989.2 million compared to $852.1 million at the end of September 2002. Loans are up 21.9% at $837.0 million compared to $686.4 million in September 2002. Of the $137.1 million growth in deposits, $33.9 million or 24.7% was in noninterest bearing deposits and $59.1 million or 43.2% was in longer term certificates of deposits. The growth in demand deposits helps the short term cost of funds, while the growth in certificates provides protection for the net interest margin in a rising rate environment. While the growth in loans has allowed the Company to maintain a good earnings margin in spite of the lower yield on loans and the rate cut the Federal Reserve enacted, the upward movement in long term rates combined with deposit repricing is expected to keep the margin flat or slightly increased in the near term. However, as investors gain confidence, some of the lower cost deposits, such as demand and NOW accounts, may move back into the stock market and cause renewed compression in the net interest margin.

Net income for the nine months ended September 30, 2003 was $12.5 million, up from $10.5 million for the same period in 2002. The increase was the result of exceptionally strong earnings from the mortgage segment, increased service charge income and steady growth in the community bank segment. The mortgage segment's net income of $2.3 million for the nine months ended September 30, 2003 compared to $984,000 for the same period last year. The community banking segment increased earnings by $643,000, or 6.7% to $10.2 million at September 30, 2003 compared to $9.5 million at September 30, 2002. Diluted earnings per share for the Company increased 18.1% and amounted to $1.63 at September 30, 2003, as compared to $1.38 at September 30, 2002. The Company's annualized return on average assets for the nine months ended September 30, 2003 was 1.43% as compared to 1.40% a year ago while the annualized return on average equity totaled 15.08% and 14.78% for the same period, respectively.

Net Interest Income

Net interest income on a tax-equivalent basis for the third quarter of 2003 increased by 5.4% to $11.6 million from $11.0 million for the same period a year ago. Over that time, average interest earning assets grew by $162.2 million or 16.6% and average interest-bearing deposits increased by $107.1 million or 15.1%. Of the $107.1 million increase in average interest bearing deposits, 63.7%, or $68.2 million was in certificate of deposits. Total average interest-bearing liabilities on a year to year basis were up 15.1% which reflects the Company's ability to fund growth through deposits. The net interest margin was 4.03% for the three months ended September 30, 2003, down 43 basis points from 4.46% the same period in 2002. For this period, the yield on earning assets was 6.10%, down 84 basis points from 6.94% in September of 2002 and the cost of interest-bearing liabilities was 2.53% down 45 basis points from 2.98% for the same period. The net interest margin of 4.03% at September 30, 2003 is down slightly from 4.20% at the end of the second quarter 2003 and from 4.26% at the end of the first quarter 2003.

This decline in the net interest margin is principally the result of the Federal Reserve lowering rates and loans repricing faster than deposits over this time period. Also, the earnings on the investment portfolio were impacted by both the lower portfolio balances and the decreased income caused by the large volume of mortgage backed securities prepayments. Investment income on a FTE basis is down $707,000 from the prior year quarter and down $414,000 from the second quarter 2003. With the refinancing surge slowing, the changes in investment income should fall in line with the portfolio changes. With the impact of the rate cut incorporated in earnings and the slight rise in long term rates, management believes the margin is poised to stay flat or rise slightly in the next quarter. Since the balance sheet is still asset sensitive and should remain that way, management anticipates that as rates start to rise, the margin will begin to improve.

Competition for deposits, particularly as it impacts certificate of deposit (CD) rates, is rate sensitive. Management continues to focus on increasing and retaining lower cost deposit products (including noninterest-bearing demand deposits and savings accounts) and locking in current lower rates with longer term (3-5 year) CD rates in an effort to maintain a lower cost of funds and a stable interest margin. Increased competition for both loans and deposits has contributed to some narrowing of the net interest margin and this narrowing is expected to continue until rates start to rise.

In addition, the subsidiary banks have periodically engaged in wholesale leverage transactions to better leverage their capital position by borrowing funds to invest in securities at margins of 150 to 200 basis points. Although such transactions increase net income and return on equity, they negatively impact the net interest margin. As of September 30, 2003 such transactions accounted for $10 million of the Company's total borrowings.

Included in the average earning assets for the quarter is $68.9 million in loans held for sale. These loans are mortgage loans originated by the mortgage segment and held for the short period between closing with the customer and funding by the investor. The loans have their final rates locked and are presold to investors and typically fund within 90 days. The Company, through a subsidiary bank, funds these presold mortgages using short term funding, typically Federal funds. The spread between the mortgage loan rates and the short term rates provides a positive contribution to interest income and net income. It positively impacts the net interest margin in a declining rate environment and negatively impacts the net interest margin in a rising rate environment since the short term funding rates are changing more rapidly. Upon funding by the investor, these loans generate earnings in the noninterest income category through gains on sales of loans.

Table of Contents

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

	For the three months ended September 30,								
	2003			2002			2001		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
				(Dollars in thousands)					
Assets:									
Securities:									
Taxable	$ 162,768	$ 1,854	4.52%	$ 169,358	$ 2,396	5.61%	$ 140,590	$ 2,296	6.48%
Tax-exempt(1)	83,568	1,582	7.51%	92,031	1,747	7.53%	90,119	1,733	7.63%
Total securities	246,336	3,436	5.53%	261,389	4,143	6.29%	230,709	4,029	6.93%
Loans, net	816,453	13,271	6.45%	675,039	12,554	7.38%	589,118	12,722	8.57%
Loans held for sale	68,916	838	4.82%	25,390	357	5.58%	23,102	198	3.40%
Federal funds sold	7,329	8	0.43%	16,013	58	1.44%	22,079	196	3.52%
Money market investments	140	—	0.00%	120	1	3.31%	—	—	
Interest-bearing deposits in other banks	2,306	5	0.86%	1,280	5	1.55%	1,455	11	3.00%
Total earning assets	1,141,480	17,558	6.10%	979,231	17,118	6.94%	866,463	17,156	7.86%
Allowance for loan losses	(10,592)			(8,614)			(7,884)		
Total non-earning assets	80,243			71,621			66,920		
Total assets	$ 1,211,131			$ 1,042,238			$ 925,499		
Liabilities & Stockholders' Equity:									
Interest-bearing deposits:									
Checking	$ 138,556	120	0.34%	$ 122,684	259	0.84%	$ 99,502	399	1.59%
Money market savings	96,110	222	0.92%	84,763	309	1.45%	69,103	496	2.85%
Regular savings	91,240	170	0.74%	79,604	265	1.32%	69,653	400	2.28%
Certificates of deposit:									
$100,000 and over	163,326	1,569	3.81%	133,987	1,392	4.12%	127,855	1,807	5.61%
Under $100,000	326,603	2,827	3.43%	287,718	2,823	3.89%	264,957	3,684	5.52%
Total interest-bearing deposits	815,835	4,908	2.39%	708,756	5,048	2.83%	631,070	6,786	4.27%
Other borrowings	119,710	1,055	3.50%	103,999	1,066	4.07%	102,976	1,297	5.00%
Total interest-bearing liabilities	935,545	5,963	2.53%	812,755	6,114	2.98%	734,046	8,083	4.37%
Noninterest bearing liabilities:									
Demand deposits	149,352			118,288			98,897		
Other liabilities	12,721			9,986			5,737		
Total liabilities	1,097,618			941,029			838,680		
Stockholders' equity	113,513			101,209			86,819		
Total liabilities and stockholders' equity	$ 1,211,131			$ 1,042,238			$ 925,499		
Net interest income		$ 11,595			$ 11,004			$ 9,073	
Interest rate spread			3.57%			3.95%			3.49%
Interest expense as a percent of average earning assets			2.07%			2.48%			3.70%
Net interest margin			4.03%			4.46%			4.15%

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

Table of Contents

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

	For the nine months ended September 30,								
	2003			2002			2001		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
				(Dollars in thousands)					
Assets:									
Securities:									
Taxable	$ 172,227	$ 6,201	4.81%	$ 167,172	$ 7,270	5.81%	$ 131,602	$ 6,716	6.82%
Tax-exempt(1)	86,427	5,021	7.77%	92,074	5,281	7.67%	91,902	5,306	7.72%
Total securities	258,654	11,222	5.80%	259,246	12,551	6.47%	223,504	12,022	7.19%
Loans, net	768,748	38,873	6.76%	646,877	36,716	7.59%	586,731	38,810	8.84%
Loans held for sale	51,718	1,955	5.05%	22,492	1,070	6.36%	24,117	461	2.56%
Federal funds sold	12,395	72	0.78%	13,460	151	1.50%	11,551	322	3.73%
Money market investments	2,521	22	1.17%	851	12	1.89%	—	—	
Interest-bearing deposits in other banks	2,168	18	1.11%	1,014	12	1.58%	1,023	28	3.66%
Total earning assets	1,096,204	52,162	6.36%	943,940	50,512	7.15%	846,926	51,643	8.15%
Allowance for loan losses	(9,940)			(8,091)			(7,793)		
Total non-earning assets	76,699			71,009			68,596		
Total assets	$ 1,162,963			$ 1,006,858			$ 907,729		
Liabilities & Stockholders' Equity:									
Interest-bearing deposits:									
Checking	$ 133,564	454	0.45%	$ 118,940	827	0.93%	$ 97,956	1,289	1.76%
Money market savings	95,791	741	1.03%	83,704	919	1.47%	65,176	1,445	2.96%
Regular savings	89,131	583	0.87%	76,701	767	1.34%	62,811	1,151	2.45%
Certificates of deposit:									
$100,000 and over	160,546	4,680	3.90%	132,582	4,206	4.24%	127,336	5,603	5.88%
Under $100,000	320,011	8,572	3.58%	279,925	8,578	4.10%	266,365	11,563	5.80%
Total interest-bearing deposits	799,043	15,030	2.51%	691,852	15,297	2.96%	619,644	21,051	4.54%
Other borrowings	104,052	3,011	3.87%	99,958	3,124	4.18%	105,655	4,229	5.35%
Total interest-bearing liabilities	903,095	18,041	2.67%	791,810	18,421	3.11%	725,299	25,280	4.66%
Noninterest bearing liabilities:									
Demand deposits	137,210			111,749			93,012		
Other liabilities	12,019			8,121			5,723		
Total liabilities	1,052,324			911,680			824,034		
Stockholders' equity	110,639			95,178			83,695		
Total liabilities and stockholders' equity	$ 1,162,963			$ 1,006,858			$ 907,729		
Net interest income		$ 34,121			$ 32,091			$ 26,363	
Interest rate spread		3.69%			4.04%			3.49%	
Interest expense as a percent of average earning assets		2.20%			2.61%			3.99%	
Net interest margin		4.16%			4.55%			4.16%	

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

Provision for Loan Losses

The provision for loan losses totaled $903,000 for the third quarter of 2003, up from $650,000 for the third quarter of 2002. For the nine months ended September 30, 2003, the provision was $1,935,000 versus $2,219,000 for the same period in 2002. The rise in the quarter was principally the result of the continued growth in the loan portfolio and reserves associated with two nonaccrual loans. (See *Asset Quality*) The lower expense on a year to date basis was the result of several classified loans being paid out or upgraded and recoveries exceeding charge-offs in the both the first and second quarters of 2003. Management believes the overall credit quality of the portfolio is good based on the analysis of the portfolio.

Noninterest Income

Noninterest income for the three months ended September 30, 2003 totaled $6.7 million, up $2.0 million from $4.7 million for the same period a year ago. Over 69% of this increase came in gains on sales of loans in the mortgage banking segment which increased $1.4 million compared to the same quarter last year. Service charges on deposit accounts increased $600,000 reflecting increases in overdraft and return check charges and DDA activity service charges as the result of the new overdraft privilege product begun in late second quarter and increased transaction account volumes. Other operating income increased $87,000 over the prior year's third quarter, due principally to $79,000 in income from the Company's investment in Johnson Mortgage Company ("JMC") by the Bank of Williamsburg ("BOW") subsidiary. Management continues to seek additional sources of noninterest income, including increased emphasis on cross-selling services and better leveraging the financial services available throughout the organization.

Noninterest income for the nine months ended September 30, 2003 totaled $17.6 million, up $5.2 million from $12.4 million for the nine months ended September 30, 2002. Most of this increase is attributed to the gain on sales of loans in the mortgage segment which was $10.8 million or $3.9 million over the same period last year. Service charges on deposits are up $1.0 million as a result of increases in overdraft and return check charges and service charges. The largest portion of this increase occurred in the third quarter from a full quarter's impact of the new overdraft privilege product. Other service charges are down through the nine months by $71,000 as a result of a $72,000 decline in net brokerage commissions. Other operating income is up $323,000 principally as a result of $271,000 in income from BOW's investment in JMC.

Noninterest Expense

Noninterest expense for the third quarter of 2003 totaled $11.0 million, an increase of $1.9 million over the same period in 2002. Personnel costs were up $1.4 million or 25.6% over last year's third quarter, with an increase of $662,000 in commission costs as a result of higher mortgage loan production; an increase of $488,000 in salaries and wages reflecting normal increases, the addition of new personnel, including the Thornburg branch and the Manassas and Richmond loan production offices (LPO) and $120,000 increase in group insurance expense. Occupancy expense was up $98,000 largely as a result of increases in rental costs for the LPO office in Manassas and in depreciation expense for the new branch in Thornburg and the LPO in Richmond, building repair expense for cooling systems at various branches and higher real estate taxes. Furniture & equipment expense was up $30,000 largely from an increase in depreciation expense and amortization of software upgrades. These increases in occupancy and furniture and equipment expense are related to the aforementioned expansion efforts and to space planning expenses and renovations of the back office to accommodate future growth.

Other operating expenses were up $354,000 over last year's third quarter. Operating expenses, franchise taxes, professional services, FDIC expense all increased on a quarter to quarter basis as a result of expansion and growth. Marketing expenses were down slightly by $2,500 as increases in most marketing expense categories ($138,000) were offset by the decrease in centennial celebration expenses ($140,000) of last year. The broadest expense category, other expenses, was up $175,000 from the previous year's third quarter as a result of higher directors fees and deferred compensation, expenses associated with the overdraft privilege product and higher equity line closing expenses. Management continues to monitor expenses closely to ensure the increases are in line with the Company's expectations and its growth in income and assets.

Noninterest expense for the nine months ended September 30, 2003 was up $4.1 million at $30.5 million compared to $26.4 million for the nine months ended September 30, 2002. Most of the increase is the result of a $3.6 million increase in salaries and benefits, which is the result of a $1.7 million increase in commissions due to the high mortgage loan origination volume, a $1.1 million increase in salaries and wages from merit increases, new hires and new locations in Manassas, Richmond, Newport News and Thornburg and increases in FICA, and group insurance. Occupancy was up $288,000 while furniture and equipment expense was down $132,000. Other operating expense for the nine months ended September 30, 2003 was up $372,000. Operating expenses are up $220,000 due to expansion and growth with increased telephone and internet charges accounting for most of this increase; franchise tax is up $108,000 due to the increase in the deposit base; and other expense is up $140,000 mostly from the addition in the third quarter of expenses associated with the overdraft privilege product.

Asset Quality

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. At the end of the second quarter 2003, two commercial real estate loans to the same borrower totaling $8.1 million were placed on nonaccrual status. These loans are secured by real estate (two assisted living facilities), but based on the information currently available, a reserve of $885,000 has been allocated for possible losses on these loans. The Company continues to monitor this situation and work closely with the borrower to resolve this situation which has had a significant negative impact on the asset quality ratios that follow. The allowance for loan losses totaled $11.1 million at September 30, 2003 or 1.32% of total loans, as compared to 1.28% at December 31, 2002 and 1.30% at September 30, 2002.

	September 30, 2003	December 31, 2002	September 30, 2002
		(dollars in thousands)	
Nonaccrual loans	$ 9,100	$ 136	$ 530
Foreclosed properties	444	774	781
Nonperforming assets	$ 9,544	$ 910	$ 1,311
Allowance for loan losses	$ 11,065	$ 9,179	$ 8,946
Allowance as % of total loans	1.32%	1.28%	1.30%
Allowance as % of nonperforming assets	116%	1009%	682%
Nonperforming assets to loans and foreclosed properties	1.13%	.13%	.19%
Net charge-offs (annualized) to year to date average loans outstanding	.01%	.16%	.13%

Capital Resources

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

Since December 31, 2002 stockholders' equity has increased by $9.9 million, principally as a result of net income of $12.5 million for the first nine months of 2003, less $2.2 million in dividends paid to stockholders. With interest rates moving up, the unrealized gain on the Company's securities portfolio decreased $832,000, while the balance of $442,000 came from the issuance of stock through the Company's Dividend Reinvestment Plan and the exercise of options under the Incentive Stock Option Plan.

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

At September 30, 2003, the Company's ratio of total capital to risk-weighted assets was 12.03% and its ratio of Tier 1 capital to risk-weighted assets was 10.87%. Both ratios exceed the minimum capital requirements. The following summarizes the Company's regulatory capital and related ratios at September 30, 2003 (dollars in thousands):

Tier 1 capital	$103,392
Tier 2 capital	11,065
Total risk-based capital	114,457
Total risk-weighted assets	951,331
Capital Ratios:	
Tier 1 risk-based capital ratio	10.87%
Total risk-based capital ratio	12.03%
Leverage ratio (Tier 1 capital to average adjusted total assets)	8.58%
Equity to assets ratio	9.49%

The Company's book value per share at September 30, 2003 was $15.17. Dividends to stockholders are typically paid semi-annually in May and November. The last dividend was paid November 1, 2003.

Liquidity

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

At September 30, 2003 cash, interest-bearing deposits in other banks, money market investments, Federal funds sold, securities available for sale, loans available for sale and loans that mature or reprice in one year were 52.4% of total earning assets. At September 30, 2003 approximately $504.1 million or 57.5% of total loans are scheduled to mature or reprice within the next year. In addition to deposits, the Company utilizes Federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, to fund the growth in its loan portfolio, securities purchases, and periodically, wholesale leverage transactions.

Forward-looking Statements

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Earnings Simulation Analysis

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

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

Table of Contents

The most likely scenario represents the rate environment as management forecasts it to occur. From this base, rate shocks in 100 basis point increments are applied to see the impact on the Company's earnings. The following table represents the interest rate sensitivity on net income (fully tax equivalent basis) for the Company using different rate scenarios as of September 30, 2003:

Change in Yield Curve	% Change in Net Income
+200 basis points	+28%
+100 basis points	+14%
Most likely	0
-100 basis points	-14%
-200 basis points	-21%

Economic Value Simulation

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

The following chart reflects the change in net market value over different rate environments as of September 30, 2003:

Change in Yield Curve	Change in Economic Value of Equity (dollars in thousands)
+200 basis points	$ 3,218
+100 basis points	2,415
Most likely	0
-100 basis points	- 5,663
-200 basis points	- 21,391

ITEM 4 – CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company’s management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

PART II—OTHER INFORMATION

Item 1 – 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 of the Company.

Item 2 – Changes in Securities and Use of Proceeds

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Submission of Matters to a Vote of Security Holders

None.

Item 5 – Other Information

None.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits.

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

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

In a report on Form 8-K filed July 16, 2003, Union Bankshares Corporation issued a press release announcing second quarter results for the quarter ending June 30, 2003. The press release, with summary financial information, was filed pursuant to Item 7 and Item 9.

[Table of Contents](#)

Signatures

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

	Union Bankshares Corporation (Registrant)
November 12, 2003 (Date)	/s/ G. WILLIAM BEALE
	G. William Beale, **President, Chief Executive Officer and Director**
November 12, 2003 (Date)	/s/ D. ANTHONY PEAY
	D. Anthony Peay, **Senior Vice President and Chief Financial Officer**

Exhibit 31.1

CERTIFICATIONS

I, G. William Beale, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

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

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by such evaluation; and as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:November 12, 2003

/s/ G. WILLIAM BEALE

G. William Beale
President and Chief Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to Union Bankshares Corporation and will be retained by Union Bankshares Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATIONS

I, D. Anthony Peay, certify that:

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

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

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

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

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

(b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by such evaluation; and as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:November 12, 2003

/s/ D. ANTHONY PEAY

D. Anthony Peay
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to Union Bankshares Corporation and will be retained by Union Bankshares Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

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

In connection with the Quarterly Report of Union Bankshares Corporation (the "Company") on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ G. WILLIAM BEALE

G. William Beale, Chief Executive Officer

/s/ D. ANTHONY PEAY

D. Anthony Peay, Chief Financial Officer

November 12, 2003