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, 2003

Commission file number: 0-20293

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

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

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

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

**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. 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 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. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2003 was approximately $200,455,411.

The number of shares of common stock outstanding as of February 20, 2004 was 7,628,778.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be used in conjunction with the registrant's 2004 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

UNION BANKSHARES CORPORATION
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PART I

Item 1. — Business

GENERAL

Union Bankshares Corporation (the "Company" or "Union") is a multi-bank holding company organized under Virginia law and registered under the Bank Holding Company Act of 1956. The Company is headquartered in Bowling Green, Virginia. The Company is committed to the delivery of financial services through its four community bank subsidiaries (the "Community Banks") and three non-bank financial services affiliates:

Community Banks	
Union Bank & Trust Company	Bowling Green, Virginia
Northern Neck State Bank	Warsaw, Virginia
Rappahannock National Bank	Washington, Virginia
Bank of Williamsburg	Williamsburg, Virginia
Financial Services Affiliates	
Mortgage Capital Investors, Inc.	Springfield, Virginia
Union Investment Services, Inc.	Bowling Green, Virginia
Union Insurance Group, LLC	Bowling Green, Virginia

The Company was formed in connection with the July 1993 merger of Northern Neck Bankshares Corporation and Union Bancorp, Inc. and their bank subsidiaries Union Bank & Trust Company and Northern Neck State Bank into Union Bankshares Corporation. 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, the Bank of Williamsburg began business as a newly organized bank. In June 1999, after the retirement of its president, King George State Bank was merged into Union Bank & Trust Company ("Union Bank") and ceased to be a subsidiary bank. Although Union Bankshares was founded in 1993, its subsidiary banks are among the oldest in Virginia. Union Bank and Trust and Rappahannock National Bank began business in 1902 and Northern Neck State Bank dates back to 1907.

Each of the Community Banks is a full service retail commercial bank offering consumers and businesses a wide range of banking and related financial services, including checking, savings, certificates of deposit and other depository services, and loans for commercial, industrial, residential mortgage and consumer purposes. The Community Banks also issue credit cards and deliver automated teller machine services through the use of reciprocally shared ATMs in the major ATM networks. All of the Community Banks offer Internet banking access for banking services and online bill payment for both consumers and commercial companies.

The Company principally serves, through its Community Banks, the Virginia counties of Caroline, Hanover, Henrico, James City, King George, King William, Spotsylvania, Stafford, Richmond, Westmoreland, Essex, Lancaster and Northumberland, and the Cities of Williamsburg, Newport News and Fredericksburg, Virginia. The Community Banks serve their customers through traditional bank branches, as well as convenience branches located in five convenience stores and in a super Wal-Mart store. They also utilize loan production offices to enter new markets as a means to gauge the strength and potential of those markets. In January 2002, the Bank of Williamsburg opened a loan production office servicing Newport News and converted it to a full service branch in May 2002. In August 2002, Union Bank opened a loan production office in the Manassas area (Prince William County). In January 2003, Union Bank opened a loan production office in Henrico County and a full-service branch is expected to open at that location in March 2004. In addition, in November 2003 a branch was opened in the Short Pump area of Richmond. Through its Community Banks, the Company operated 32 branches in its primary trade area at December 31, 2003.

Union Investment Services has provided securities, brokerage and investment advisory services since its formation in February 1993. It is a full service investment company handling all aspects of wealth management including stocks, bonds, annuities, mutual funds and financial planning.

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 (“MCII”). MCII has seven offices located in Virginia (4) and Maryland (2) and South Carolina (1), and is also licensed to do business in Washington, D.C. MCII provides a variety of mortgage products to customers in those states. The mortgage loans originated by MCII are generally sold in the secondary market through purchase agreements with institutional investors.

On August 31, 2003, the Company formed Union Insurance Group, LLC (“UIG”) an insurance agency in which each of the subsidiary banks owns a proportionate stake based on asset size This agency operates in a joint venture with Bankers Insurance, LLC, a consortium of title agencies owned by community banks across Virginia and managed by the Virginia Bankers Association. UIG generates revenue through sales of various insurance products, including long term care insurance and business owner policies.

Union Bankshares Corporation had assets of $1.2 billion, deposits of $1.0 billion and stockholders’ equity of $118.5 million at December 31, 2003. The Community Banks range in asset size from $46.9 million to $835.7 million at December 31, 2003.

SEGMENTS

The Company has two reportable segments: traditional full service community banks and a mortgage loan origination business, each as described above. See Note 17 in the Notes to Consolidated Financial Statements contained in Item 8, Financial Statement and Supplementary Data, of this Form 10-K and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K, for certain financial and other information about each of the Company’s operating segments.

ACQUISITION PROGRAM

The Company expands its market area and increases its market share through internal growth, de novo expansion and strategic acquisitions. Strategic acquisitions by the Company to date have included whole bank acquisitions and financial affiliations, as well as branch and deposit acquisitions. The Company generally considers acquisitions of companies in strong growth markets or with unique products or services that might benefit the entire organization. Targeted acquisitions are priced to be economically feasible with minimal short term drag to achieve positive long term benefits. These acquisitions may be paid for in the form of cash, stock or a combination thereof. The amount and type of consideration and deal charges paid could have a dilutive effect on the Company earnings per share or book value, however cost savings and revenue enhancements are also anticipated to provide long term economic benefit to the Company.

On December 19, 2003, the Company announced the signing of a definitive merger agreement with Guaranty Financial Corporation (“Guaranty”). The transaction is valued at approximately $54 million in stock and cash and is expected to take place in the second quarter of 2004, subject to regulatory approval and the approval of Guaranty’s shareholders. Guaranty operates seven branches in the Greater Charlottesville area with nearly $200 million in assets.

In November 2003, Union Bank opened a branch in a convenience store on Pounce Tract Road in the Short Pump area of western Henrico County. This branch compliments the existing operations of Union Bank and Trust in the Richmond area and furthers its expansion in the Richmond market.

In 2002, the Company, through two of its Community Banks, opened two loan production offices as a means to enter new markets in Newport News and Manassas, Virginia. Both offices have performed well and the Newport News location became a full service branch in May 2002.

EMPLOYEES

As of December 31, 2003, the Company had 521 employees both full and part time, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. None of the Company's employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers their employee relations to be excellent.

COMPETITION

The financial services industry remains highly competitive and constantly evolving. The Company experiences strong competition in all aspects of its business. In its market areas, the Company competes with large national and regional financial institutions, savings and loans and other independent community banks, as well as credit unions, consumer finance companies, mortgage companies, loan productions offices, mutual funds and life insurance companies. Competition has 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. In addition, credit unions have been allowed to increasingly expand their membership definitions and to offer more attractive loan and deposit pricing due to their favorable tax status. At the same time, the Company's non-bank financial services affiliates also operate in highly competitive environments.

Union Bankshares Corporation is one of the largest independent bank holding companies headquartered in Virginia. The Company believes its community bank framework and philosophy provide a competitive advantage, particularly with regards to larger national and regional institutions, allowing the Company to compete effectively in the markets it serves. The Company's Community Banks generally have strong and growing market shares within the markets they serve. Due to the significant presence of out of state banks and the Company's absence in many Virginia markets, the Company's deposit market share in Virginia as of June 2003 is only 0.74% of the total banking deposits in Virginia. This is up from 0.69% in June 2002 and shows the impact of our penetration in existing and new markets in the state. It is anticipated that the planned acquisition of Guaranty Financial Corporation will increase this number to 0.87%.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state law. The following description briefly addresses certain provisions of federal and state laws and certain regulations and proposed regulations and the potential impact of such provisions on the Company and the Community Banks. To the extent statutory or regulatory provisions or proposals are described herein, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions or proposals.

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 non-bank 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 that 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 is 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 (the "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 Community Banks (other than Rappahannock National Bank, which is federally regulated) are subject to regulation and supervision by the State Corporation Commission of Virginia (the "SCC") and the Federal Reserve Bank. Rappahannock National Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency (the "OCC").

Capital Requirements

The Federal Reserve Board, the OCC 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 (including Trust Preferred Securities), 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, 2003 were 10.71% and 11.88%, 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) ("Tier 1 leverage ratio"). These guidelines provide for a minimum Tier 1 leverage ratio of 4% 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. The Tier 1 leverage ratio of the Company as of December 31, 2003, was 8.72%, 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.

The consideration for the pending acquisition of Guaranty will be in the form of stock and cash. It is anticipated that the cash portion of the transaction will be financed through the issuance of trust preferred securities (TRUPs) which qualify as Tier 1 capital for regulatory purposes.

Limits on Dividends and Other Payments

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

The Community Banks are subject to various statutory restrictions on their ability to pay dividends to the Company. Under the current supervisory practices of the Community 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 net profits of the two preceding years. The payment of dividends by the Community 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 Community 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 Community Banks, or the Company, could be deemed to constitute such an unsafe or unsound practice.

Under the FDIA, insured depository institutions such as the Community 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 Community Banks' current financial condition, the Company does not expect that this provision will have any impact on its ability to obtain dividends from the Community Banks. Nonbank subsidiaries pay the parent company dividends periodically on a nonregulated basis.

In addition to dividends it receives from the Community Banks, the Company receives management fees from its affiliated companies for various services provided to them including: data processing, item processing, customer accounting, financial accounting, human resources, funds management, credit administration, credit support, sales and marketing, collections, facilities management, call center, legal, compliance and internal audit. These fees are charged to each subsidiary based upon various specific allocation methods measuring the usage of such services by that subsidiary. The fees are eliminated from the financial statements in the consolidation process.

Under federal law, the Community 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 Community Banks are also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

The Community Banks

The Community Banks are supervised and regularly examined by the Federal Reserve Board and the SCC, and in the case of Rappahannock National Bank, the OCC. The various laws and regulations administered by the regulatory agencies affect corporate practices, such as the payment of dividends, incurrance of 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 Community 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 institutions with deposits insured by the BIF, the Community Banks also are subject to insurance assessments imposed by the FDIC. There is a base assessment for all institutions. In addition, the FDIC has implemented a risk-based assessment schedule, imposing assessments ranging from zero (with a $2,000 minimum assessment) 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 2003, the Company paid only the base assessment rate through the Community Banks which amounted to $150,181 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.

The Gramm-Leach-Bliley Act

Effective on March 11, 2001, the Gramm Leach Bliley Act (the “GLB Act”) allows a bank holding company or other company to certify status as a financial holding company, which will allow such company to engage in activities that are financial in nature, that are incidental to such activities, or are complementary to such activities. The GLB Act enumerates certain activities that are deemed financial in nature, such as underwriting insurance or acting as an insurance principal, agent or broker, underwriting, dealing in or making markets in securities, and engaging in merchant banking under certain restrictions. It also authorizes the Federal Reserve Board to determine by regulation what other activities are financial in nature, or incidental or complementary thereto.

Filings with the SEC

The Company files annual, quarterly and other reports under the Securities Exchange Act of 1934 with the Securities and Exchange Commission. These reports are posted and are available at no cost on the Company's website, *www.ubsh.com*, through the Investor Relations link, as soon as reasonably practible after the Company files such documents with the SEC. Union's filings are also available through the SEC's website at *www.sec.gov*.

Item 2. — Properties

The Company, through its subsidiaries, owns or leases buildings that are used in the normal course of business. The corporate headquarters 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. See the Notes to Consolidated Financial Statements contained in Item 8, Financial Statement and Supplementary Data, of this Form 10-K for information with respect to the amounts at which bank premises and equipment are carried and commitments under long-term leases.

Unless otherwise indicated, the properties below are owned by the Company and its subsidiaries as of December 31, 2003.

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 and Ashcake Road	Ashland, Virginia
4210 Plank Road	Fredericksburg, Virginia
10415 Courthouse Road	Spotsylvania, Virginia
9665 Sliding Hill Road	Ashland, Virginia
700 Kenmore Avenue	Fredericksburg, Virginia
Route 360	Manquin, Virginia
9534 Chamberlayne Road	Mechanicsville, Virginia
Cambridge and Layhill Road	Fredericksburg, Virginia (leased)
Massaponax Church Road and Route 1	Spotsylvania, Virginia (leased)
Brock Road and Route 3	Spotsylvania, Virginia (leased)
2811 Fall Hill Avenue	Fredericksburg, Virginia
610 Mechanicsville Turnpike	Mechanicsville, Virginia (leased)
10045 Kings Highway	King George, Virginia
840 McKinney Blvd.	Colonial Beach, Virginia
5510 Morris Road	Thornburg, Virginia
4690 Pouncey Tract Road	Glen Allen, Virginia (leased)
Loan Production Offices – Union Bank & Trust Company	
9282 Corporate Circle, Building 7 Ashton Professional Center	Manassas, Virginia (leased)
1773 Parham Road	Richmond, Virginia
Banking Offices - Northern Neck State Bank	
5839 Richmond Road	Warsaw, Virginia
4256 Richmond Road	Warsaw, Virginia
Route 3, Kings Highway	Montross, Virginia
1649 Tappahannock Blvd	Tappahannock, Virginia
1660 Tappahannock Blvd (Wal-Mart)	Tappahannock, Virginia (leased)
15043 Northumberland Highway	Burgess, Virginia
284 North Main Street	Kilmarnock, Virginia

876 Main Street	Reedville, Virginia
485 Chesapeake Drive	White Stone, Virginia
Banking Office - Rappahannock National Bank	
7 Bank Road	Washington, Virginia
Banking Office – Bank of Williamsburg	
5125 John Tyler Highway	Williamsburg, Virginia (land leased)
603 Pilot House Drive	Newport News, Virginia (leased)
Union Investment Services, Inc.	
111 Davis Court	Bowling Green, Virginia
9665 Sliding Hill Road	Ashland, Virginia
2811 Fall Hill Avenue	Fredericksburg, Virginia
5125 John Tyler Highway	Williamsburg, Virginia (land lease)
Mortgage Capital Investors, Inc. (All leased)	
5440 Jeff Davis Highway, #103	Fredericksburg, Virginia
3 Hillcrest Drive #A100	Frederick, Maryland
7501 Greenway Center, #140	Greenbelt, Maryland
7901 N. Ocean Boulevard	Myrtle Beach, South Carolina
6330 Newtown Road, #211	Norfolk, Virginia
6571 Edsall Road	Springfield, Virginia
12741 Darby Brooke Court, Suite 102	Woodbridge, 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 of the Company.

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 of the year ended December 31, 2003.

PART II

Item 5. — Market for Registrant's Common Equity and Related Stockholder Matters

Union Bankshares Corporation's common stock is traded on the Nasdaq National Market under the symbol "UBSH". The Company's common stock began trading on the Nasdaq National Market in October 1993.

There were 7,627,248 shares of the Company's common stock outstanding at the close of business on December 31, 2003, which were held by 2,273 shareholders of record. The closing price of the Company's stock on December 31, 2003 was $30.50 per share as compared to $27.25 on December 31, 2002.

The following table summarizes the high and low closing sales prices and dividends declared for quarterly periods during the two years ended December 31, 2003.

	Market Values				Dividends Declared	
	2003		2002		2003	2002
	High	Low	High	Low		
First Quarter	**$28.99**	**$23.26**	$21.80	$15.50	$ —	$ —
Second Quarter	**28.91**	**25.05**	27.95	20.96	0.29	0.25
Third Quarter	**32.64**	**26.72**	29.00	22.54	—	—
Fourth Quarter	**34.25**	**30.13**	29.33	22.25	0.31	0.27
					$0.60	$0.52

Restrictions on the ability of the Community Banks to transfer funds to the Company at December 31, 2003, are set forth in Note 16 of the Notes to the Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data, of this Form 10-K. A discussion of certain limitations on the ability of the Community Banks to pay dividends to the Company and the ability of the Company to pay dividends on its common stock, is set forth in Part I, Business, of this Form 10-K under the headings "Supervision and Regulation - Limits on Dividends and Other Payments" and "- The Community Banks".

The dividend amount on the Company's common stock is established by the Board of Directors semi-annually and dividends are typically paid on May 1st and November 1st of each year. In making its decision on the payment of dividends on the Company's common stock, the Board considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns and other factors.

Equity Compensation Plans

The following table summarizes information, as of December 31, 2003, relating to the Company's 1993 Stock Option Plan, pursuant to which grants of options to acquire shares of common stock may be granted from time to time.

Equity Compensation Plan Information

	Year Ended December 31, 2003		
	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plan
Equity compensation plans approved by shareholders	222,000(1)	$ 19.85	178,000
Equity compensation plans not approved by shareholders	—	—	—
Total	222,000	$ 19.85	178,000

(1) Consists of options granted pursuant to the Company's 1993 Stock Option Plan.

Item 6. - Selected Financial Data

The following table sets forth selected financial data for the Company for the last five years.

	2003	2002	2001	2000	1999
	(dollars in thousands, except per share amounts)				
RESULTS OF OPERATIONS					
Interest income	**$ 67,017**	$ 65,205	$ 65,576	$ 64,867	$ 55,636
Interest expense	**23,905**	24,627	32,483	33,530	27,067
Net interest income	**43,112**	40,578	33,093	31,337	28,569
Provision for loan losses	**2,307**	2,878	2,126	2,101	2,216
Net interest income after provision for loan losses	**40,805**	37,700	30,967	29,236	26,353
Noninterest income	**22,840**	17,538	16,092	12,011	13,246
Noninterest expenses	**40,725**	35,922	32,447	32,424	32,689
Income before income taxes	**22,920**	19,316	14,612	8,823	6,910
Income tax expense	**6,256**	4,811	2,933	1,223	636
Net income	**$ 16,664**	$ 14,505	$ 11,679	$ 7,600	$ 6,274
KEY PERFORMANCE RATIOS					
Return on average assets (ROA)	**1.42%**	1.41%	1.27%	0.88%	0.79%
Return on average equity (ROE)	**14.88%**	14.91%	13.55%	10.69%	8.74%
Efficiency ratio	**59.36%**	58.90%	62.13%	71.18%	74.50%
PER SHARE DATA					
Net income per share - basic	**$ 2.19**	$ 1.92	$ 1.55	$ 1.01	$ 0.84
Net income per share - diluted	**2.17**	1.90	1.55	1.01	0.83
Cash dividends declared	**0.60**	0.52	0.46	0.40	0.40
Book value at period-end	**15.54**	13.92	11.82	10.42	9.19
FINANCIAL CONDITION					
Total assets	**$ 1,234,732**	$ 1,115,725	$ 983,097	$ 881,961	$ 821,827
Total deposits	**1,000,477**	897,642	784,084	692,472	646,866
Total loans, net of unearned income	**878,267**	714,764	600,164	580,790	543,367
Stockholders' equity	**118,501**	105,492	88,979	78,352	68,794
ASSET QUALITY					
Allowance for loan losses	**$ 11,519**	$ 9,179	$ 7,336	$ 7,389	$ 6,617
Allowance as % of total loans	**1.31%**	1.28%	1.22%	1.27%	1.22%
OTHER DATA					
Market value per share at period-end	**$ 30.50**	$ 27.25	$ 16.24	$ 10.25	$ 14.75
Price to earnings ratio	**14.1**	14.3	10.5	10.1	17.6
Price to book value ratio	**196%**	196%	137%	98%	161%
Equity to assets	**9.6%**	9.5%	9.1%	8.9%	8.4%
Dividend payout ratio	**27.40%**	27.08%	29.68%	39.60%	42.62%
Weighted average shares outstanding, basic	**7,602,872**	7,555,906	7,523,566	7,508,238	7,473,869
Weighted average shares outstanding, diluted	**7,675,437**	7,623,169	7,541,572	7,513,000	7,498,000

Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information about the major components of the results of operations and financial condition, liquidity and capital resources of Union Bankshares Corporation and its subsidiaries. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements presented in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

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 by or on behalf of the Company.

CRITICAL ACCOUNTING POLICIES

General

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

The more critical accounting and reporting policies include Union's accounting for the allowance for loan losses, goodwill and intangibles, and income taxes. Union's accounting policies are fundamental to understanding the Company's consolidated financial position and consolidated results of operations. Accordingly, the Company's significant accounting policies are discussed in detail in Note 1 in the "Notes to Consolidated Financial Statements".

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

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) 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 is the accumulation of various components that are calculated based on independent methodologies. All components of the allowance represent an estimation performed pursuant to either SFAS No. 5 or SFAS No. 114. Management's estimate of each SFAS No. 5 component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends; collateral values; loan volumes; geographic, borrower and industry concentrations; seasoning of the loan portfolio; the findings of internal credit quality assessments and results from external bank regulatory examinations. These factors, as well as historical losses and current economic and business conditions, are used in developing estimated loss factors used in the calculations.

Reserves for commercial loans are determined by applying estimated loss factors to the portfolio based on management's evaluation and "risk grading" of the commercial loan portfolio. Reserves are provided for noncommercial loan categories using estimated loss factors applied to the total outstanding loan balance of each loan category. Specific reserves are typically provided on all impaired commercial loans in excess of a defined threshold that are classified in the Special Mention, Substandard or Doubtful risk grades. The specific reserves are determined on a loan-by-loan basis based on management's evaluation the Company's exposure for each credit, given the current payment status of the loan and the value of any underlying collateral.

While management uses the best information available to establish the allowance for loan and lease losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the valuations or, if required by regulators, based upon information available to them at the time of their examinations. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

Goodwill and Intangibles

SFAS No. 141, *Business Combinations*, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. For purchase acquisitions, Union is required to record assets acquired, including identifiable intangible assets, and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Effective January 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* which 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 but require at least an annual impairment review, and more frequently if certain impairment indicators are in evidence.

Goodwill is included in other assets and totaled $864,000 at December 31, 2003 and 2002. Based on the testing for goodwill impairment, there were no impairment charges for 2003 or 2002. In 2001, $82,500 was expensed.

Core deposit intangibles are included in other assets and are being amortized on a straight-line basis over the period of expected benefit, which ranges from 10 to 15 years. Core deposit intangibles, net of amortization, amounted to $4,926,000 and $5,500,000 at December 31, 2003 and 2002, respectively. The Company adopted SFAS 147, *Acquisitions of Certain Financial Institutions*, on January 1, 2002 and determined that core deposit intangibles will continue to be amortized over the estimated useful life.

OVERVIEW

Union Bankshares Corporation's net income for 2003 totaled $16.7 million or $2.19 per share on a basic and $2.17 on a diluted basis, up 14.9% from $14.5 million or $1.92 per share on a basic and $1.90 on a diluted basis for 2002. Profitability as measured by return on average assets (ROA) for 2003 was 1.42% as compared to 1.41% a year earlier, while return on average equity (ROE) for 2003 was 14.88% as compared to 14.91% in 2002. Core profitability continued to improve as net interest income increased by 6.2% and noninterest income was up 30.2%.

Union's performance in 2003 was highlighted by a low interest rate environment, an improving economy and corporate growth initiatives that fueled strong growth in the loan portfolio. Continued low interest rates provided a relatively low cost funding source to finance the Company's strong loan growth. The Company's loan production offices and bank branches in growth markets experienced strong loan demand, particularly in commercial and real estate loans. Although competition remained intense and compressed the net interest margin, loan growth generated sufficient interest income to offset the impact of lower rates.

The interest rate environment proved favorable for the Company's mortgage segment. The mortgage segment followed a strong year in 2002 with a 39% increase in mortgage loan production to $535 million in 2003.

Community Bank Segment

Net income for the community bank segment was $14.2 million, an increase of $1.3 million, or 10.3% over 2002. Despite the low interest rate environment, earnings from increased loan volumes offset a decline in securities available for sale to generate a 6.3% increase in income from interest and fees on loans. Deposit interest expense benefited from low rates as a $102.8 million increase in deposit volume still resulted in a 2.9% decrease in interest expense. Net interest income before provision was up 5.2% or $2.0 million. Provision expense decreased $571,000 largely as a result of recoveries of prior charge-offs and higher overall asset quality. Noninterest income in the community bank segment grew by 28.3% in 2003 with service charges on deposit accounts, the primary component of noninterest income, increasing 36.9%. Noninterest expense in the community bank segment increased 9.5% while assets grew by over 10.4%. This ability to grow on a stable cost platform has allowed the Company to realize efficiencies from both internal growth and other expansion opportunities.

With the growth plans for the community bank segment in 2004, earnings will be impacted. The Company expects to complete its acquisition of Guaranty Financial Corporation during the second quarter of 2004. The addition of these seven branches will increase net income in 2004, but is expected to be dilutive to earnings per share in 2004 and accretive in 2005. The Company's plans also call for the opening of a new branch adjacent to the loan production office in the West End of Richmond in March, 2004, as well as two new locations in Hanover County and two in Chesterfield

County later in the year. Management anticipates that the opening of de novo branches typically will reduce net earnings of approximately $100,000 in the first full year of operation. Despite the start-up cost associated with de novo expansion, management feels these opportunities to expand the franchise in 2004 are timely and expects a modest rise in income in 2004 with the full benefit of these ventures realized in future years.

Mortgage Segment

The continued decline in mortgage interest rates in 2003 resulted in the lowest rates in decades and stimulated much higher mortgage loan originations than in 2002. The mortgage segment's loan originations in 2003 totaled $535 million versus $385 million in 2002 and the gains on the sales of the 2003 loans totaled $13.3 million, a 31.4% increase over 2002. Net income for the mortgage banking segment was $2.5 million, an improvement of $837,000 or 52% over $1.6 million in 2002. The mortgage industry expects a decline in production in 2004 of as much as 50% from 2003 levels. Although interest rates are not expected to rise significantly in 2004, the high volumes of refinance activity in recent years is expected to reduce overall mortgage production. Refinanced mortgages represented 50% of the mortgage segment's loan production for the year as compared to 42% in 2002, both below industry refinance rates. The Company continues to focus on developing and maintaining relationships with builders and realtors to generate loan referrals, to provide a more steady source of origination volume in a more stable rate environment. The Company will seek to add commissioned mortgage lenders to existing mortgage offices and will seek expansion opportunities for new mortgage offices within existing bank markets and new growth markets. Management believes additional cross-selling opportunities exists within the various subsidiaries and will also pursue those prospects.

Consolidated assets grew to $1.2 billion at December 31, 2003, up 10.7% from $1.116 billion a year ago. Loans grew to $878.3 million, up 22.9% over year-end 2002 totals reflecting continued growth in our loan production in all entities. Deposits increased to $1.0 billion at December 31, 2003 from $897.6 million at December 31, 2002, an 11.5% increase. The Company's capital position grew by 12.3%, from $105.5 million at December 31, 2002 to $118.5 million a year later and remains strong at 9.6% of total assets.

NET INTEREST INCOME

Net interest income, which represents the principal source of earnings for the Company is 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 interest-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, the net interest margin and net income.

Interest rates in 2003 reached near-term historic lows, as the Federal Reserve furthered its recent accommodative policy to encourage economic recovery. Statistics released in the fourth quarter began to point toward a stronger 2004. The low rates and low inflation sparked a mortgage frenzy which brought on mortgage prepayments on the community bank securities portfolios and the highest mortgage origination volumes ever for the mortgage segment. The Company is in an asset sensitive repricing position. Until rates rise, the margin may compress even more than it is now. The Company will continue to reprice long term liability costs lower and will ultimately benefit from active deposit pricing management when short term rates rise.

During 2003, loan volumes and loans held for sale volumes generated interest income to more than offset the decline in volume and rates in the other asset categories. This resulted in an increase in income from earning assets of $1.6 million. At the same time, volume increases in all the interest bearing liabilities were accompanied by rate declines in all categories. The result was an increase in net interest income. The certificate of deposit categories accounted for the majority of the volume increase in deposits with certificates $100,000 and over actually having an increase in the interest expense as a result of the increased volume. The lower rates resulted in a decrease in liability interest expense of $722,000 and an increase in net interest income of $2.3 million. (see *Volume and Rate Analysis* table).

During 2003, net interest income, on a taxable equivalent basis, which reflects the tax benefits of nontaxable interest income, totaled $45.7 million, an increase of 5.4% from $43.3 million in 2002. The Company's net interest margin decreased to 4.11% in 2003, as compared to 4.49% in 2002. The yield on earning assets decreased to 6.27% from 7.04% in 2002 while the cost of interest-bearing liabilities decreased from 3.05% in 2002 to 2.62% in 2003. Average interest-bearing liabilities increased by $106.6 million, or 13.2% while average earning assets grew by $144.5 million, or 15.0%. In 2003, deposits increased primarily through internal growth since only one branch opened late in the fourth quarter. The new branches opened in 2002 gave the balance sheet a full year of deposits, ending the year at $19.1 million, an increase of $6.2 million, or 45% from $13.9 at the end of 2002. The majority of the increase came from the existing branch base. Demand deposits continued to grow through the year, as did interest bearing transaction accounts as many investors maintained their liquidity in bank deposits. The margin decreased on a year-to-year basis and continued compression of a lesser magnitude than in 2003 is anticipated for most of 2004, since rates are not expected to rise until late in the year.

During 2002, net interest income, on a taxable equivalent basis totaled $43.3 million, an increase of 20.8% from $35.9 million in 2001. The Company's net interest margin increased to 4.49% in 2002, as compared to 4.17% in 2001. The yield on earning assets decreased to 7.04% from 7.94% in 2001 while the cost of interest-bearing liabilities decreased to 3.05% in 2002 from 4.42% in 2001. Average interest-bearing liabilities increased by $72.8 million, or 9.9% while average earning assets grew by $104.7 million, or 12.2%.

The following table shows 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) YEARS ENDED DECEMBER 31,

	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	**$ 168,022**	**$ 8,171**	**4.86%**	$ 168,787	$ 9,619	5.70%	$ 138,175	$ 9,125	6.60%
Tax-exempt(1)	**85,506**	**6,594**	**7.71%**	91,814	7,015	7.64%	91,538	7,039	7.69%
Total securities	**253,528**	**14,765**	**5.82%**	260,601	16,634	6.38%	229,713	16,164	7.04%
Loans, net	**789,934**	**52,266**	**6.62%**	658,836	49,403	7.50%	589,347	50,148	8.51%
Loans held for sale	**45,890**	**2,351**	**5.12%**	27,606	1,663	6.02%	25,862	1,559	6.03%
Federal funds sold	**16,241**	**138**	**0.85%**	14,153	206	1.46%	13,233	412	3.11%
Money market investments	**1,913**	**22**	**1.15%**	2,778	40	1.44%	1,116	23	2.06%
Interest-bearing deposits in other banks	**2,137**	**22**	**1.03%**	1,146	17	1.48%	1,154	37	3.21%
Total earning assets	**1,109,643**	**69,564**	**6.27%**	965,120	67,963	7.04%	860,425	68,343	7.94%
Allowance for loan losses	**(10,279)**			(8,370)			(7,725)		
Total non-earning assets	**78,293**			71,684			69,421		
Total assets	**$ 1,177,657**			$ 1,028,434			$ 922,121		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing deposits:									
Checking	**$ 136,621**	**567**	**0.42%**	$ 120,878	1,028	0.85%	$ 100,112	1,646	1.64%
Money market savings	**97,368**	**967**	**0.99%**	84,623	1,193	1.41%	67,680	1,838	2.72%
Regular savings	**90,208**	**746**	**0.83%**	78,497	1,014	1.29%	63,311	1,443	2.28%
Certificates of deposit:									
$100,000 and over	**163,330**	**6,277**	**3.84%**	135,429	5,718	4.22%	128,117	7,243	5.65%
Under $100,000	**322,111**	**11,316**	**3.51%**	286,076	11,506	4.02%	269,578	14,970	5.55%
Total interest-bearing deposits	**809,638**	**19,873**	**2.45%**	705,503	20,459	2.90%	628,798	27,140	4.32%
Other borrowings	**103,866**	**4,032**	**3.88%**	101,385	4,168	4.11%	105,284	5,343	5.07%
Total interest-bearing liabilities	**913,504**	**23,905**	**2.62%**	806,888	24,627	3.05%	734,082	32,483	4.42%
Noninterest bearing liabilities:									
Demand deposits	**141,228**			115,552			96,127		
Other liabilities	**10,912**			8,734			5,719		
Total liabilities	**1,065,644**			931,174			835,928		
Stockholders' equity	**112,013**			97,260			86,193		
Total liabilities and stockholders' equity	**$ 1,177,657**			$ 1,028,434			$ 922,121		
Net interest income		**$ 45,659**			$ 43,336			$ 35,860	
Interest rate spread			**3.65%**			3.99%			3.52%
Interest expense as a percent of average earning assets			**2.15%**			2.55%			3.78%
Net interest margin			**4.11%**			4.49%			4.17%

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

The following table summarizes 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)
(dollars in thousands)

	Years Ended December 31,					
	2003 vs. 2002 Increase (Decrease) Due to Changes in:			2002 vs. 2001 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total
EARNING ASSETS:						
Securities:						
Taxable	**$ (43)**	**$ (1,405)**	**$ (1,448)**	$ 1,850	$ (1,356)	$ 494
Tax-exempt	**(485)**	**64**	**(421)**	21	(45)	(24)
Loans, net	**9,103**	**(6,239)**	**2,864**	5,563	(6,309)	(746)
Loans held for sale	**967**	**(279)**	**688**	105	(1)	104
Federal funds sold	**26**	**(94)**	**(68)**	26	(232)	(206)
Money market investments	**(11)**	**(7)**	**(18)**	25	(8)	17
Interest-bearing deposits in other banks	**12**	**(7)**	**5**	—	(20)	(20)
Total earning assets	**9,569**	**(7,967)**	**1,602**	7,590	(7,971)	(381)
INTEREST-BEARING LIABILITIES:						
Checking	**119**	**(580)**	**(461)**	291	(909)	(618)
Money market savings	**162**	**(388)**	**(226)**	384	(1,029)	(645)
Regular savings	**135**	**(403)**	**(268)**	292	(721)	(429)
CDs $100,000 and over	**1,104**	**(545)**	**559**	394	(1,919)	(1,525)
CDs < $100,000	**1,357**	**(1,547)**	**(190)**	870	(4,334)	(3,464)
Total interest-bearing deposits	**2,877**	**(3,463)**	**(586)**	2,231	(8,912)	(6,681)
Other borrowings	**100**	**(236)**	**(136)**	(192)	(983)	(1,175)
Total interest-bearing liabilities	**2,977**	**(3,699)**	**(722)**	2,039	(9,895)	(7,856)
Change in net interest income	**$ 6,592**	**$ (4,268)**	**$ 2,324**	$ 5,551	$ 1,924	$ 7,475

* *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 and liquidity 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 are variable rate instruments, 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 of rising or falling interest rates on net interest income.

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 interest income and net income over specified time horizons.

At December 31, 2003, the Company had $36.2 million more liabilities than assets subject to repricing within one year based on gap modeling and was, therefore, in an liability-sensitive position. This was a point in time anomaly caused by a sudden decline in demand deposit balances. Based on other modeling forecasts, the Company is actually less asset sensitive than at the beginning of 2003. An asset-sensitive Company generally will be impacted favorably by increasing interest rates while a liability-sensitive company’s net interest margin and net interest income generally will be impacted favorably by declining interest rates. At December 31, 2002, the Company had $168.1 million more assets than liabilities subject to repricing within one year.

Although the gap report shows the Company to be liability sensitive, computer simulation modeling shows the Company's net interest income tends to increase when interest rates rise and fall when interest rates decline. The explanation for this is that interest rate changes affect bank products differently. For example, if the prime rate changes by 1.00% (100 basis points or bps), the change on certificates of deposit may only be 0.75% (75 bps), while other interest bearing deposit accounts may only change 0.10% (10 bps). Also, despite their fixed terms, loan products are often refinanced as rates decline, but rarely refinanced as rates rise. Assets and liabilities repriced throughout the year resulting in a decrease in the earning asset rate, a decrease in the cost of funds rate and a decrease in net interest margin.

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 discussed above.

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

The 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	9.7%
+100 basis points	4.9%
Flat	0
-100 basis points	-4.3%
-200 basis points	-4.7%

ECONOMIC VALUE SIMULATION

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

Change in Prime Rate	Change in Net Economic Value (Dollars in Thousands)
+200 basis points	$ -9
+100 basis points	1,315
Flat	0
-100 basis points	-4,496
-200 basis points	-19,362

NONINTEREST INCOME

Noninterest income increased by $5.3 million or 30.2%, from $17.5 million in 2002 to $22.8 million in 2003. This increase is primarily due to a $3.2 million increase in gains on sales of loans, which rose from $10.1 million in 2002 to $13.3 million in 2003. Stimulated by continued low mortgage interest rates, the mortgage originations growth carried through the third quarter of 2003. Service charges on deposits rose 36.9% from $4.1 million to $5.6 million as a result of a new overdraft privilege service which the Community Banks began offering in June, 2003. Other service charges, commissions and fee income were down slightly from $2.6 million in 2002 to $2.5 million in 2003 as net brokerage commissions were down $119,000. A securities gain of $113,000 represents a $272,000 change from a loss of $159,000 a year ago. Such sales of securities are typically related to minor adjustments in the structure of the portfolio. The Company also recorded a gain of $156,000 on the disposal of other real estate owned. In addition, other operating income was up from $800,000 in 2002 to $1.2 million in 2003. This increase was the result of a full years contribution of $189,000 from the Bank of Williamsburg's investment in Johnson Mortgage Company, LLC, rental income of $69,000 from the Richmond LPO building and a one time death benefit of $125,000 from a subsidiary director's life insurance.

In 2002, noninterest income increased by 9.0% from $16.1 million in 2001 to $17.5 million. This increase was primarily due to a $1.2 million increase in gains on sales of loans, which rose from $8.9 million in 2001 to $10.1 million in 2002. The growth in mortgage originations, stimulated by low mortgage interest rates, led to this increase. Service charges on deposits rose 11.5% from $3.7 million to $4.1 million. Other service charges, commissions and fee income were up slightly from $2.5 million in 2001 to $2.6 million as ATM fees continued to grow while brokerage commissions were slowed by the down stock market. A securities loss of $159,000 in 2002 represented a $284,000 change from gains of $125,000 in 2001. This was partially offset by gains on the sale of other real estate and fixed assets as a result of sales of a former branch site and several nonperforming asset properties. In addition, other operating income was down from $906,000 in 2001 to $800,000 in 2002. This decline was principally the result of a decrease in the earnings rate on bank owned life insurance.

NONINTEREST EXPENSES

Noninterest expenses were up $4.8 million or 13.4% to $40.7 million in 2003, compared to $35.9 million in 2002. Salaries and benefits were $25.1 million in 2003, up $3.8 million or 17.9% compared to $21.3 million in 2002. The increase in mortgage loan originations and gains on loan sales within the mortgage segment resulted in an increase of $2.1 million in salaries and benefits of which $1.5 million was commission based compensation. The community bank segment's salaries and benefits were up $1.7 million from 2002 to 2003. This was the result of a full year of expenses from the two new branches opened during 2002 and the addition of one new branch in 2003, a full year from the loan production office in Manassas, Virginia opened in 2002, the loan production office in Richmond for 2003, higher group insurance, expanded staffing in the retail locations and merit increases. Occupancy expenses were $2.7 million, up $366,000 over $2.3 million in 2002. This was the result of a new main office at the Rappahannock National Bank, building improvements to the operations center and various branches and the relocation of the Newport News office. Equipment expense was down slightly at $2.6 million versus $2.7 million in 2002. Other operating expense was $10.3 million, up $759,000 compared to $9.5 million in 2002. This was the result of increases in operating expense, data processing fees from outsourcing this service, marketing, other taxes and other expenses. Much of these increased costs were related to the new locations, new product advertising and general operating costs. In addition, during 2003, the Company elected to outsource its data processing function to its core processing vendor. This decision was based on analysis of the costs to upgrade and administer the existing internal system versus migration to the vendor's cost effective platform.

In 2002, noninterest expenses totaled $35.9 million, an increase of $3.5 million versus $32.4 million in 2001. Salaries and benefits were $21.3 million in 2002, up $2.2 million or 11.6% compared to $19.1 million in 2001. The increase in mortgage loan originations and gains on loan sales within the mortgage segment resulted in an increase of $1.1 million in salaries and benefits of which $572,000 was commission based compensation. The community bank segment's salaries and benefits were up $1.1 million year-to-year. This was the result of two new branches, a loan production office in Manassas, Virginia, higher group insurance, some increased support staffing and normal increases. Occupancy expenses were $2.3 million, up $139,000 over $2.2 million in 2001. Equipment expense was down slightly at $2.7 million versus $2.9 million in 2001. Other operating expense was $9.5 million, up $1.2 million compared to $8.3 million in 2001. This was the result of increases in operating expense, marketing, other taxes and other expenses. Much of these increased costs were related to the new locations, new product advertising, Centennial celebrations at two of the Company's Community Banks and operating costs and core deposit expenses.

LOAN PORTFOLIO

Loans, net of unearned income, totaled $878.3 million at December 31, 2003, an increase of 22.9% over $714.8 million at December 31, 2002. Loans secured by real estate continues to represent the Company's largest category, comprising 72.7% of the total loan portfolio at December 31, 2003. Of this total, 1-4 family residential loans, not including home equity lines, comprised 25.9% of the total loan portfolio at December 31, 2003, down slightly from 26.6% in 2002. Loans secured by commercial real estate comprised 27.3% of the total loan portfolio at December 31, 2003, as compared to 28.0% in 2002, and consist of income producing properties, as well as commercial and industrial loans where real estate constitutes a secondary source of collateral. Real estate construction loans accounted for 12.0% of total loans outstanding at December 31, 2003. Home equity lines were up significantly in 2003, comprising 5.5% of the total loan portfolio compared to 4.5% in 2002 The Company's charge-off rate for all loans secured by real estate has historically been low.

LOAN PORTFOLIO

	DECEMBER 31,				
	2003	2002	2001	2000	1999
			(in thousands)		
Commercial	**$ 112,760**	$ 78,289	$ 70,739	$ 74,261	$ 67,649
Loans to finance agriculture production and other loans to farmers	**818**	1,128	4,075	2,793	3,015
Real estate:					
Real estate construction	**105,417**	85,335	57,940	33,560	33,218
Real estate mortgage:					
Residential (1-4 family)	**227,450**	190,427	169,426	177,282	179,246
Home equity lines	**48,034**	32,320	24,474	20,049	20,987
Multi-family	**11,075**	3,066	3,418	4,666	4,592
Commercial	**239,804**	200,125	155,093	139,737	120,490
Agriculture	**6,745**	4,466	2,497	2,859	2,373
Total real estate	**638,525**	515,739	412,848	378,153	360,906
Loans to individuals:					
Consumer	**110,285**	102,528	94,620	107,876	102,713
Credit card	**7,004**	5,350	4,140	4,958	4,346
Total loans to individuals	**117,289**	107,878	98,760	112,834	107,059
All other loans	**8,901**	11,836	14,048	13,507	5,855
Total loans	**878,293**	714,870	600,470	581,548	544,484
Less unearned income	**26**	106	306	758	1,117
Total net loans	**$ 878,267**	$ 714,764	$ 600,164	$ 580,790	$ 543,367

Commercial loans, secured by non-real estate business assets comprised 12.8% of total loans at the end of 2003, an increase from 11.0% at the end of 2002 and reflective of management's focus on small business lending activities. The Company's consumer loan portfolio, its second largest category, consists principally of installment loans. Such loans to individuals for household, family and other personal expenditures totaled 12.6% of total loans at December 31, 2003, down from 14.3% in 2001. This continues a trend as increased competition for automobile loans and the internet financing companies continued to impact this portfolio significantly in 2003. Loans to the agricultural industry totaled less than 1.0% of the loan portfolio in each of the last five years.

REMAINING MATURITIES OF SELECTED LOANS
At December 31, 2003
(in thousands)

		VARIABLE RATE:			FIXED RATE:			
	Within 1 year	1 to 5 years	After 5 years	Total	1 to 5 years	After 5 years	Total	Total maturities
Commercial	$ 75,623	1,993	—	1,993	31,434	3,710	35,144	$ 112,760
Real Estate Construction	$ 99,188	644	—	644	2,136	3,450	5,586	$ 105,418

Loans, net of unearned income, totaled $714.8 million at December 31, 2002, an increase of 19.1% over $600.2 million at December 31, 2001. This growth in 2002 was fueled largely by commercial real estate and commercial loan growth.

The Company is focused on providing community-based financial services and discourages the origination of portfolio 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. Mortgage Capital Investors, Inc. serves as a mortgage brokerage operation, selling the majority of its loan production in the secondary market or selling loans to the affiliated banks that meet 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.

ASSET QUALITY—ALLOWANCE/PROVISION FOR LOAN LOSSES

The allowance for loan losses represents management's estimate of the amount deemed 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, 2003, the allowance for loan losses was $11.5 million or 1.31% of total loans as compared to $9.2 million, or 1.28% in 2002. The provision for loan losses was $2.3 million in 2003 and $2.9 million in 2002. This modest decline in the provision expense reflects stronger asset quality and a year in which recoveries were more than charge-offs. Recoveries in 2003 included $609,598 related to a loan charged off in 1998 and 1999. Additional recoveries on that loan are anticipated in 2004.

ALLOWANCE FOR LOAN LOSSES

	DECEMBER 31,				
	2003	**2002**	**2001**	**2000**	**1999**
			(dollars in thousands)		
Balance, beginning of year	**$ 9,179**	$ 7,336	$ 7,389	$ 6,617	$ 6,407
Loans charged-off:					
Commercial	**77**	310	1,716	777	1,544
Real estate	**1**	—	3	48	62
Consumer	**877**	1,271	880	825	746
Total loans charged-off	**955**	1,581	2,599	1,650	2,352
Recoveries:					
Commercial	**684**	245	154	16	12
Real estate	—	33	15	10	8
Consumer	**304**	268	251	295	326
Total recoveries	**988**	546	420	321	346
Net charge-offs (recoveries)	**(33)**	1,035	2,179	1,329	2,006
Provision for loan losses	**2,307**	2,878	2,126	2,101	2,216
Balance, end of year	**$ 11,519**	$ 9,179	$ 7,336	$ 7,389	$ 6,617
Ratio of allowance for loan losses to total loans outstanding at end of year	**1.31%**	1.28%	1.22%	1.27%	1.22%
Ratio of net charge-offs to average loans outstanding during year	**0.00%**	0.16%	0.37%	0.23%	0.40%

The table below shows an allocation among loan categories based upon analysis of the loan portfolio's composition, historical loan loss experience, and other factors and the ratio of the related outstanding loan balances to total loans.

(Percent is loans in category divided by total loans.)

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

December 31:	2003		2002		2001		2000		1999	
	Allowance	Percent	Allowance	Percent	Allowance	Percent	Allowance	Percent	Allowance	Percent
					(dollars in thousands)					
Commercial, financial and agriculture	**$ 4,500**	**12.9%**	$ 3,249	11.1%	$ 2,846	12.5%	$ 3,369	13.3%	$ 3,215	13.0%
Real estate construction	**4,176**	**12.0%**	3,492	11.9%	2,205	9.7%	1,467	5.8%	1,511	6.1%
Real estate mortgage	**493**	**60.7%**	426	60.2%	383	59.1%	406	59.3%	264	59.7%
Consumer & other	**2,350**	**14.4%**	2,012	16.8%	1,902	18.7%	2,147	21.6%	1,627	21.2%
	$ 11,519	**100.0%**	$ 9,179	100.0%	$ 7,336	100.0%	$ 7,389	100.0%	$ 6,617	100.0%

NONPERFORMING ASSETS

Nonperforming assets were $9.6 million at December 31, 2003, up from $910,000 at December 31, 2002. Nonaccrual loans increased to $9.2 million in 2003 from $136,000 in 2002 and foreclosed properties were down from $774,000 in 2002 to $444,000 in 2003.

NONPERFORMING ASSETS

	DECEMBER 31,				
	2003	2002	2001	2000	1999
			(dollars in thousands)		
Nonaccrual loans	**$ 9,174**	$ 136	$ 915	$ 830	$ 1,487
Foreclosed properties	**444**	774	639	844	1,113
Real estate investment	**—**	—	129	867	903
Total nonperforming assets	**$ 9,618**	$ 910	$ 1,683	$ 2,541	$ 3,503
Loans past due 90 days and accruing interest	**$ 957**	$ 896	$ 2,757	$ 1,531	$ 980
Nonperforming assets to year-end loans, foreclosed properties and real estate investment	**1.09%**	0.13%	0.28%	0.44%	0.64%
Allowance for loan losses to nonaccrual loans	**125.56%**	6749.26%	801.75%	890.24%	444.99%

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. As of December 31, 2003, nonperforming assets of $9.6 million included a single credit relationship with two loans totaling $8.1 million. A specific reserve of $885,000 has been allocated on this relationship based on loan impairment analysis. Management will continue to monitor this credit, making any appropriate adjustments to that reserve.

At December 31, 2002, nonperforming assets totaled $910,000, down from $1.7 million at December 31, 2001. Nonaccrual loans decreased by $779,000 in 2002 while foreclosed properties increased by $135,000.

SECURITIES

At December 31, 2003, all $240.1 million of the Company's securities were classified as available for sale, as compared to $272.8 million at December 31, 2002. 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 cash flows 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 taxable equivalent yield the portfolio attains compared to its peers. The Company does not engage in structured derivative or hedging activities. During 2003, the Company experienced a larger than normal volume of prepayments from the mortgaged backed securities. These funds were reinvested in loans or shorter term securities.

MATURITIES OF SECURITIES AVAILABLE FOR SALE

	DECEMBER 31, 2003				
TOTAL	1 YEAR OR LESS	1-5 YEARS	5-10 YEARS	OVER 10 YEARS & EQUITY SECURITIES	TOTAL
			(dollars in thousands)		
U.S. government and agency securities:					
Amortized cost	$ 1,001	$ 2,021	$ 7,708	$ 979	$ 11,709
Fair value	1,015	2,046	7,711	937	11,709
Weighted average yield(1)	4.60%	3.03%	2.61%	5.48%	3.11%
Mortgage backed securities:					
Amortized cost	$ —	$ 966	$ 24,299	$ 48,828	$ 74,093
Fair value	—	946	24,568	49,509	75,023
Weighted average yield(1)	0.00%	5.28%	4.36%	4.86%	4.70%
Municipal bonds:					
Amortized cost	$ 2,329	$ 21,149	$ 26,071	$ 37,196	$ 86,745
Fair value	2,377	22,050	27,286	39,314	91,027
Weighted average yield(1)	7.47%	7.07%	6.80%	7.08%	7.00%
Other securities:					
Amortized cost	$ 17,594	$ 8,525	$ —	$ 31,239	$ 57,358
Fair value	17,900	8,968	—	35,497	62,365
Weighted average yield(1)	4.64%	5.54%	—	8.43%	6.71%
Total securities:					
Amortized cost	$ 20,924	$ 32,661	$ 58,078	$ 118,242	$ 229,905
Fair value	21,292	34,010	59,565	125,257	240,124
Weighted average yield(1)	4.95%	6.37%	5.22%	6.50%	6.02%

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

DEPOSITS

Total deposits grew $102.8 million or 11.5% in 2003 with deposits in existing branches accounting for most of that growth. The Company also opened one new branch, through Union Bank in November 2003. The two branches opened in 2002 which had deposits of $13.8 million at the end of 2002, added $5.2 million in 2003 and stand at $19.0 million. Increased competition for customer deposits continues to be a challenge for the Company and management continues to focus on customer relationships and delivery of financial products and services to those customers. In the low interest rate environment that continues to exist in the markets, pricing deposits while maintaining a reasonable spread will continue as a major challenge in 2004. If funds begin to flow back into the equities market as expected, competition for deposits will intensify, creating additional pressure on the net interest margin.

Total deposits increased from $897.6 million at December 31, 2002 to $1.0 billion at December 31, 2003. Over this same period, average interest-bearing deposits were $809.6 million, or 14.8% over the 2002 average of $705.5 million. Average now accounts and money market accounts continued to rise with increases of $15.7 and $12.7 respectively. However, average certificates of deposits rose $63.9 million with customers moving to longer term investments to generate income. In 2003, the Company's lowest cost funding source, noninterest-bearing demand deposits increased by a total of $13.0 million from December 31, 2002 helping to reduce the overall cost of funds. On an average balance basis, demand deposits were up $25.7 million compared to 2002. The Company has no brokered deposits.

AVERAGE DEPOSITS AND RATES PAID

	YEARS ENDED DECEMBER 31,					
	2003		2002		2001	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
			(dollars in thousands)			
Noninterest-bearing demand deposits	**$ 141,228**	—	$ 115,552	—	$ 96,127	—
Interest-bearing deposits:						
NOW accounts	**136,621**	**0.42%**	120,878	0.85%	100,112	1.64%
Money market accounts	**97,368**	**0.99%**	84,623	1.41%	67,680	2.72%
Savings accounts	**90,208**	**0.83%**	78,497	1.29%	63,311	2.28%
Time deposits of $100,000 and over	**163,330**	**3.84%**	135,429	4.22%	128,117	5.65%
Other time deposits	**322,111**	**3.51%**	286,076	4.02%	269,578	5.55%
Total interest-bearing	**809,638**	**2.45%**	705,503	2.90%	628,798	4.32%
Total average deposits	**$ 950,866**		$ 821,055		$ 724,925	

MATURITIES OF CERTIFICATES OF DEPOSIT OF $100,000 AND OVER

	WITHIN 3 MONTHS	3 - 6 MONTHS	6 - 12 MONTHS	OVER 12 MONTHS	TOTAL	PERCENT OF TOTAL DEPOSITS
			(dollars in thousands)			
At December 31, 2003	**$ 17,329**	**$ 15,952**	**$ 32,962**	**$ 111,215**	**$ 177,458**	**17.74%**

Total deposits grew from $784.1 million at December 31, 2001 to $897.6 million at December 31, 2002. Over this same period, average interest-bearing deposits were $705.5 million, or 12.2% over the 2001 average of $628.8 million. The Company also acquired $14.9 million in deposits from another financial institution through a branch purchase in the fourth quarter of 2001.

CAPITAL RESOURCES

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

The Federal Reserve Board, along with the OCC and the FDIC, has adopted capital guidelines to supplement the existing definitions of capital for regulatory purposes and to establish minimum capital standards. Specifically, the guidelines categorize assets and off-balance sheet items into four risk-weighted categories. The minimum ratio of qualifying total assets is 8.0%, of which 4.0% must be Tier 1 capital, consisting of common equity, retained earnings and a limited amount of perpetual preferred stock, less certain goodwill items. The Company had a ratio of total capital to risk-weighted assets of 11.88% and 12.15% on December 31, 2003 and 2002, respectively. The Company's ratio of

Tier 1 capital to risk-weighted assets was 10.71% and 11.05% at December 31, 2003 and 2002, respectively, allowing the Company to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the fully phased-in capital requirements in 2003 and 2002.

The Company's strategic plan includes a targeted equity to asset ratio between 8% and 9%. In 2003, that ratio was 9.6%.

In connection with its impending acquisition of Guaranty Financial, the Company anticipates issuing trust preferred securities to fund the cash portion of that acquisition which will approximate $23 million. These debt instruments qualify for regulatory treatment as Tier 1 capital and will allow the Company to maintain its categorization as well-capitalized for regulatory purposes.

ANALYSIS OF CAPITAL

	DECEMBER 31,		
	2003	**2002**	**2001**
		(dollars in thousands)	
Tier 1 capital:			
Common stock	**$ 15,254**	$ 15,159	$ 15,052
Surplus	**2,401**	1,442	446
Retained earnings	**94,102**	81,997	71,419
Total equity	**111,757**	98,598	86,917
Less: core deposit intangibles/goodwill	**(5,779)**	(6,342)	(6,924)
Total Tier 1 capital	**105,978**	92,256	79,993
Tier 2 capital:			
Allowance for loan losses	**11,519**	9,179	7,336
Total Tier 2 capital	**11,519**	9,179	7,336
Total risk-based capital	**$ 117,497**	$ 101,435	$ 87,329
Risk-weighted assets	**$ 989,236**	$ 834,560	$ 718,225
Capital ratios:			
Tier 1 risk-based capital ratio	**10.71%**	11.05%	11.14%
Total risk-based capital ratio	**11.88%**	12.15%	12.16%
Tier 1 capital to average adjusted total assets	**8.72%**	8.49%	8.35%
Equity to total assets	**9.60%**	9.46%	9.05%

OFF BALANCE SHEET OBLIGATIONS

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 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, 2003 and 2002, the Company had outstanding loan commitments approximating $318,803,000 and $231,841,000, respectively.

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 $17,068,000 and $12,368,000 at December 31, 2003 and 2002, respectively.

At December 31, 2003, the mortgage company had rate lock commitments to originate mortgage loans amounting to approximately $20.1 million and loans held for sale of $28.7 million. The mortgage company has entered into corresponding mandatory commitments, on a best-efforts basis, to sell loans of approximately $48.8 million. These commitments to sell loans are designed to eliminate the mortgage company's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

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, 2003, cash and cash equivalents and securities classified as available for sale comprised 22.8% of total assets, compared to 28.6% at December 31, 2002. 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 $64.6 million at December 31, 2003. At year-end 2003, the banks had outstanding $42.6 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 $458 million at December 31, 2003.

The following table presents the Company's contractual obligations and scheduled payment amounts due at the various intervals over the next five years and beyond as of December 31, 2003.

(dollars in thousands)	Payments due by Period				
Contractual Obligations and Commitments	**Total**	**Less than a year**	**1 -3 years**	**3-5 years**	**More than 5 years**
Long term debt	66,208	13,437	771	—	52,000
Operating leases	3,732	638	795	610	1,689
Repurchase agreements	42,602	42,602	—	—	—
Total Contractual obligations and commitments	112,542	56,677	1,566	610	53,689

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board ("FASB") issued "SFAS" No. 148, *"Accounting for Stock-Based Compensation – Transition and Disclosure,"* which amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. The provisions of the Statement were effective December 31, 2002. Management currently intends to continue to account for stock-based compensation under the intrinsic value method set forth in Accounting Principles Board ("APB") Opinion 25 and related interpretations. For this reason, the transition guidance of SFAS No. 148 does not have an impact on the Company's consolidated financial position or consolidated results of operations. The Statement does amend existing guidance with respect to required disclosures, regardless of the method of accounting used. The revised disclosure requirements are presented herein.

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 recognition requirements of the Interpretation were effective beginning January 1, 2003. The initial adoption of the Interpretation did not materially affect the Company, and management does not anticipate that the recognition requirements of this Interpretation will have a materially adverse impact on either the Company's consolidated financial position or consolidated results of operations in the future.

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 company's consolidated financial statements. The Interpretation requires consolidation by business enterprises of variable interest entities in cases where (a) 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 (b) 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. Management has evaluated the Company's investments in variable interest entities and potential variable interest entities or transactions, particularly in limited liability partnerships involved in low-income housing development and trust preferred securities structures. The implementation of FIN 46 did not have a significant impact on either the Company's consolidated financial position or consolidated results of operations. Interpretive guidance relating to FIN 46 is continuing to evolve and the Company's management will continue to assess various aspects of consolidations and variable interest entity accounting as additional guidance becomes available.

In April 2003, the FASB issued SFAS No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities."* The Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities."* The Statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003 and is not expected to have an impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS 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 these 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.

In November 2003, the FASB's Emerging Issues Task Force reached a consensus on a new disclosure requirement related to unrealized losses on investment securities. The new disclosure requires a table of securities which have unrealized losses as of the reporting date. The table must distinguish between those securities which have been in a continuous unrealized loss position for twelve months or more and those securities which have been in a continuous unrealized loss position for less than twelve months. The table is to include the aggregate unrealized losses of securities whose fair values are below book values as of the reporting date, and the aggregate fair value of securities whose fair values are below book values as of the reporting date. In addition to the quantitative disclosure, FASB requires a narrative discussion that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that was considered in determining whether impairment was not other-than-temporary. The new disclosure requirements apply to fiscal years ending after December 15, 2003. The Company has included the required disclosures in their consolidated financial statements.

QUARTERLY RESULTS

The table below lists the Company's quarterly performance for the years ended December 31, 2003 and 2002.

	2003				
	FOURTH	THIRD	SECOND	FIRST	TOTAL
	(in thousands, except per share amounts)				
Interest income	$ 16,795	$ 16,945	$ 16,751	$ 16,526	**$ 67,017**
Interest expense	5,854	5,967	6,020	6,064	**23,905**
Net interest income	10,941	10,978	10,731	10,462	**43,112**
Provision for loan losses	372	903	645	387	**2,307**
Net interest income after provision for loan losses	10,569	10,075	10,086	10,075	**40,805**
Noninterest income	5,270	6,683	6,211	4,676	**22,840**
Noninterest expenses	10,222	10,959	10,264	9,280	**40,725**
Income before income taxes	5,617	5,799	6,033	5,471	**22,920**
Income tax expense	1,428	1,604	1,697	1,527	**6,256**
Net income	$ 4,189	$ 4,195	$ 4,336	$ 3,944	**$ 16,664**
Net income per share					
Basic	$ 0.55	$ 0.55	$ 0.57	$ 0.52	**$ 2.19**
Diluted	$ 0.54	$ 0.55	$ 0.57	$ 0.52	**$ 2.17**

	2002				
	FOURTH	THIRD	SECOND	FIRST	TOTAL
	(in thousands, except per share amounts)				
Interest income	$ 16,778	$ 16,441	$ 16,119	$ 15,867	**$ 65,205**
Interest expense	6,206	6,114	6,072	6,235	**24,627**
Net interest income	10,572	10,327	10,047	9,632	**40,578**
Provision for loan losses	659	650	739	830	**2,878**
Net interest income after provision for loan losses	9,913	9,677	9,308	8,802	**37,700**
Noninterest income	5,154	4,724	3,832	3,828	**17,538**
Noninterest expenses	9,557	9,067	8,649	8,649	**35,922**
Income before income taxes	5,510	5,334	4,491	3,981	**19,316**
Income tax expense	1,527	1,323	1,038	923	**4,811**
Net income	$ 3,983	$ 4,011	$ 3,453	$ 3,058	**$ 14,505**
Net income per share					
Basic	$ 0.52	$ 0.53	$ 0.46	$ 0.41	**$ 1.92**
Diluted	$ 0.52	$ 0.52	$ 0.46	$ 0.40	**$ 1.90**

Item 7A. — Quantitative and Qualitative Disclosures About Market Risk

This information is incorporated herein by reference from Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, on pages 17 through 18 of this Form 10-K.

Item 8. — Financial Statements and Supplementary Data

Independent Auditor’s Report

To the Stockholders and Directors
Union Bankshares Corporation
Bowling Green, Virginia

We have audited the accompanying consolidated balance sheets of Union Bankshares Corporation and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for each of the years ended December 31, 2003, 2002 and 2001. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Mortgage Capital Investors, a consolidated subsidiary which reflects total assets and revenue constituting 3% and 17%, respectively, in 2003, 4% and 14%, respectively, in 2002, 5% and 13%, respectively, in 2001, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mortgage Capital Investors, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Union Bankshares Corporation and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years ended December 31, 2003, 2002, and 2001, in conformity with accounting principles generally accepted in the United States of America.

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

Winchester, Virginia
January 14, 2004

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002
(dollars in thousands)

	2003	2002
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 28,708**	$ 29,104
Interest-bearing deposits in other banks	**2,077**	909
Money market investments	**137**	15,142
Federal funds sold	**10,050**	1,247
Total cash and cash equivalents	**40,972**	46,402
Securities available for sale, at fair value	**240,124**	272,755
Loans held for sale	**28,683**	39,771
Loans, net of unearned income	**878,267**	714,764
Less allowance for loan losses	**11,519**	9,179
Net loans	**866,748**	705,585
Bank premises and equipment, net	**26,528**	21,577
Other real estate owned	**444**	774
Other assets	**31,233**	28,861
Total assets	**$ 1,234,732**	$ 1,115,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	**$ 147,129**	$ 134,172
Interest-bearing deposits:		
NOW accounts	**149,168**	128,764
Money market accounts	**104,911**	88,440
Savings accounts	**93,374**	84,983
Time deposits of $100,000 and over	**177,458**	152,968
Other time deposits	**328,437**	308,315
Total interest-bearing deposits	**853,348**	763,470
Total deposits	**1,000,477**	897,642
Securities sold under agreement to repurchase	**42,602**	43,227
Other short-term borrowings	—	1,550
Long-term borrowings	**66,208**	62,219
Other liabilities	**6,944**	5,595
Total liabilities	**1,116,231**	1,010,233
Commitments and contingencies		
Stockholders' equity:		
Common stock, $2 par value. Authorized 24,000,000 shares; issued and outstanding, 7,627,248 shares in 2003 and 7,579,707 shares in 2002	**15,254**	15,159
Surplus	**2,401**	1,442
Retained earnings	**94,102**	81,997
Accumulated other comprehensive income	**6,744**	6,894
Total stockholders' equity	**118,501**	105,492
Total liabilities and stockholders' equity	**$ 1,234,732**	$ 1,115,725

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(dollars in thousands, except per share amounts)

	2003	2002	2001
Interest and dividend income :			
Interest and fees on loans	**$ 54,312**	$ 50,693	$ 51,333
Interest on Federal funds sold	**138**	206	412
Interest on interest-bearing deposits in other banks	**22**	17	37
Interest on money market investments	**22**	40	23
Interest and dividends on securities:			
Taxable	**8,171**	9,619	9,125
Nontaxable	**4,352**	4,630	4,646
Total interest and dividend income	**67,017**	65,205	65,576
Interest expense:			
Interest on deposits	**19,873**	20,459	27,140
Interest on short-term borrowings	**325**	475	1,200
Interest on long-term borrowings	**3,707**	3,693	4,143
Total interest expense	**23,905**	24,627	32,483
Net interest income	**43,112**	40,578	33,093
Provision for loan losses	**2,307**	2,878	2,126
Net interest income after provision for loan losses	**40,805**	37,700	30,967
Noninterest income:			
Service charges on deposit accounts	**5,597**	4,088	3,665
Other service charges, commissions and fees	**2,509**	2,563	2,488
Gains (losses) on securities transactions, net	**113**	(159)	125
Gains on sales of loans	**13,260**	10,089	8,857
Gains on sales of other real estate owned and bank premises, net	**165**	157	51
Other operating income	**1,196**	800	906
Total noninterest income	**22,840**	17,538	16,092
Noninterest expenses:			
Salaries and benefits	**25,137**	21,326	19,102
Occupancy expenses	**2,684**	2,318	2,179
Furniture and equipment expenses	**2,609**	2,742	2,859
Other operating expenses	**10,295**	9,536	8,307
Total noninterest expenses	**40,725**	35,922	32,447
Income before income taxes	**22,920**	19,316	14,612
Income tax expense	**6,256**	4,811	2,933
Net income	**$ 16,664**	$ 14,505	$ 11,679
Earnings per share, basic	**$ 2.19**	$ 1.92	$ 1.55
Earnings per share, diluted	**$ 2.17**	$ 1.90	$ 1.55

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(dollars in thousands, except per share amounts)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total
Balance - December 31, 2000	**$ 15,033**	**$ 403**	**$ 63,201**	**$ (285)**		**$ 78,352**
Comprehensive income:						
Net income - 2001			11,679		$ 11,679	11,679
Unrealized holding gains arising during the period (net of tax, $1,251)					2,430	
Reclassification adjustment for gains included in net income (net of tax, $42)					(83)	
Other comprehensive income (net of tax, $1,209)				2,347	2,347	2,347
Total comprehensive income					$ 14,026	
Cash dividends - 2001 ($.46 per share)			(3,461)			(3,461)
Issuance of common stock under Dividend Reinvestment Plan (26,330 shares)	53	350				403
Stock repurchased under Stock Repurchase Plan (38,158 shares)	(76)	(521)				(597)
Issuance of common stock for services rendered (1,600 shares)	3	22				25
Issuance of common stock in exchange for net assets in acquisition (19,606 shares)	39	192				231
Balance - December 31, 2001	**$ 15,052**	**$ 446**	**$ 71,419**	**$ 2,062**		**$ 88,979**
Comprehensive income:						
Net income - 2002			14,505		$ 14,505	14,505
Unrealized holding gains arising during the period (net of tax, $2,435)					4,727	
Reclassification adjustment for losses included in net income (net of tax, $54)					105	
Other comprehensive income (net of tax, $2,489)				4,832	4,832	4,832
Total comprehensive income					$ 19,337	
Cash dividends - 2002 ($.52 per share)			(3,927)			(3,927)
Issuance of common stock under Dividend Reinvestment Plan (18,389 shares)	37	387				424
Issuance of common stock under Incentive Stock Option Plan (16,850 shares)	33	274				307
Issuance of common stock for services rendered (1,400 shares)	3	36				39
Issuance of common stock in exchange for net assets in acquisition (17,156 shares)	34	299				333
Balance - December 31, 2002	**$ 15,159**	**$ 1,442**	**$ 81,997**	**$ 6,894**		**$ 105,492**
Comprehensive income:						
Net income - 2003			**16,664**		**$ 16,664**	**16,664**
Unrealized holding gains arising during the period (net of tax, $39)					**(75)**	
Reclassification adjustment for gains included in net income (net of tax, $38)					**(75)**	
Other comprehensive income (loss) (net of tax, $77)				**(150)**	**(150)**	**(150)**
Total comprehensive income					**$ 16,514**	
Cash dividends - 2003 ($.60 per share)			**(4,559)**			**(4,559)**
Issuance of common stock under Dividend Reinvestment Plan (16,501 shares)	**33**	**426**				**459**
Issuance of common stock under Incentive Stock Option Plan (26,703 shares)	**54**	**395**				**449**
Issuance of common stock for services rendered (8,196 shares)	**16**	**248**				**264**
Stock repurchased under Stock Repurchase Plan and option exchange (3,859 shares)	**(8)**	**(110)**				**(118)**
Balance - December 31, 2003	**$ 15,254**	**$ 2,401**	**$ 94,102**	**$ 6,744**		**$ 118,501**

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDING DECEMBER 31, 2003, 2002 AND 2001
(dollars in thousands)

	2003	2002	2001
Operating activities:			
Net income	**$ 16,664**	$ 14,505	$ 11,679
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:			
Depreciation of bank premises and equipment	**2,041**	2,062	1,961
Amortization	**2,237**	1,879	1,460
Provision for loan losses	**2,307**	2,878	2,126
(Gains) losses on securities transactions, net	**(113)**	159	(125)
Origination of loans held for sale	**(535,482)**	(384,511)	(319,893)
Proceeds from sales of loans held for sale	**546,570**	388,225	292,880
Gains on sales of other real estate owned and fixed assets, net	**(165)**	(157)	(51)
Deferred income tax expense (benefit)	**(655)**	(304)	209
Other, net	**(232)**	(1,219)	654
Net cash and cash equivalents provided by (used in) operating activities	**33,172**	23,517	(9,100)
Investing activities:			
Purchases of securities available for sale	**(71,065)**	(63,043)	(86,605)
Proceeds from sales of securities available for sale	**9,775**	6,118	1,886
Proceeds from maturities of securities available for sale	**92,455**	47,724	46,756
Net increase in loans	**(163,470)**	(116,134)	(18,888)
Purchases of bank premises and equipment	**(7,678)**	(5,045)	(1,085)
Proceeds from sales of bank premises and equipment	**15**	347	30
Proceeds from sales of other real estate owned	**486**	459	906
Acquisition of branch, net of cash acquired	**—**	—	10,552
Net cash and cash equivalents used in investing activities	**(139,482)**	(129,574)	(46,448)
Financing activities:			
Net increase in noninterest-bearing deposits	**12,957**	23,259	16,719
Net increase in interest-bearing deposits	**89,878**	90,299	59,853
Net increase (decrease) in short-term borrowings	**(2,175)**	3,694	9,969
Proceeds from long-term borrowings	**5,000**	400	—
Repayment of long-term borrowings	**(1,011)**	(912)	(11,292)
Cash dividends paid	**(4,559)**	(3,927)	(3,461)
Issuance of common stock	**908**	731	403
Purchase of common stock	**(118)**	—	(597)
Net cash and cash equivalents provided by financing activities	**100,880**	113,544	71,594
Increase (decrease) in cash and cash equivalents	**(5,430)**	7,487	16,046
Cash and cash equivalents at beginning of year	**46,402**	38,915	22,869
Cash and cash equivalents at end of year	**$ 40,972**	$ 46,402	$ 38,915
Supplemental Disclosure of Cash Flow Information			
Cash payments for:			
Interest	**$ 23,965**	$ 24,895	$ 32,926
Income taxes	**7,211**	4,833	2,460
Supplemental schedule of noncash investing and financing activities:			
Loan balances transferred to foreclosed properties	**—**	499	—
Unrealized gain on securities available for sale	**(227)**	7,321	3,556
Issuance of common stock in exchange for net assets in acquisition	**—**	333	231
Issuance of common stock for services rendered	**264**	39	25
Transfer of investment securities to securities available for sale	**—**	—	5,465

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and practices of Union Bankshares Corporation and subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America 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, Northern Neck State Bank, Rappahannock National Bank, Bank of Williamsburg and of Union Investment Services. Mortgage Capital Investors is a wholly owned subsidiary of Union Bank and Trust Company. The Bank of Williamsburg has a non-controlling interest in Johnson Mortgage Company, which is accounted for under the equity method of accounting. All significant intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements for prior periods reflect certain reclassifications in order to conform to the 2003 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. The Company has no securities in this category.

Securities classified as available for sale are those debt and equity securities 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 other comprehensive income (loss) in stockholders' equity.

Purchased premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(C) Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, determined in the aggregate based on sales commitments to permanent investors or on current market rates for loans of similar quality and type. In addition, the Company requires a firm purchase commitment from a permanent investor before a loan can be closed, thus limiting interest rate risk. As a result, loans held for sale are stated at fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

(D) Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout its market area. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income if it is from current period or charged against allowance if it is from a prior period. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(E) 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.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

(F) 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 ranging from 3 to 40 years. Maintenance, repairs and renewals are expensed as they are incurred.

(G) 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 ranges from 10 to 15 years. Core deposit intangibles, net of amortization amounted to $4,926,000 and $5,500,000 at December 31, 2003 and 2002, respectively. Based on the guidance in SFAS 147, the Company amortizes the core deposit intangible over the estimated useful life as it has in the past.

(H) Goodwill

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.

Goodwill is included in other assets and totaled $864,000 at December 31, 2003 and 2002. The goodwill is no longer amortized, but instead tested for impairment at least annually. Based on the testing, there were no impairment charges for 2003 or 2002. Application of the nonamortization provision of the statement resulted in additional net income of $82,500 for the years ended December 31, 2003 and 2002.

(I) Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

(J) Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

(K) 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, money market investments and Federal funds sold.

(L) Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

(M) Comprehensive Income (Loss)

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

(N) Use Of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and deferred tax assets and liabilities.

(O) Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Total advertising costs included in other operating expenses for 2003, 2002 and 2001 was $1,509,000, $1,448,000 and $1,046,000, respectively.

(P) Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded when they are funded.

(Q) Rate Lock Commitments

The Company enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 60 to 120 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result the Company is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity.

The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. The Company determines the fair value of rate lock commitments and best efforts contracts by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate lock commitments will close. Because of the high correlation between rate lock commitments and best efforts contracts, no gain or loss occurs on the rate lock commitments.

(R) Stock Compensation Plan

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.

(dollars in thousands except per share data)	Year Ended December 31, 2003	2002	2001
Net income, as reported	**$ 16,664**	$ 14,505	$ 11,679
Total stock-based compensation expense determined under fair value based method for all awards	**(338)**	(201)	(119)
Pro forma net income	**$ 16,326**	$ 14,304	$ 11,560
Earning per share:			
Basic - as reported	**$ 2.19**	$ 1.92	$ 1.55
Basic - pro forma	**$ 2.15**	$ 1.90	$ 1.54
Diluted - as reported	**$ 2.17**	$ 1.90	$ 1.55
Diluted - pro forma	**$ 2.13**	$ 1.88	$ 1.53

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2003	2002	2001
Dividend yield	**2.43%**	2.51%	2.47%
Expected life	**10 years**	10 years	10 years
Expected volatility	**35.54%**	36.91%	30.81%
Risk-free interest rate	**4.03%**	5.13%	5.07%

2. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated fair value of securities available for sale at December 31, 2003 and 2002 are summarized as follows (in thousands):

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. government and agency securities	**$ 11,709**	**$ 52**	**$ (52)**	**$ 11,709**
Obligations of states and political subdivisions	**86,745**	**4,344**	**(62)**	**91,027**
Corporate and other bonds	**52,404**	**4,815**		**57,219**
Mortgage-backed securities	**74,093**	**1,107**	**(177)**	**75,023**
Federal Reserve Bank stock	**688**	**—**	**—**	**688**
Federal Home Loan Bank stock	**3,678**	**—**	**—**	**3,678**
Other securities	**588**	**196**	**(4)**	**780**
	$ 229,905	**$ 10,514**	**$ (295)**	**$ 240,124**

2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. government and agency securities	$ 17,301	$ 154	$ —	$ 17,455
Obligations of states and political subdivisions	97,276	4,454	(17)	101,713
Corporate and other bonds	64,253	3,444	(72)	67,625
Mortgage-backed securities	78,395	2,507	(16)	80,886
Federal Reserve Bank stock	648	—	—	648
Federal Home Loan Bank stock	3,758	—	—	3,758
Other securities	679	36	(45)	670
	$ 262,310	$ 10,595	$ (150)	$ 272,755

The amortized cost and estimated fair value (in thousands) of securities available for sale at December 31, 2003, 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.

	Securities Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 20,893	$ 21,218
Due after one year through five years	32,654	34,045
Due after five years through ten years	58,119	59,604
Due after ten years	113,285	120,111
	224,951	234,978
Federal Reserve Bank stock	688	688
Federal Home Loan Bank stock	3,678	3,678
Other securities	588	780
	$ 229,905	$ 240,124

Securities with an amortized cost of approximately $59,056,000 and $72,319,000 at December 31, 2003 and 2002 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, 2003, 2002 and 2001 (in thousands):

	2003	2002	2001
Proceeds	**$9,775**	$6,118	$1,886
Gross realized gains	**$ 160**	$ 2	$ 129
Gross realized (losses)	**(47)**	(161)	(4)
Net realized gains (losses)	**$ 113**	$ (159)	$ 125

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the Company through readily saleable financial instruments. The portfolio is made up of fixed rate bonds, whose prices move inversely with rates. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The Company monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the business behind the instrument. In 2002, the Company sold a loss position instrument because the overall credit quality had deteriorated and was not expected to improve. The sale limited the potential loss. The primary cause of impairments is the decline in the prices of the bonds as rates have risen. There are approximately 20 accounts in the consolidated portfolio of the four banks that have losses. These losses are relative to the market rates and the timing of purchases and are not a material concern since they have moved up and down with the market. Some of those positions have been adjusted in the current year.

LOSSES

	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
U.S. government and agency securities	7,108	(52)	—	—	7,108	(52)
Obligations of states and political subdivisions	2,166	(61)	243	(1)	2,409	(62)
Corporate and other bonds	—	—	—	—	—	—
Mortgage-backed securities	12,626	(177)	—	—	12,626	(177)
Federal Reserve Bank stock	—	—	—	—	—	—
Federal Home Loan Bank stock	—	—	—	—	—	—
Other securities	56	(4)	—	—	56	(4)
	21,956	(294)	243	(1)	22,199	(295)

As permitted under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” the Company transferred investment securities with a book value of $5,465,000 and a market value of $5,528,000 to securities available for sale as of January 1, 2001.

3. LOANS

Loans are stated at their face amount, net of unearned income, and consist of the following at December 31, 2003 and 2002 (in thousands):

	2003	2002
Mortgage loans on real estate:		
Residential 1-4 family	**$211,162**	$172,582
Commercial	**239,804**	200,125
Construction	**105,417**	85,335
Second mortgages	**16,288**	17,845
Equity lines of credit	**48,034**	32,320
Multifamily	**11,075**	3,066
Agriculture	**6,745**	4,466
Total real estate loans	**638,525**	515,739
Commercial Loans	**112,760**	78,289
Consumer installment loans		
Personal	**110,285**	102,528
Credit cards	**7,004**	5,350
Total consumer installment loans	**117,289**	107,878
All other loans and agriculture loans	**9,719**	12,964
Gross loans	**878,293**	714,870
Less unearned income on loans	**26**	106
Loans, net of unearned income	**$878,267**	$714,764

At December 31, 2003 and 2002, 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), totaled $9,174,000 and $136,000 , respectively. The valuation allowance related to impaired loans on December 31, 2003 and 2002 is $1,469,000 and $32,000, respectively. At December 31, 2003, 2002 and 2001, the average investment in impaired loans was $ 9,956,000, $742,000 and $1,202,000, respectively. The amount of interest income recorded by the Company during 2003, 2002 and 2001 on impaired loans was approximately $280,000, $50,000 and $49,000, respectively. There were no nonaccrual loans excluded from impaired loan disclosure at December 31, 2003 and December 31, 2002.

4. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses for the years ended December 31, 2003, 2002 and 2001 is summarized below (in thousands):

	2003	2002	2001
Balance, beginning of year	**$ 9,179**	$ 7,336	$7,389
Provision charged to operations	**2,307**	2,878	2,126
Recoveries credited to allowance	**988**	546	420
Total	**12,474**	10,760	9,935
Loans charged off	**955**	1,581	2,599
Balance, end of year	**$11,519**	$ 9,179	$7,336

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2003 and 2002 are as follows (in thousands):

	2003	2002
Land	**$ 4,623**	$ 4,129
Land improvements and buildings	**18,794**	16,840
Leasehold improvements	**712**	520
Furniture and equipment	**15,701**	13,167
Construction in progress	**3,931**	2,263
	43,761	36,919
Less accumulated depreciation and amortization	**17,233**	15,342
Bank premises and equipment, net	**$26,528**	$21,577

Depreciation expense for 2003, 2002 and 2001 was $2,041,000, $2,062,000 and $1,961,000 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, 2003 are approximately $638,000 for 2004, $412,000 for 2005, $383,000 for 2006, $301,000 for 2007, $309,000 for 2008 and $1,689,000 thereafter. Rental expense for years ended December 31, 2003, 2002 and 2001 totaled $1,170,000, $1,118,000 and $1,110,000, respectively.

6. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2003 and 2002 was $177,458,000 and $152,968,000, respectively. At December 31, 2003, the scheduled maturities of time deposits are as follows (in thousands):

2004	$208,082
2005	97,658
2006	41,280
2007	77,491
2008	80,855
Thereafter	**529**
	$505,895

7. OTHER BORROWINGS

Short-term borrowings consist of the following at December 31, 2003 and 2002 (dollars in thousands):

	2003	2002
Securities sold under agreements to repurchase	**$42,602**	$43,227
Other short-term borrowings	—	1,550
Total	**$42,602**	$44,777
Weighted interest rate	**0.67%**	0.86%
Average for the year ended December 31:		
Outstanding	**$39,999**	$41,159
Interest rate	**0.81%**	1.16%
Maximum month-end outstanding	**$53,236**	$46,687

Short-term borrowings consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. Short-term borrowings may also include Federal funds purchased, which are unsecured overnight borrowings from other financial institutions, and advances from the Federal Home Loan Bank of Atlanta, which are secured by mortgage-related assets. The carrying value of the loans pledged as collateral for FHLB advances total $390 million at December 31, 2003.

At December 31, 2003, the Company's fixed-rate long-term debt totals $64,875,000 and matures through 2013. The interest rate on the fixed-rate notes payable ranges from 2.36% to 6.61%. At December 31, 2002, the Company had fixed-rate long-term debt totaling $60,125,000, maturing through 2011. The interest rate on the notes payable ranged from 3.20% to 6.61% at December 31, 2002.

At December 31, 2003, the Company's floating-rate long-term debt totals $1,333,000 and matures through 2005. The floating rates are based on the 30 day LIBOR plus 95 basis points. The interest rate on floating-rate long-term debt ranged from 2.06% to 2.33% during 2003. At December 31, 2002, the Company had floating-rate long-term debt totaling $2,094,000.

The contractual maturities of long-term debt are at December 31, 2003 as follows (dollars in thousands):

	Fixed Rate	Floating Rate	Total
Due in 2004	**12,675**	**762**	**13,437**
Due in 2005	**100**	**571**	**671**
Due in 2006	**100**	**—**	**100**
Due in 2007			
Due in 2008			
Thereafter	**52,000**	**—**	**52,000**
Total long term debt	**$ 64,875**	**$1,333**	**$66,208**

The subsidiary banks maintain Federal funds lines with several regional banks totaling approximately $64.6 million at December 31, 2003. The Company also had a line of credit with the Federal Home Loan Bank of Atlanta for $458 million at December 31, 2003.

8. INCOME TAXES

Net deferred tax assets (liabilities) consist of the following components as of December 31, 2003 and 2002 (in thousands):

	2003	2002
Deferred tax assets:		
Allowance for loan losses	**$ 4,032**	$ 3,139
Benefit plans	**470**	388
Other	**305**	222
Total deferred tax assets	**4,807**	3,749
Deferred tax liabilities:		
Depreciation	**1,163**	772
Other	**275**	263
Securities available for sale	**3,474**	3,530
Total deferred tax liabilities	**4,912**	4,565
Net deferred tax liability	**$ (105)**	$ (816)

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.

The provision for income taxes charged to operations for the years ended December 31, 2003, 2002 and 2001 consists of the following (in thousands):

	2003	2002	2001
Current tax expense	**$ 6,911**	$ 5,115	$ 2,724
Deferred tax expense (benefit)	**(655)**	(304)	209
Income tax expense	**$ 6,256**	$ 4,811	$ 2,933

The income tax expense differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2003, 2002 and 2001, due to the following (in thousands):

	2002	2002	2001
Computed "expected" tax expense	**$ 8,022**	$ 6,606	$ 4,968
(Decrease) in taxes resulting from:			
Tax-exempt interest income	**(1,555)**	(1,634)	(1,555)
Other, net	**(211)**	(161)	(480)
Income tax expense	**$ 6,256**	$ 4,811	$ 2,933

Low income housing credits totaled $41,800, $41,581 and $79,735 for the years ended December 31, 2003, 2002 and 2001, respectively.

9. EMPLOYEE BENEFITS

The Company has a 401 (k) Plan that allows employees to save for retirement on a pre-tax basis. The 401 (k) Plan provides for matching contributions by the Company for employee contributions of up to 3% of each employee's compensation. The Company also has an Employee Stock Ownership Plan ('ESOP"). The Company makes discretionary profit sharing contributions into the 401 (k) Plan, ESOP and in cash. Company discretionary contributions to both the 401 (k) Plan and the ESOP are allocated to participant accounts in proportion to each participant's compensation and vested over a six year time interval. Employee contributions to the ESOP are not allowed and the 401 (k) does not provide for investment in the Company's stock. Company discretionary profit sharing payments made in 2003, 2002 and 2001 are as follows (in thousands):

	2003	2002	2001
401(k) Plan	**$ 843**	$1,104	$ 300
ESOP	**618**	—	677
Cash	**276**	253	224
	$1,737	$1,357	$1,201

The Company has an obligation to certain members of the subsidiary banks' Boards of Directors under deferred compensation plans in the amount of $1,543,000 and $992,000 at December 31, 2003 and 2002, respectively. A portion of the benefits will be funded by life insurance.

In December 2001, the Company's Board of Directors approved an incentive compensation plan as a means of attracting, rewarding and retaining management. The plan is based on both corporate and individual objectives established annually for each participant. The corporate goals are based on earnings per share growth and performance relative to peer banks, while the individual goals are based on specific performance evaluation objectives. Each participant is evaluated within these two categories to determine eligibility and rate of payment based on performance. Salaries and benefits expense includes $ 315,000 and $ 502,000 for 2003 and 2002, respectively for incentive compensation under this plan.

The Company had a stock option plan adopted in 1993 that authorized the reservation of up to 400,000 shares of common stock and provided for the granting of incentive options to certain employees. This plan terminated in 2003 in accordance with plan provisions. A new plan (the "Plan") was adopted in 2003 which makes available up to 350,000 shares of common stock for granting restricted stock awards and stock options in the form of incentive stock options and non-statutory stock 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 2003, 2002 and 2001 follows:

	Year end December 31,					
	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, January 1	**194,415**	**$ 16.47**	156,515	$ 16.20	148,380	$ 16.63
Granted	**66,750**	**27.77**	55,350	16.00	13,350	12.81
Forfeited	**(12,783)**	**21.20**	(600)	20.13	(5,215)	19.83
Exercised	**(26,703)**	**14.38**	(16,850)	12.91	—	—
Options outstanding, December 31	**221,679**	**$ 19.85**	194,415	$ 16.47	156,515	$ 16.20
Weighted average fair value per option of options granted during year		**$ 10.29**		$ 6.37		$ 4.55

A summary of options outstanding at December 31, 2003 follows:

	Options Outstanding			Options Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 11.50	5,760	1.1 yrs	$ 11.50	5,760	1.1 yrs	$ 11.50
12.50	8,300	2.5	12.50	8,300	2.5	12.50
12.81	13,000	7.1	12.81	4,990	7.1	12.81
13.00	14,319	6.1	13.00	8,137	6.1	13.00
16.00	51,660	7.8	16.00	15,665	7.4	16.00
20.13	68,740	4.1	20.13	68,740	4.1	20.13
26.59	500	8.6	26.59	—	—	—
27.87	59,400	9.1	27.87	—	—	—
$ 11.50 - 27.87	221,679	6.5	$ 19.86	111,592	4.5	$ 17.69

10. 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 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, 2003 and 2002, the Company had outstanding loan commitments approximating $318,803,000 and $231,841,000, respectively.

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 $17,068,000 and $12,368,000 at December 31, 2003 and 2002, respectively.

At December 31, 2003, the mortgage company had rate lock commitments to originate mortgage loans amounting to approximately $20.1 million and loans held for sale of $28.7 million. The mortgage company has entered into corresponding mandatory commitments, on a best-efforts basis, to sell loans of approximately $48.8 million. These commitments to sell loans are designed to eliminate the mortgage company's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

11. 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 $20,697,000 and $17,481,000 as of December 31, 2003 and 2002, respectively. During 2003 new advances to such related parties amounted to $15,900,000 and repayments amounted to $12,684,000.

12. EARNINGS PER SHARE

The following is a reconciliation of the denominators of the basic and diluted EPS computations for December 31, 2003 2002 and 2001:

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
	(dollars and shares information in thousands)		
For the Year Ended December 31, 2003			
Basic EPS	**$ 16,664**	**7,603**	**$ 2.19**
Effect of dilutive stock options	**—**	**72**	**(0.02)**
Diluted EPS	**$ 16,664**	**7,675**	**$ 2.17**
For the Year Ended December 31, 2002			
Basic EPS	$ 14,505	7,556	$ 1.92
Effect of dilutive stock options	—	67	(0.02)
Diluted EPS	$ 14,505	7,623	$ 1.90
For the Year Ended December 31, 2001			
Basic EPS	$ 11,679	7,524	$ 1.55
Effect of dilutive stock options	—	18	—
Diluted EPS	$ 11,679	7,542	$ 1.55

Stock options representing 33,000 and 74,140 average shares were not included in the calculation of earnings per share as their effect would have been antidilutive in 2003 and 2001, respectively.

13. COMMITMENTS AND LIABILITIES

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

The Company must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final weekly reporting period in the years ended December 31, 2003 and 2002, the aggregate amount of daily average required reserves was approximately $868,000 and $1,495,000 .

The Company has approximately $2,558,000 in deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2003.

14. REGULATORY MATTERS

The Corporation and its subsidiary banks are 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 and Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), the Company and Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Banks 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, 2003, that the Company and Banks meet all capital adequacy requirements to which they are subject.

The most recent notification from the Federal Reserve Bank as of December 31, 2003, categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, an institution 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 Banks' category.

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

	Actual		Required for Capital Adequacy Purposes		Required in Order to Be Well Capitalized Under PCA	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2003						
Total capital to risk weighted assets						
Consolidated	$ 117,497	11.88%	$ 79,123	8.00%	NA	NA
Union Bank & Trust	73,868	10.52%	56,173	8.00%	$ 70,217	10.00%
Northern Neck State Bank	24,441	12.50%	15,642	8.00%	19,553	10.00%
Tier 1 capital to risk weighted assets						
Consolidated	105,978	10.71%	39,581	4.00%	NA	NA
Union Bank & Trust	65,265	9.29%	28,101	4.00%	42,152	6.00%
Northern Neck State Bank	22,507	11.51%	7,822	4.00%	11,733	6.00%
Tier 1 capital to average adjusted assets						
Consolidated	105,978	8.72%	48,614	4.00%	NA	NA
Union Bank & Trust	65,265	7.89%	33,087	4.00%	41,359	5.00%
Northern Neck State Bank	22,507	7.82%	11,513	4.00%	14,391	5.00%
As of December 31, 2002						
Total capital to risk weighted assets						
Consolidated	$ 101,435	12.15%	$ 66,788	8.00%	NA	NA
Union Bank & Trust	65,284	11.10%	47,052	8.00%	$ 58,814	10.00%
Northern Neck State Bank	22,386	12.28%	14,584	8.00%	18,230	10.00%
Tier 1 capital to risk weighted assets						
Consolidated	92,256	11.05%	33,396	4.00%	NA	NA
Union Bank & Trust	58,632	9.97%	23,523	4.00%	35,285	6.00%
Northern Neck State Bank	20,542	11.27%	7,291	4.00%	10,936	6.00%
Tier 1 capital to average adjusted assets						
Consolidated	92,256	8.49%	43,466	4.00%	NA	NA
Union Bank & Trust	58,632	7.83%	29,952	4.00%	37,441	5.00%
Northern Neck State Bank	20,542	7.71%	10,657	4.00%	13,322	5.00%

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INTEREST RATE RISK

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. SFAS 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

CASH AND CASH EQUIVALENTS

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

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 HELD FOR SALE

Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

LOANS

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

DEPOSITS

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

BORROWINGS

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

ACCRUED INTEREST

The carrying amounts of accrued interest approximate fair value.

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, 2003 and 2002, the fair value of loan commitments and standby letters of credit was immaterial.

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2003 and 2002 are as follows (in thousands):

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 40,972**	**$ 40,972**	$ 46,402	$ 46,402
Securities available for sale	**240,124**	**240,124**	272,755	272,755
Loans held for sale	**28,683**	**28,683**	39,771	39,771
Net loans	**866,748**	**898,933**	705,585	744,782
Accrued interest receivable	**6,473**	**6,473**	7,123	7,123
Financial liabilities:				
Deposits	**1,000,477**	**975,220**	897,642	886,427
Borrowings	**108,810**	**115,240**	106,996	115,399
Accrued interest payable	**1,466**	**1,466**	1,556	1,556

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

16. 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. As of December 31, 2003, the aggregate amount of unrestricted funds, which could be transferred from the Company's subsidiaries to the Parent Company, without prior regulatory approval, totaled $23,629,000 or 19.9% of the consolidated net assets.

Financial information for the Parent Company follows:

UNION BANKSHARES CORPORATION ("PARENT COMPANY ONLY")
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(dollars in thousands)

	2003	2002
Assets:		
Cash	**$ 5,334**	$ 3,307
Securities available for sale	**687**	550
Premises and equipment, net	**3,160**	3,070
Other assets	**1,323**	479
Investment in subsidiaries	**109,888**	100,637
Total assets	**$ 120,392**	$ 108,043
Liabilities and Stockholders' Equity:		
Long-term debt	**$ 1,333**	$ 2,094
Other liabilities	**558**	457
Total liabilities	**1,891**	2,551
Common stock	**15,254**	15,159
Surplus	**2,401**	1,442
Retained earnings	**94,102**	81,997
Accumulated other comprehensive income	**6,744**	6,894
Total stockholders' equity	**118,501**	105,492
Total liabilities and stockholders' equity	**$ 120,392**	$ 108,043

CONDENSED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002 and 2001
(dollars in thousands)

	2003	2002	2001
Income:			
Interest income	**$ 3**	$ 5	$ 7
Dividends received from subsidiaries	**8,591**	6,259	5,739
Management fee received from subsidiaries	**8,135**	6,996	6,619
Equity in undistributed net income of subsidiaries	**8,509**	8,966	6,154
Other income	**1**	13	105
Total income	**25,239**	22,239	18,624
Expense:			
Interest expense	**40**	72	247
Operating expenses	**8,535**	7,662	6,698
Total expense	**8,575**	7,734	6,945
Net income	**$ 16,664**	$ 14,505	$ 11,679

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 and 2001
(dollars in thousands)

	2003	2002	2001
Operating activities:			
Net income	**$ 16,664**	$ 14,505	$ 11,679
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	**(8,509)**	(8,966)	(6,154)
(Increase) decrease in other assets	**(604)**	484	603
Other, net	**595**	(105)	970
Net cash provided by operating activities	**8,146**	5,918	7,098
Investing activities:			
Purchase of securities	**(395)**	(240)	(162)
Proceeds from maturity of securities	**180**	38	87
Purchase of equipment	**(1,374)**	(389)	(338)
Net cash used in investing activities	**(1,589)**	(591)	(413)
Financing activities:			
Repayment of long-term borrowings	**(761)**	(762)	(2,142)
Cash dividends paid	**(4,559)**	(3,927)	(3,461)
Issuance of common stock under plans	**908**	731	403
Repurchase of common stock under plans	**(118)**	—	(597)
Net cash used in financing activities	**(4,530)**	(3,958)	(5,797)
Increase in cash and cash equivalents	**2,027**	1,369	888
Cash and cash equivalents at beginning of year	**3,307**	1,938	1,050
Cash and cash equivalents at end of year	**$ 5,334**	$ 3,307	$ 1,938

17. SEGMENT REPORTING

Union Bankshares Corporation has two reportable segments: traditional full service community banks and a mortgage loan origination business. The community bank business includes four banks, which provide loan, deposit, investment, and trust services to retail and commercial customers throughout their 32 retail 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. 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 at the 3 month Libor rate. These transactions are eliminated in the consolidation process. A management fee for back room support 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 years ended December 31, 2003, 2002 and 2001 follows:

2003 *(dollars in thousands)*	Community Banks	Mortgage	Elimination	Consolidated Totals
Net interest income	**$ 41,439**	**$ 1,673**	**$ —**	**$ 43,112**
Provision for loan losses	**2,307**	**—**	**—**	**2,307**
Net interest income after provision for loan losses	**39,132**	**1,673**	**—**	**40,805**
Noninterest income	**9,779**	**13,256**	**(195)**	**22,840**
Noninterest expenses	**30,040**	**10,880**	**(195)**	**40,725**
Income before income taxes	**18,871**	**4,049**	**—**	**22,920**
Income tax expense	**4,682**	**1,574**	**—**	**6,256**
Net income	**$ 14,189**	**$ 2,475**	**$ —**	**$ 16,664**
Total assets	**$ 1,234,236**	**$ 32,293**	**$ (31,797)**	**$ 1,234,732**
Capitalized expenditures	**$ 6,022**	**$ 268**	**—**	**$ 6,290**

2002 *(dollars in thousands)*	Community Banks	Mortgage	Elimination	Consolidated Totals
Net interest income	$ 39,404	$ 1,174	$ —	$ 40,578
Provision for loan losses	2,878	—	—	2,878
Net interest income after provision for loan losses	36,526	1,174	—	37,700
Noninterest income	7,622	10,091	(175)	17,538
Noninterest expenses	27,436	8,661	(175)	35,922
Income before income taxes	16,712	2,604	—	19,316
Income tax expense	3,845	966	—	4,811
Net income	$ 12,867	$ 1,638	$ —	$ 14,505
Total assets	$ 1,117,522	$ 43,256	$ (45,053)	$ 1,115,725
Capitalized expenditures	$ 3,947	$ 132	—	$ 4,079

2001 *(dollars in thousands)*	Community Banks	Mortgage	Elimination	Consolidated Totals
Net interest income	$ 32,416	$ 677	$ —	$ 33,093
Provision for loan losses	2,126	—	—	2,126
Net interest income after provision for loan losses	30,290	677	—	30,967
Noninterest income	7,403	8,859	(170)	16,092
Noninterest expenses	24,882	7,735	(170)	32,447
Income before income taxes	12,811	1,801	—	14,612
Income tax expense	2,321	612	—	2,933
Net income	$ 10,490	$ 1,189	$ —	$ 11,679
Total assets	$ 984,247	$ 45,656	$ (46,806)	$ 983,097
Capitalized expenditures	$ 1,561	$ 73	—	$ 1,634

18. ACQUISITION ACTIVITY

On December 19, 2003 the Company announced it had signed a definitive merger agreement with Guaranty Financial Corporation ("Guaranty") which was unanimously approved by both company's board of directors. The transaction is valued at $54 million in stock and cash and is expected to take place in the second quarter of 2004 subject to regulatory approval and the approval of Guaranty's shareholders. Guaranty operates seven branches in the Greater Charlottesville area with nearly $200 million in assets.

Item 9. — Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable. During the past two years, there have been no changes in or reportable disagreement with the certifying accountants for the Company or any of its subsidiaries.

Item 9A. — Controls and Procedures

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

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

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 Company's definitive proxy statement to be used in conjunction with the Company's 2004 Annual Meeting of Shareholders to be held April 20, 2004 ("Proxy Statement"), from the section titled "Election of Directors." Executive officers of the Company are listed below (All ages and positions are as of December 31, 2003):

Name (Age)	Title and Principal Occupation During Past Five Years
G. William Beale (54)	President and Chief Executive Officer of the Company; President of Union Bank from 1991 until January 2004.
D. Anthony Peay (44)	Executive Vice President of the Company since 2003, Senior Vice President of the Company from 2000 to 2003 and Chief Financial Officer of the Company since December 1994.
John C. Neal (54)	President and Chief Executive Officer of Union Bank and Trust since January 2004, Executive Vice President and Chief Operating Officer of Union Bank from 1997 until 2004.
N. Byrd Newton (60)	President and Chief Executive Officer of Northern Neck State Bank since 2000 and Senior Vice President and Secretary of the bank since 1992.

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 14 of the Proxy Statement from the section titled "Section 16(a) Beneficial Ownership Reporting Compliance."

The Company has adopted a broadbased code of ethics for all employees and directors. The Company has also adopted a code of ethics tailored for senior officers who have financial responsibilities. A copy of the code may be obtained by request from the corporate secretary.

Item 11. — Executive Compensation

This information is incorporated herein by reference from page 5 and pages 8 through 11 of the Proxy Statement from the sections titled "Election of Directors—Directors' Fees" and "Executive Compensation."

Item 12. — Security Ownership of Certain Beneficial Owners

This information is incorporated herein by reference from page 7 of the Proxy Statement from section titled "Ownership of Company Common Stock" and page 14 of the Proxy Statement from the section titled "Equity Compensation Plans" and from Item 5 of this 10-K..

Item 13. — Certain Relationships and Related Transactions

This information is incorporated herein by reference from page 12 of the Proxy Statement from the section titled “Interest of Directors and Officers in Certain Transactions.”

Item 14. — Principal Accounting Fees and Services

This information is incorporated herein by reference from page 6 of the Proxy Statement from the section titled “Principal Accounting Fees.”

PART IV

Item 15. — Exhibits, Financial Statement Schedules and Reports on Form 8-K

The following documents are filed as part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent auditors of the Company are in Part II, Item 8 on pages 34 thru 38:

(a)(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.

(a)(3) Exhibits

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

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization, dated December 18, 2003, by and between Union Bankshares Corporation and Guaranty Financial Corporation (incorporated by reference to Form S-4 Registration Statement; SEC file no. 333-112416).
3.1	Articles of Incorporation (incorporated by reference to Form S-4 Registration Statement; SEC file no. 33-60458)
3.2	By-Laws (incorporated by reference to Form S-4 Registration Statement; SEC file no. 33-60458)
10.1	Change in Control Employment Agreement of G. William Beale (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 1996)
10.2	Employment Agreement of G. William Beale (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 1999)
10.3	Change in Control Employment Agreement of D. Anthony Peay (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 2001)
10.4	Change in Control Employment Agreement of John C. Neal (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 2003)
10.5	Change in Control Employment Agreement of N. Byrd Newton (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 2003)
10.6	Change in Control Employment Agreement of Peter A. Seitz (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 2003)
10.7	Employment Agreement of Philip E. Buscemi (incorporated by reference to the registrant’s Annual Report on Form 10-K for the year ended December 31, 1999)
11.0	Statement re: Computation of Per Share Earnings (incorporated by reference to note 12 of the notes to consolidated financial statements included in this report)
21.0	Subsidiaries of the Registrant
23.1	Consent of Yount, Hyde & Barbour, P.C.
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.
99.1	2003 management presentation for shareholders

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the fourth quarter of 2003:

In a report on Form 8-K filed October 16, 2003, the Company issued a press release announcing second quarter results for the quarter ending September 30, 2003. The press release, with summary financial information, was filed pursuant to Item 7 and Item 12.

In a report on Form 8-K filed October 31, 2003, the Company issued a press release announcing the appointment of two new directors: Mr. R. Hunter Morin and Mr. Robert C. Sledd. The press release, with summary financial information, was filed pursuant to Item 7 and Item 9.

In a report on Form 8-K filed December 19, 2003, the Company issued a press release announcing a definitive merger agreement with Guaranty Financial Corporation, a Virginia bank holding company. The merger agreement defines the terms of the Company acquiring Guaranty Financial Corporation. The press release, with summary financial information, was filed pursuant to Item 5 and Item 7.

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 Date: March 8, 2004

G. William Beale
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 indicated on March 8, 2004.

Signature	Title
/ s/ G. William Beale G. G. William Beale	President, Chief Executive Officer and Director (principal executive officer)
/s/ Frank B. Bradley, III Frank B. Bradley, III	Director
/s/ Ronald L. Hicks Ronald L. Hicks	Chairman of the Board of Directors
/ s/ W. Tayloe Murphy, Jr. W. Tayloe Murphy, Jr.	Vice Chairman of the Board of Directors
/s/ Walton Mahon Walton Mahon	Director
/s/ R. Hunter Morin R. Hunter Morin	Director
/ s/ D. Anthony Peay D. Anthony Peay	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ M. Raymond Piland, III M. Raymond Piland, III	Director
/s/ Robert C. Sledd Robert C. Sledd	Director
/s/ Ronald L. Tillett Ronald L. Tillett	Director
/s/ A.D. Whittaker A.D. Whittaker	Director
/s/ William M. Wright William M. Wright	Director

Exhibit 10.4

MANAGEMENT CONTINUITY AGREEMENT

This Agreement ("Agreement"), dated as of November 1, 2003, is between Union Bankshares Corporation, a Virginia corporation (the "Company"), and John C. Neal (the "Executive") and provides as follows.

1. Purpose

The Company recognizes that the possibility of a Change in Control exists and the uncertainty and questions that it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. Accordingly, the purpose of this Agreement is to encourage the Executive to continue employment after a Change in Control by providing reasonable employment security to the Executive and to recognize the prior service of the Executive in the event of a termination of employment under certain circumstances after a Change in Control.

2. Term of the Agreement

This Agreement will be effective on November 1, 2003 and will expire on December 31, 2004; provided that on January 1, 2005 and on each January 1st thereafter (each such January 1st is referred to as the "Renewal Date"), this Agreement will be automatically extended for an additional calendar year. This Agreement will not, however, be extended if the Company gives written notice of such non-renewal to the Executive no later than September 30th before the Renewal Date (the original and any extended term of this Agreement is referred to as the "Change in Control Period").

3. Employment After Change in Control

If a Change in Control of the Company (as defined in Section 12) occurs during the Change in Control Period and the Executive is employed by the Company on the date the Change in Control occurs (the "Change in Control Date"), the Company will continue to employ the Executive in accordance with the terms and conditions of this Agreement for the period beginning on the Change in Control Date and ending on the third anniversary of such date (the "Employment Period"). If a Change in Control occurs on account of a series of transactions, the Change in Control Date is the date of the last of such transactions.

4. Terms of Employment

(a) Position and Duties. During the Employment Period, (i) the Executive's position, authority, duties and responsibilities will be commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Change in Control Date and (ii) the Executive's services will be performed at the location where the Executive was employed immediately preceding the Change in Control Date or any office that is the headquarters of the Company and is less than 35 miles from such location.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive will receive an annual base salary (the "Annual Base Salary") at least equal to the base salary paid or payable to the Executive by the Company and its affiliated companies for the twelve-month period immediately preceding the Change of Control Date. During the Employment Period, the Annual

Base Salary will be reviewed at least annually and will be increased at any time and from time to time as will be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in the Annual Base Salary will not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary will not be reduced after any such increase, and the term Annual Base Salary as used in this Agreement will refer to the Annual Base Salary as so increased. The term "affiliated companies" includes any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to the Annual Base Salary, the Executive will be awarded for each year ending during the Employment Period an annual bonus (the "Annual Bonus") in cash at least equal to the average annual bonus paid or payable, including by reason of any deferral, for the two years immediately preceding the year in which the Change in Control Date occurs. Each such Annual Bonus will be paid no later than the end of the third month of the year next following the year for which the Annual Bonus is awarded.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive will be entitled to participate in all incentive (including stock incentive), savings and retirement, insurance plans, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with incentive opportunities, savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than those provided by the Company and its affiliated companies for the Executive under such plans, policies and programs as in effect at any time during the six months immediately preceding the Change in Control Date.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, will be eligible for participation in and will receive all benefits under welfare benefit plans, policies and programs provided by the Company and its affiliated companies to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, policies and programs in effect at any time during the six months immediately preceding the Change in Control Date.

(v) Fringe Benefits. During the Employment Period, the Executive will be entitled to fringe benefits in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the six months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

(vi) Vacation. During the Employment Period, the Executive will be entitled to paid vacation in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the six months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment Following Change in Control

(a) Death or Disability. The Executive's employment will terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the

Disability of the Executive has occurred during the Employment Period, it may terminate the Executive's employment. For purposes of this Agreement, "Disability" means the Executive's inability to perform his duties with the Company on a full time basis for 180 consecutive days or a total of at least 240 days in any twelve month period as a result of the Executive's incapacity due to physical or mental illness (as determined by an independent physician selected by the Board).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" means (i) gross incompetence, gross negligence, willful misconduct in office or breach of a material fiduciary duty owed to the Company or any affiliated company; (ii) conviction of a felony or a crime of moral turpitude (or a plea of nolo contendere thereto) or commission of an act of embezzlement or fraud against the Company or any affiliated company; (iii) any material breach by the Executive of a material term of this Agreement, including, without limitation, material failure to perform a substantial portion of his duties and responsibilities hereunder; or (iv) deliberate dishonesty of the Executive with respect to the Company or any affiliated company.

(c) Good Reason; Window Period. The Executive's employment may be terminated (i) during the Employment Period by the Executive for Good Reason or (ii) during the Window Period by the Executive without any reason. For purposes of this Agreement, the "Window Period" means the 45-day period beginning on the later of the one-year anniversary of the Change in Control Date or the date of closing of the corporate transaction that is the subject of shareholder approval in Section 12. For purposes of this Agreement, "Good Reason" means:

(i) a material reduction in the Executive's duties or authority;

(ii) a failure by the Company to comply with any of the provisions of Section 4(b);

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(a)(ii);

(iv) the failure by the Company to comply with and satisfy Section 7(b); or

(v) the Company fails to honor any term or provision of this Agreement;

(d) Notice of Termination. Any termination during the Employment Period by the Company or by the Executive for Good Reason or during the Window Period shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive during the Window Period or for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date specified in the Notice of Termination (which shall not be less than 30 nor more than 60 days from the date such Notice of Termination is given), and (iii) if the Executive's employment is terminated for Disability, 30 days after Notice of Termination is given, provided that the Executive shall not have returned to the full-time performance of his duties during such 30-day period.

6. Compensation Upon Termination

(a) Termination Without Cause or for Good Reason or During Window Period. The Executive will be entitled to the following benefits if, during the Employment Period, the Company terminates his employment without Cause or the Executive terminates his employment with the Company or any affiliated company for Good Reason or during the Window Period.

(i) Accrued Obligations. The Accrued Obligations are the sum of: (1) the Executive's Annual Base Salary through the Date of Termination at the rate in effect just prior to the time a Notice of Termination is given; (2) the amount, if any, of any incentive or bonus compensation theretofore earned which has not yet been paid; (3) the product of the Annual Bonus paid or payable, including by reason of deferral, for the most recently completed year and a fraction, the numerator of which is the number of days in the current year through the Date of Termination and the denominator of which is 365; and (4) any benefits or awards (including both the cash and stock components) which pursuant to the terms of any plans, policies or programs have been earned or become payable, but which have not yet been paid to the Executive (but not including amounts that previously had been deferred at the Executive's request, which amounts will be paid in accordance with the Executive's existing directions). The Accrued Obligations will be paid to the Executive in a lump sum cash payment within ten days after the Date of Termination;

(ii) Salary Continuance Benefit. The Salary Continuance Benefit is an amount equal to 2.0 times the Executive's Final Compensation. For purposes of this Agreement, "Final Compensation" means the Annual Base Salary in effect at the Date of Termination, plus the highest Annual Bonus paid or payable for the two most recently completed years and any amount contributed by the Executive during the most recently completed year pursuant to a salary reduction agreement or any other program that provides for pre-tax salary reductions or compensation deferrals. The Salary Continuance Benefit will be paid to the Executive in a lump sum cash payment not later than the 45^{th} day following the Date of Termination;

(iii) Welfare Continuance Benefit. For 24 months following the Date of Termination, the Executive and his dependents will continue to be covered under all health and dental plans, disability plans, life insurance plans and all other welfare benefit plans (as defined in Section 3(1) of ERISA) ("Welfare Plans") in which the Executive or his dependents were participating immediately prior to the Date of Termination (the "Welfare Continuance Benefit"). The Company will pay all or a portion of the cost of the Welfare Continuance Benefit for the Executive and his dependents under the Welfare Plans on the same basis as applicable, from time to time, to active employees covered under the Welfare Plans and the Executive will pay any additional costs. If participation in any one or more of the Welfare Plans included in the Welfare Continuance Benefit is not possible under the terms of the Welfare Plan or any provision of law would create an adverse tax effect for the Executive or the Company due to such participation, the Company will provide substantially identical benefits directly or through an insurance arrangement. The Welfare Continuance Benefit as to any Welfare Plan will cease if and when the Executive has obtained coverage under one or more welfare benefit plans of a subsequent employer that provides for equal or greater benefits to the Executive and his dependents with respect to the specific type of benefit. The Executive or his dependents will become eligible for COBRA continuation coverage as of the date the Welfare Continuance Benefit ceases for all health and dental benefits.

(b) Death. If the Executive dies during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations and six months of the Executive's Base Salary (which shall be paid to the Executive's beneficiary designated in writing or his estate, as applicable, in a lump sum cash payment within 30 days of the date of death); (ii) the timely payment or provision of the Welfare Continuance Benefit to the Executive's spouse and other dependents for 24 months following the date of

death; and (iii) the timely payment of all death and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(c) Disability. If the Executive's employment is terminated because of the Executive's Disability during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations and six months of the Executive's Base Salary (which shall be paid to the Executive in a lump sum cash payment within 30 days of the Date of Termination); (ii) the timely payment or provision of the Welfare Continuance Benefit for 24 months following the Date of Termination; and (iii) the timely payment of all disability and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(d) Cause; Other than for Good Reason. If the Executive's employment is terminated for Cause during the Employment Period, this Agreement will terminate without further obligation to the Executive other than the payment to the Executive of the Annual Base Salary through the Date of Termination, plus the amount of any compensation previously deferred by the Executive. If the Executive terminates employment during the Employment Period, excluding a termination either for Good Reason or during the Window Period, this Agreement will terminate without further obligation to the Executive other than for the Accrued Obligations (which will be paid in a lump sum in cash within 30 days of the Date of Termination) and any other benefits to which the Executive may be entitled pursuant to the terms of any plan, program or arrangement of the Company and its affiliated companies.

(e) Gross-Up Payment. In the event any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 6(e)) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (collectively, the "Excise Tax"), then the Executive will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any income taxes and interest or penalties imposed with respect to such taxes) and the Excise Tax imposed on the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed on the Payments. All determinations required to be made under this Section 6(e), including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by the independent accounting firm of the Company immediately prior to the Executive's termination of employment (the "Accounting Firm"). All fees and expenses of the Accounting Firm will be borne solely by the Company, and any determination by the Accounting Firm will be binding upon the Company and the Executive. Any Gross-Up Payment, as determined pursuant to this Section 6(e), will be paid by the Company to the Executive within ten days of the receipt of the Accounting Firm's determination.

(i) If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall so indicate to the Executive in writing.

(ii) In the event there is an under-payment of the Gross-Up Payment due to the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm will determine the amount of any such under-payment that has occurred and such amount will be promptly paid by the Company to or for the benefit of the Executive.

7. Binding Agreement; Successors

(a) This Agreement will be binding upon and inure to the benefit of the Executive (and his personal representative), the Company and any successor organization or organizations which shall succeed to substantially all of the business and property of the Company, whether by means of merger, consolidation, acquisition of all or substantially of all of the assets of the Company or otherwise, including by operation of law.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) For purposes of this Agreement, the term "Company" includes any subsidiaries of the Company and any corporation or other entity which is the surviving or continuing entity in respect of any merger, consolidation or form of business combination in which the Company ceases to exist; provided, however, that for purposes of determining whether a Change in Control has occurred herein, the term "Company" refers to Union Bankshares Corporation or its successors.

8. Fees and Expenses; Mitigation

(a) The Company will pay or reimburse the Executive for all costs and expenses, including without limitation court costs and reasonable attorneys' fees, incurred by the Executive (i) in contesting or disputing any termination of the Executive's employment or (ii) in seeking to obtain or enforce any right or benefit provided by this Agreement, in each case provided the Executive's claim is upheld by a court of competent jurisdiction.

(b) The Executive shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Executive in connection with this Agreement, by seeking other employment or otherwise. Except as specifically provided above with respect to the Wefare Continuance Benefit, the amount of any payment provided for in Section 6 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

9. No Employment Contract

Nothing in this Agreement will be construed as creating an employment contract between the Executive and the Company prior to Change in Control.

10. Continuance of Welfare Benefits Upon Death

If the Executive dies while receiving a Welfare Continuation Benefit, the Executive's spouse and other dependents will continue to be covered under all applicable Welfare Plans during the remainder of the 24-month coverage period. The Executive's spouse and other dependents will become eligible for COBRA continuation coverage for health and dental benefits at the end of such 24-month period.

11. Notice

Any notices and other communications provided for by this Agreement will be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid (in which case notice will be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice will be deemed to have been given on the day after delivery to such courier service). Notices to the Company shall be directed to the Secretary of the Company, with a copy directed to the Chairman of the Board of the Company. Notices to the Executive shall be directed to his last known address.

12. Definition of a Change in Control

No benefits shall be payable hereunder unless there shall have been a Change in Control of the Company as set forth below. For purposes of this Agreement, a "Change in Control" means:

(a) The acquisition by any Person of beneficial ownership of 20% or more of the then outstanding shares of common stock of the Company, provided that an acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege) shall not constitute a Change in Control;

(b) Individuals who constitute the Board on the date of this Agreement (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"));

(c) Approval by the shareholders of the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that shareholder approval of a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(i) more than 60% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the former shareholders of the Company in substantially the same proportions as their ownership existed in the Company immediately prior to the Reorganization;

(ii) no Person beneficially owns 20% or more of either (1) the then outstanding shares of common stock of the corporation resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors; and

(iii) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, or of the sale or other disposition of all or substantially all of the assets of the Company.

(e) For purposes of this Agreement, "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Exchange Act, other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Exchange Act.

13. Confidentiality

The Executive will hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses, which was obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which will not be or become public knowledge. After termination of the Executive's employment with the Company, the Executive will not, without the

prior written consent of the Company or except as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 13 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

14. Miscellaneous

No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in a writing signed by the Executive and the Chairman of the Board or President of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

15. Governing Law

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia.

16. Validity

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Union Bankshares Corporation by its duly authorized officer, and by the Executive, as of the date first above written.

UNION BANKSHARES CORPORATION

By: /s/ Ronald L. Hicks

Ronald L. Hicks
Chairman of the Board

EXECUTIVE:

/s/ John C. Neal

/s/ John C. Neal

Exhibit 10.5

MANAGEMENT CONTINUITY AGREEMENT

This Agreement ("Agreement"), dated as of November 1, 2003, is between Union Bankshares Corporation, a Virginia corporation (the "Company"), and N. Byrd Newton (the "Executive") and provides as follows.

1. Purpose

The Company recognizes that the possibility of a Change in Control exists and the uncertainty and questions that it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. Accordingly, the purpose of this Agreement is to encourage the Executive to continue employment after a Change in Control by providing reasonable employment security to the Executive and to recognize the prior service of the Executive in the event of a termination of employment under certain circumstances after a Change in Control.

2. Term of the Agreement

This Agreement will be effective on November 1, 2003 and will expire on December 31, 2004; provided that on January 1, 2005 and on each January 1st thereafter (each such January 1st is referred to as the "Renewal Date"), this Agreement will be automatically extended for an additional calendar year. This Agreement will not, however, be extended if the Company gives written notice of such non-renewal to the Executive no later than September 30th before the Renewal Date (the original and any extended term of this Agreement is referred to as the "Change in Control Period").

3. Employment After Change in Control

If a Change in Control of the Company (as defined in Section 12) occurs during the Change in Control Period and the Executive is employed by the Company on the date the Change in Control occurs (the "Change in Control Date"), the Company will continue to employ the Executive in accordance with the terms and conditions of this Agreement for the period beginning on the Change in Control Date and ending on the third anniversary of such date (the "Employment Period"). If a Change in Control occurs on account of a series of transactions, the Change in Control Date is the date of the last of such transactions.

4. Terms of Employment

(a) Position and Duties. During the Employment Period, (i) the Executive's position, authority, duties and responsibilities will be commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Change in Control Date and (ii) the Executive's services will be performed at the location where the Executive was employed immediately preceding the Change in Control Date or any office that is the headquarters of the Company and is less than 35 miles from such location.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive will receive an annual base salary (the "Annual Base Salary") at least equal to the base salary paid or payable to the Executive by the Company and its affiliated companies for the twelve-month period immediately preceding the Change of Control Date. During the Employment Period, the Annual

Base Salary will be reviewed at least annually and will be increased at any time and from time to time as will be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in the Annual Base Salary will not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary will not be reduced after any such increase, and the term Annual Base Salary as used in this Agreement will refer to the Annual Base Salary as so increased. The term "affiliated companies" includes any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to the Annual Base Salary, the Executive will be awarded for each year ending during the Employment Period an annual bonus (the "Annual Bonus") in cash at least equal to the average annual bonus paid or payable, including by reason of any deferral, for the two years immediately preceding the year in which the Change in Control Date occurs. Each such Annual Bonus will be paid no later than the end of the third month of the year next following the year for which the Annual Bonus is awarded.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive will be entitled to participate in all incentive (including stock incentive), savings and retirement, insurance plans, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with incentive opportunities, savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than those provided by the Company and its affiliated companies for the Executive under such plans, policies and programs as in effect at any time during the six months immediately preceding the Change in Control Date.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, will be eligible for participation in and will receive all benefits under welfare benefit plans, policies and programs provided by the Company and its affiliated companies to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, policies and programs in effect at any time during the six months immediately preceding the Change in Control Date.

(v) Fringe Benefits. During the Employment Period, the Executive will be entitled to fringe benefits in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the six months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

(vi) Vacation. During the Employment Period, the Executive will be entitled to paid vacation in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the six months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment Following Change in Control

(a) Death or Disability. The Executive's employment will terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the

Disability of the Executive has occurred during the Employment Period, it may terminate the Executive's employment. For purposes of this Agreement, "Disability" means the Executive's inability to perform his duties with the Company on a full time basis for 180 consecutive days or a total of at least 240 days in any twelve month period as a result of the Executive's incapacity due to physical or mental illness (as determined by an independent physician selected by the Board).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" means (i) gross incompetence, gross negligence, willful misconduct in office or breach of a material fiduciary duty owed to the Company or any affiliated company; (ii) conviction of a felony or a crime of moral turpitude (or a plea of nolo contendere thereto) or commission of an act of embezzlement or fraud against the Company or any affiliated company; (iii) any material breach by the Executive of a material term of this Agreement, including, without limitation, material failure to perform a substantial portion of his duties and responsibilities hereunder; or (iv) deliberate dishonesty of the Executive with respect to the Company or any affiliated company.

(c) Good Reason; Window Period. The Executive's employment may be terminated (i) during the Employment Period by the Executive for Good Reason or (ii) during the Window Period by the Executive without any reason. For purposes of this Agreement, the "Window Period" means the 45-day period beginning on the later of the one-year anniversary of the Change in Control Date or the date of closing of the corporate transaction that is the subject of shareholder approval in Section 12. For purposes of this Agreement, "Good Reason" means:

(i) a material reduction in the Executive's duties or authority;

(ii) a failure by the Company to comply with any of the provisions of Section 4(b);

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(a)(ii);

(iv) the failure by the Company to comply with and satisfy Section 7(b); or

(v) the Company fails to honor any term or provision of this Agreement;

(d) Notice of Termination. Any termination during the Employment Period by the Company or by the Executive for Good Reason or during the Window Period shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive during the Window Period or for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date specified in the Notice of Termination (which shall not be less than 30 nor more than 60 days from the date such Notice of Termination is given), and (iii) if the Executive's employment is terminated for Disability, 30 days after Notice of Termination is given, provided that the Executive shall not have returned to the full-time performance of his duties during such 30-day period.

6. Compensation Upon Termination

(a) Termination Without Cause or for Good Reason or During Window Period. The Executive will be entitled to the following benefits if, during the Employment Period, the Company terminates his employment without Cause or the Executive terminates his employment with the Company or any affiliated company for Good Reason or during the Window Period.

(i) Accrued Obligations. The Accrued Obligations are the sum of: (1) the Executive's Annual Base Salary through the Date of Termination at the rate in effect just prior to the time a Notice of Termination is given; (2) the amount, if any, of any incentive or bonus compensation theretofore earned which has not yet been paid; (3) the product of the Annual Bonus paid or payable, including by reason of deferral, for the most recently completed year and a fraction, the numerator of which is the number of days in the current year through the Date of Termination and the denominator of which is 365; and (4) any benefits or awards (including both the cash and stock components) which pursuant to the terms of any plans, policies or programs have been earned or become payable, but which have not yet been paid to the Executive (but not including amounts that previously had been deferred at the Executive's request, which amounts will be paid in accordance with the Executive's existing directions). The Accrued Obligations will be paid to the Executive in a lump sum cash payment within ten days after the Date of Termination;

(ii) Salary Continuance Benefit. The Salary Continuance Benefit is an amount equal to 2.0 times the Executive's Final Compensation. For purposes of this Agreement, "Final Compensation" means the Annual Base Salary in effect at the Date of Termination, plus the highest Annual Bonus paid or payable for the two most recently completed years and any amount contributed by the Executive during the most recently completed year pursuant to a salary reduction agreement or any other program that provides for pre-tax salary reductions or compensation deferrals. The Salary Continuance Benefit will be paid to the Executive in a lump sum cash payment not later than the 45th day following the Date of Termination;

(iii) Welfare Continuance Benefit. For 24 months following the Date of Termination, the Executive and his dependents will continue to be covered under all health and dental plans, disability plans, life insurance plans and all other welfare benefit plans (as defined in Section 3(1) of ERISA) ("Welfare Plans") in which the Executive or his dependents were participating immediately prior to the Date of Termination (the "Welfare Continuance Benefit"). The Company will pay all or a portion of the cost of the Welfare Continuance Benefit for the Executive and his dependents under the Welfare Plans on the same basis as applicable, from time to time, to active employees covered under the Welfare Plans and the Executive will pay any additional costs. If participation in any one or more of the Welfare Plans included in the Welfare Continuance Benefit is not possible under the terms of the Welfare Plan or any provision of law would create an adverse tax effect for the Executive or the Company due to such participation, the Company will provide substantially identical benefits directly or through an insurance arrangement. The Welfare Continuance Benefit as to any Welfare Plan will cease if and when the Executive has obtained coverage under one or more welfare benefit plans of a subsequent employer that provides for equal or greater benefits to the Executive and his dependents with respect to the specific type of benefit. The Executive or his dependents will become eligible for COBRA continuation coverage as of the date the Welfare Continuance Benefit ceases for all health and dental benefits.

(b) Death. If the Executive dies during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations and six months of the Executive's Base Salary (which shall be paid to the Executive's beneficiary designated in writing or his estate, as applicable, in a lump sum cash payment within 30 days of the date of death); (ii) the timely payment or provision of the Welfare Continuance Benefit to the Executive's spouse and other dependents for 24 months following the date of

death; and (iii) the timely payment of all death and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(c) Disability. If the Executive's employment is terminated because of the Executive's Disability during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations and six months of the Executive's Base Salary (which shall be paid to the Executive in a lump sum cash payment within 30 days of the Date of Termination); (ii) the timely payment or provision of the Welfare Continuance Benefit for 24 months following the Date of Termination; and (iii) the timely payment of all disability and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(d) Cause; Other than for Good Reason. If the Executive's employment is terminated for Cause during the Employment Period, this Agreement will terminate without further obligation to the Executive other than the payment to the Executive of the Annual Base Salary through the Date of Termination, plus the amount of any compensation previously deferred by the Executive. If the Executive terminates employment during the Employment Period, excluding a termination either for Good Reason or during the Window Period, this Agreement will terminate without further obligation to the Executive other than for the Accrued Obligations (which will be paid in a lump sum in cash within 30 days of the Date of Termination) and any other benefits to which the Executive may be entitled pursuant to the terms of any plan, program or arrangement of the Company and its affiliated companies.

(e) Gross-Up Payment. In the event any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 6(e)) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (collectively, the "Excise Tax"), then the Executive will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any income taxes and interest or penalties imposed with respect to such taxes) and the Excise Tax imposed on the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed on the Payments. All determinations required to be made under this Section 6(e), including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by the independent accounting firm of the Company immediately prior to the Executive's termination of employment (the "Accounting Firm"). All fees and expenses of the Accounting Firm will be borne solely by the Company, and any determination by the Accounting Firm will be binding upon the Company and the Executive. Any Gross-Up Payment, as determined pursuant to this Section 6(e), will be paid by the Company to the Executive within ten days of the receipt of the Accounting Firm's determination.

(i) If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall so indicate to the Executive in writing.

(ii) In the event there is an under-payment of the Gross-Up Payment due to the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm will determine the amount of any such under-payment that has occurred and such amount will be promptly paid by the Company to or for the benefit of the Executive.

7. Binding Agreement; Successors

(a) This Agreement will be binding upon and inure to the benefit of the Executive (and his personal representative), the Company and any successor organization or organizations which shall succeed to substantially all of the business and property of the Company, whether by means of merger, consolidation, acquisition of all or substantially of all of the assets of the Company or otherwise, including by operation of law.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) For purposes of this Agreement, the term “Company” includes any subsidiaries of the Company and any corporation or other entity which is the surviving or continuing entity in respect of any merger, consolidation or form of business combination in which the Company ceases to exist; provided, however, that for purposes of determining whether a Change in Control has occurred herein, the term “Company” refers to Union Bankshares Corporation or its successors.

8. Fees and Expenses; Mitigation

(a) The Company will pay or reimburse the Executive for all costs and expenses, including without limitation court costs and reasonable attorneys’ fees, incurred by the Executive (i) in contesting or disputing any termination of the Executive’s employment or (ii) in seeking to obtain or enforce any right or benefit provided by this Agreement, in each case provided the Executive’s claim is upheld by a court of competent jurisdiction.

(b) The Executive shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Executive in connection with this Agreement, by seeking other employment or otherwise. Except as specifically provided above with respect to the Wefare Continuance Benefit, the amount of any payment provided for in Section 6 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

9. No Employment Contract

Nothing in this Agreement will be construed as creating an employment contract between the Executive and the Company prior to Change in Control.

10. Continuance of Welfare Benefits Upon Death

If the Executive dies while receiving a Welfare Continuation Benefit, the Executive’s spouse and other dependents will continue to be covered under all applicable Welfare Plans during the remainder of the 24-month coverage period. The Executive’s spouse and other dependents will become eligible for COBRA continuation coverage for health and dental benefits at the end of such 24-month period.

11. Notice

Any notices and other communications provided for by this Agreement will be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid (in which case notice will be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice will be deemed to have been given on the day after delivery to such courier service). Notices to the Company shall be directed to the Secretary of the Company, with a copy directed to the Chairman of the Board of the Company. Notices to the Executive shall be directed to his last known address.

12. Definition of a Change in Control

No benefits shall be payable hereunder unless there shall have been a Change in Control of the Company as set forth below. For purposes of this Agreement, a "Change in Control" means:

(a) The acquisition by any Person of beneficial ownership of 20% or more of the then outstanding shares of common stock of the Company, provided that an acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege) shall not constitute a Change in Control;

(b) Individuals who constitute the Board on the date of this Agreement (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"));

(c) Approval by the shareholders of the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that shareholder approval of a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(i) more than 60% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the former shareholders of the Company in substantially the same proportions as their ownership existed in the Company immediately prior to the Reorganization;

(ii) no Person beneficially owns 20% or more of either (1) the then outstanding shares of common stock of the corporation resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors; and

(iii) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, or of the sale or other disposition of all or substantially all of the assets of the Company.

(e) For purposes of this Agreement, "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Exchange Act, other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Exchange Act.

13. Confidentiality

The Executive will hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses, which was obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which will not be or become public knowledge. After termination of the Executive's employment with the Company, the Executive will not, without the

prior written consent of the Company or except as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 13 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

14. Miscellaneous

No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in a writing signed by the Executive and the Chairman of the Board or President of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

15. Governing Law

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia.

16. Validity

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Union Bankshares Corporation by its duly authorized officer, and by the Executive, as of the date first above written.

UNION BANKSHARES CORPORATION

By: /s/ Ronald L. Hicks

Ronald L. Hicks
Chairman of the Board

EXECUTIVE:

/s/ N. Byrd Newton

N. Byrd Newton

Exhibit 10.6

MANAGEMENT CONTINUITY AGREEMENT

This Agreement (“Agreement”), dated as of November 1, 2003, is between Union Bankshares Corporation, a Virginia corporation (the “Company”), and Peter A. Seitz (the “Executive”) and provides as follows.

1. Purpose

The Company recognizes that the possibility of a Change in Control exists and the uncertainty and questions that it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. Accordingly, the purpose of this Agreement is to encourage the Executive to continue employment after a Change in Control by providing reasonable employment security to the Executive and to recognize the prior service of the Executive in the event of a termination of employment under certain circumstances after a Change in Control.

2. Term of the Agreement

This Agreement will be effective on November 19, 2003 and will expire on December 31, 2004; provided that on January 1, 2005 and on each January 1st thereafter (each such January 1st is referred to as the “Renewal Date”), this Agreement will be automatically extended for an additional calendar year. This Agreement will not, however, be extended if the Company gives written notice of such non-renewal to the Executive no later than September 30th before the Renewal Date (the original and any extended term of this Agreement is referred to as the “Change in Control Period”).

3. Employment After Change in Control

If a Change in Control of the Company (as defined in Section 12) occurs during the Change in Control Period and the Executive is employed by the Company on the date the Change in Control occurs (the “Change in Control Date”), the Company will continue to employ the Executive in accordance with the terms and conditions of this Agreement for the period beginning on the Change in Control Date and ending on the third anniversary of such date (the “Employment Period”). If a Change in Control occurs on account of a series of transactions, the Change in Control Date is the date of the last of such transactions.

4. Terms of Employment

(a) Position and Duties. During the Employment Period, (i) the Executive’s position, authority, duties and responsibilities will be commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Change in Control Date and (ii) the Executive’s services will be performed at the location where the Executive was employed immediately preceding the Change in Control Date or any office that is the headquarters of the Company and is less than 35 miles from such location.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive will receive an annual base salary (the “Annual Base Salary”) at least equal to the base salary paid or payable to the Executive by the Company and its affiliated companies for the twelve-month period immediately preceding the Change of Control Date. During the Employment Period, the Annual

Base Salary will be reviewed at least annually and will be increased at any time and from time to time as will be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in the Annual Base Salary will not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary will not be reduced after any such increase, and the term Annual Base Salary as used in this Agreement will refer to the Annual Base Salary as so increased. The term "affiliated companies" includes any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to the Annual Base Salary, the Executive will be awarded for each year ending during the Employment Period an annual bonus (the "Annual Bonus") in cash at least equal to the average annual bonus paid or payable, including by reason of any deferral, for the two years immediately preceding the year in which the Change in Control Date occurs. Each such Annual Bonus will be paid no later than the end of the third month of the year next following the year for which the Annual Bonus is awarded.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive will be entitled to participate in all incentive (including stock incentive), savings and retirement, insurance plans, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with incentive opportunities, savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than those provided by the Company and its affiliated companies for the Executive under such plans, policies and programs as in effect at any time during the six months immediately preceding the Change in Control Date.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, will be eligible for participation in and will receive all benefits under welfare benefit plans, policies and programs provided by the Company and its affiliated companies to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, policies and programs in effect at any time during the six months immediately preceding the Change in Control Date.

(v) Fringe Benefits. During the Employment Period, the Executive will be entitled to fringe benefits in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the six months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

(vi) Vacation. During the Employment Period, the Executive will be entitled to paid vacation in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the six months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment Following Change in Control

(a) Death or Disability. The Executive's employment will terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the

Disability of the Executive has occurred during the Employment Period, it may terminate the Executive's employment. For purposes of this Agreement, "Disability" means the Executive's inability to perform his duties with the Company on a full time basis for 180 consecutive days or a total of at least 240 days in any twelve month period as a result of the Executive's incapacity due to physical or mental illness (as determined by an independent physician selected by the Board).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" means (i) gross incompetence, gross negligence, willful misconduct in office or breach of a material fiduciary duty owed to the Company or any affiliated company; (ii) conviction of a felony or a crime of moral turpitude (or a plea of nolo contendere thereto) or commission of an act of embezzlement or fraud against the Company or any affiliated company; (iii) any material breach by the Executive of a material term of this Agreement, including, without limitation, material failure to perform a substantial portion of his duties and responsibilities hereunder; or (iv) deliberate dishonesty of the Executive with respect to the Company or any affiliated company.

(c) Good Reason; Window Period. The Executive's employment may be terminated (i) during the Employment Period by the Executive for Good Reason or (ii) during the Window Period by the Executive without any reason. For purposes of this Agreement, the "Window Period" means the 45-day period beginning on the later of the one-year anniversary of the Change in Control Date or the date of closing of the corporate transaction that is the subject of shareholder approval in Section 12. For purposes of this Agreement, "Good Reason" means:

(i) a material reduction in the Executive's duties or authority;

(ii) a failure by the Company to comply with any of the provisions of Section 4(b);

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(a)(ii);

(iv) the failure by the Company to comply with and satisfy Section 7(b); or

(v) the Company fails to honor any term or provision of this Agreement;

(d) Notice of Termination. Any termination during the Employment Period by the Company or by the Executive for Good Reason or during the Window Period shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive during the Window Period or for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date specified in the Notice of Termination (which shall not be less than 30 nor more than 60 days from the date such Notice of Termination is given), and (iii) if the Executive's employment is terminated for Disability, 30 days after Notice of Termination is given, provided that the Executive shall not have returned to the full-time performance of his duties during such 30-day period.

6. Compensation Upon Termination

(a) Termination Without Cause or for Good Reason or During Window Period. The Executive will be entitled to the following benefits if, during the Employment Period, the Company terminates his employment without Cause or the Executive terminates his employment with the Company or any affiliated company for Good Reason or during the Window Period.

(i) Accrued Obligations. The Accrued Obligations are the sum of: (1) the Executive's Annual Base Salary through the Date of Termination at the rate in effect just prior to the time a Notice of Termination is given; (2) the amount, if any, of any incentive or bonus compensation theretofore earned which has not yet been paid; (3) the product of the Annual Bonus paid or payable, including by reason of deferral, for the most recently completed year and a fraction, the numerator of which is the number of days in the current year through the Date of Termination and the denominator of which is 365; and (4) any benefits or awards (including both the cash and stock components) which pursuant to the terms of any plans, policies or programs have been earned or become payable, but which have not yet been paid to the Executive (but not including amounts that previously had been deferred at the Executive's request, which amounts will be paid in accordance with the Executive's existing directions). The Accrued Obligations will be paid to the Executive in a lump sum cash payment within ten days after the Date of Termination;

(ii) Salary Continuance Benefit. The Salary Continuance Benefit is an amount equal to 2.0 times the Executive's Final Compensation. For purposes of this Agreement, "Final Compensation" means the Annual Base Salary in effect at the Date of Termination, plus the highest Annual Bonus paid or payable for the two most recently completed years and any amount contributed by the Executive during the most recently completed year pursuant to a salary reduction agreement or any other program that provides for pre-tax salary reductions or compensation deferrals. The Salary Continuance Benefit will be paid to the Executive in a lump sum cash payment not later than the 45th day following the Date of Termination;

(iii) Welfare Continuance Benefit. For 24 months following the Date of Termination, the Executive and his dependents will continue to be covered under all health and dental plans, disability plans, life insurance plans and all other welfare benefit plans (as defined in Section 3(1) of ERISA) ("Welfare Plans") in which the Executive or his dependents were participating immediately prior to the Date of Termination (the "Welfare Continuance Benefit"). The Company will pay all or a portion of the cost of the Welfare Continuance Benefit for the Executive and his dependents under the Welfare Plans on the same basis as applicable, from time to time, to active employees covered under the Welfare Plans and the Executive will pay any additional costs. If participation in any one or more of the Welfare Plans included in the Welfare Continuance Benefit is not possible under the terms of the Welfare Plan or any provision of law would create an adverse tax effect for the Executive or the Company due to such participation, the Company will provide substantially identical benefits directly or through an insurance arrangement. The Welfare Continuance Benefit as to any Welfare Plan will cease if and when the Executive has obtained coverage under one or more welfare benefit plans of a subsequent employer that provides for equal or greater benefits to the Executive and his dependents with respect to the specific type of benefit. The Executive or his dependents will become eligible for COBRA continuation coverage as of the date the Welfare Continuance Benefit ceases for all health and dental benefits.

(b) Death. If the Executive dies during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations and six months of the Executive's Base Salary (which shall be paid to the Executive's beneficiary designated in writing or his estate, as applicable, in a lump sum cash payment within 30 days of the date of death); (ii) the timely payment or provision of the Welfare Continuance Benefit to the Executive's spouse and other dependents for 24 months following the date of

death; and (iii) the timely payment of all death and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(c) Disability. If the Executive's employment is terminated because of the Executive's Disability during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations and six months of the Executive's Base Salary (which shall be paid to the Executive in a lump sum cash payment within 30 days of the Date of Termination); (ii) the timely payment or provision of the Welfare Continuance Benefit for 24 months following the Date of Termination; and (iii) the timely payment of all disability and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(d) Cause; Other than for Good Reason. If the Executive's employment is terminated for Cause during the Employment Period, this Agreement will terminate without further obligation to the Executive other than the payment to the Executive of the Annual Base Salary through the Date of Termination, plus the amount of any compensation previously deferred by the Executive. If the Executive terminates employment during the Employment Period, excluding a termination either for Good Reason or during the Window Period, this Agreement will terminate without further obligation to the Executive other than for the Accrued Obligations (which will be paid in a lump sum in cash within 30 days of the Date of Termination) and any other benefits to which the Executive may be entitled pursuant to the terms of any plan, program or arrangement of the Company and its affiliated companies.

(e) Gross-Up Payment. In the event any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 6(e)) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") or any interest or penalties are incurred by the Executive with respect to such excise tax (collectively, the "Excise Tax"), then the Executive will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any income taxes and interest or penalties imposed with respect to such taxes) and the Excise Tax imposed on the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed on the Payments. All determinations required to be made under this Section 6(e), including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by the independent accounting firm of the Company immediately prior to the Executive's termination of employment (the "Accounting Firm"). All fees and expenses of the Accounting Firm will be borne solely by the Company, and any determination by the Accounting Firm will be binding upon the Company and the Executive. Any Gross-Up Payment, as determined pursuant to this Section 6(e), will be paid by the Company to the Executive within ten days of the receipt of the Accounting Firm's determination.

(i) If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall so indicate to the Executive in writing.

(ii) In the event there is an under-payment of the Gross-Up Payment due to the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm will determine the amount of any such under-payment that has occurred and such amount will be promptly paid by the Company to or for the benefit of the Executive.

7. Binding Agreement; Successors

(a) This Agreement will be binding upon and inure to the benefit of the Executive (and his personal representative), the Company and any successor organization or organizations which shall succeed to substantially all of the business and property of the Company, whether by means of merger, consolidation, acquisition of all or substantially of all of the assets of the Company or otherwise, including by operation of law.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) For purposes of this Agreement, the term "Company" includes any subsidiaries of the Company and any corporation or other entity which is the surviving or continuing entity in respect of any merger, consolidation or form of business combination in which the Company ceases to exist; provided, however, that for purposes of determining whether a Change in Control has occurred herein, the term "Company" refers to Union Bankshares Corporation or its successors.

8. Fees and Expenses; Mitigation

(a) The Company will pay or reimburse the Executive for all costs and expenses, including without limitation court costs and reasonable attorneys' fees, incurred by the Executive (i) in contesting or disputing any termination of the Executive's employment or (ii) in seeking to obtain or enforce any right or benefit provided by this Agreement, in each case provided the Executive's claim is upheld by a court of competent jurisdiction.

(b) The Executive shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Executive in connection with this Agreement, by seeking other employment or otherwise. Except as specifically provided above with respect to the Wefare Continuance Benefit, the amount of any payment provided for in Section 6 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

9. No Employment Contract

Nothing in this Agreement will be construed as creating an employment contract between the Executive and the Company prior to Change in Control.

10. Continuance of Welfare Benefits Upon Death

If the Executive dies while receiving a Welfare Continuation Benefit, the Executive's spouse and other dependents will continue to be covered under all applicable Welfare Plans during the remainder of the 24-month coverage period. The Executive's spouse and other dependents will become eligible for COBRA continuation coverage for health and dental benefits at the end of such 24-month period.

11. Notice

Any notices and other communications provided for by this Agreement will be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid (in which case notice will be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice will be deemed to have been given on the day after delivery to such courier service). Notices to the Company shall be directed to the Secretary of the Company, with a copy directed to the Chairman of the Board of the Company. Notices to the Executive shall be directed to his last known address.

12. Definition of a Change in Control

No benefits shall be payable hereunder unless there shall have been a Change in Control of the Company as set forth below. For purposes of this Agreement, a "Change in Control" means:

(a) The acquisition by any Person of beneficial ownership of 20% or more of the then outstanding shares of common stock of the Company, provided that an acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege) shall not constitute a Change in Control;

(b) Individuals who constitute the Board on the date of this Agreement (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"));

(c) Approval by the shareholders of the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that shareholder approval of a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(i) more than 60% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the former shareholders of the Company in substantially the same proportions as their ownership existed in the Company immediately prior to the Reorganization;

(ii) no Person beneficially owns 20% or more of either (1) the then outstanding shares of common stock of the corporation resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors; and

(iii) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, or of the sale or other disposition of all or substantially all of the assets of the Company.

(e) For purposes of this Agreement, "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Exchange Act, other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Exchange Act.

13. Confidentiality

The Executive will hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies and their respective businesses, which was obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which will not be or become public knowledge. After termination of the Executive's employment with the Company, the Executive will not, without the

prior written consent of the Company or except as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 13 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

14. Miscellaneous

No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in a writing signed by the Executive and the Chairman of the Board or President of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

15. Governing Law

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia.

16. Validity

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Union Bankshares Corporation by its duly authorized officer, and by the Executive, as of the date first above written.

UNION BANKSHARES CORPORATION

By: /s/ Ronald L. Hicks

Ronald L. Hicks
Chairman of the Board

EXECUTIVE:

/s/ Peter A. Seitz

Peter A. Seitz

Exhibit 10.7

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of December 31, 2003, among Mortgage Capital Investors, Inc. (the "Employer"), a Virginia corporation and direct wholly-owned subsidiary of Union Bank & Trust Company ("Union Bank"), Union Bankshares Corporation, a Virginia corporation ("UBSH"), and Philip E. Buscemi (the "Executive").

WITNESSETH

WHEREAS, the Executive has heretofore been employed and currently is rendering services to the Employer as President and Chief Executive Officer of the Employer;

WHEREAS, UBSH and the Employer consider the continued availability of the Executive's services to be important to the management and conduct of the Employer's business and desire to secure for themselves the continued availability of the Executive's services; and

WHEREAS, the Executive is willing to make his services available to the Employer and UBSH on the terms and subject to the conditions set forth herein.

NOW THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereby agree as follows:

1. Employment. The Executive shall be employed as President and Chief Executive Officer of the Employer. The Executive shall have such duties and responsibilities as are commensurate with such positions and shall also render such other services and duties as may be reasonably assigned to him from time to time by the Employer and UBSH, consistent with his positions as President and Chief Executive Officer of the Employer. The Executive hereby accepts and agrees to such employment.

2. Term of Employment. The term of employment shall begin on the date hereof (the "Commencement Date") and continue through December 31, 2006; provided that beginning on January 1, 2007 and on each January 1st thereafter (each such January 1st is referred to as the "Renewal Date"), the term of this Agreement will be extended automatically for an additional year from such Renewal Date. This Agreement will not, however, be extended if the Employer gives written notice to the Executive of its intent not to renew at least 180 days before the Renewal Date (the initial and any extended term of this Agreement is referred to as the "Employment Period"). The last day of such term as so extended is referred to herein as the "Expiration Date."

3. Compensation and Benefits.

(a) Base Salary. For all services rendered by the Executive under this Agreement, the Employer shall pay the Executive an annual base salary of $150,000 (the "Base Salary"), which may be increased each year by an amount to be determined by the Board of Directors. The Executive's salary shall be payable in accordance with payroll practices of the Employer applicable to officers of the company.

(b) Incentive Payments.

(i) Incentive Bonus. The Employer will pay the Executive with respect to each calendar year during the term of this Agreement incentive compensation in an amount equal to four percent (4.0%) of the Employer's net income during such calendar year (the "Incentive Bonus"); provided, however, that the Employer must earn at least $400,000 in net income for such year before the Executive is entitled to receive an Incentive Bonus. The Employer will cause to be prepared after the end of each calendar year audited financial statements showing the Employer's net income. Subject to Section 4 below, the Executive will be paid the Incentive Bonus within ninety (90) days after the end of the calendar year to which the Incentive Bonus relates.

(ii) Commissions. The Executive shall be paid a commission for each loan that he originates, which commission shall be paid according to the Employer's standard commission schedule in effect at the time that each such loan is originated. All commissions paid to the Executive under this Section 3(b) shall be paid at such intervals as the Employer shall determine.

(iii) Definition of Net Income. For purposes of this Agreement, "net income" shall mean the Employer's aggregate earnings net of losses from operations after deduction of all appropriate expenses, charges and reserves, including the Incentive Bonus and federal and state income taxes. Net income will be determined by Union Bank in accordance with generally accepted accounting principles ("GAAP") consistently applied and as included in the financial statements prepared by the CPA firm designated by the Employer; provided, however, that in determining such net income:

(A) net income shall be computed without regard to "extraordinary items" of gain or loss as that term shall be defined by GAAP;

(B) net income shall not include any gains, losses or profits realized from the sale of any assets other than in the ordinary course of business; and

(C) net income will include a deduction for (1) the allocation of reasonable and appropriately documented direct overhead expenses, (2) payment of the commissions pursuant to Section 3(b)(ii), and (3) interest charged on any loans or advances made by Union Bank to the Employer in connection with its business operations at a rate equal to the London Interbank Rate (LIBOR).

(c) Benefits. During the term of the Agreement, the Executive shall be entitled to participate in and receive the benefits of any pension or other retirement benefit plan, profit sharing, stock option, employee stock ownership, or other plans, benefits and privileges given to executives of the Employer, to the extent commensurate with his then duties and responsibilities as fixed by the Board of Directors of the Employer. The Employer reserves the right to modify, add or eliminate benefits for its employees as it deems appropriate.

(d) Business Expenses. The Employer shall reimburse the Executive or otherwise provide for or pay for all reasonable expenses incurred by the Executive in furtherance of, or in connection with the business of the Employer, including, but not by way of limitation, travel expenses, car allowance of not less than $800 per month, and memberships in professional organizations, subject to such reasonable documentation and other limitations as may be established by the Board of Directors of the Employer.

4. Termination and Termination Benefits.

(a) Termination for Cause. The Executive's employment may be terminated for Cause at any time without further liability on the part of the Employer. Only the following shall constitute "Cause" for such termination:

(i) continued failure by the Executive for reasons other than disability to follow reasonable instructions or policies of the Board of Directors of the Employer after being advised in writing of such failure, including specific actions or inaction on the part of the Executive and the particular instruction or policy involved, and being given a reasonable opportunity and period (as determined by the Board of Directors of the Employer) to remedy such failure;

(ii) gross incompetence, gross negligence, willful misconduct in office or breach of a material fiduciary duty owed to the Employer or any Affiliate (as defined in Section 6(b));

(iii) conviction of a felony or a crime of moral turpitude (or a plea of nolo contendere thereto) or commission of an act of embezzlement or fraud against the Employer or any Affiliate;

(iv) any breach by the Executive of a material term of this Agreement, including without limitation material failure to perform a substantial portion of his duties and responsibilities hereunder as established from time to time by the Board of Directors of the Employer;

(v) dishonesty of the Executive with respect to the Employer or any Affiliate; or

(vi) the willful engaging by the Executive in conduct that is demonstrably and materially injurious to the Employer or any Affiliate, monetarily or otherwise, or any conduct deemed by the Board of Directors of the Employer to be immoral or which may bring embarrassment or disrepute to the Employer or any Affiliate.

(b) Termination as a Consequence of Death or Disability. If the Executive dies or becomes disabled during the Employment Period, the Employer will pay the Executive or his estate his Base Salary through the end of the calendar month in which his death or disability occurs. In addition, the Executive and/or his estate shall be entitled to the following:

(i) the Employer shall pay the Executive or his estate commissions for any loans originated by the Executive prior to his death or disability, regardless of their closing date, together with information indicating the manner and basis upon which such commissions were calculated; and

(ii) the Employer shall pay the Executive or his estate any bonuses that would have been paid to the Executive for a period of six (6) months following his death or disability, together with information indicating the manner and basis upon which such bonuses were calculated.

For purposes of this Section 4, the Executive is "disabled" if he is unable to perform the essential functions of his duties and responsibilities hereunder for 120 consecutive days or 180 days during any twelve month period (as determined by the opinion of an independent physician selected by the Board of Directors of the Employer). The Executive must submit to a reasonable number of examinations by the medical doctor making the determination of disability, and the Executive hereby authorizes the disclosure and release to the Employer of such determination and all supporting medical records.

(c) Termination by the Executive. The Executive may terminate his employment hereunder with or without Good Reason (as defined below) by written notice to the Board of Directors of the Employer effective thirty (30) days after receipt of such notice by the Board of Directors. In the event the Executive terminates his employment hereunder for Good Reason, the Executive shall be entitled to the benefits specified in Section 4(d) and the Executive shall not be required to render any further services to the Employer. Upon termination of employment by the Executive without Good Reason, the Executive shall be entitled to no further compensation or benefits under this Agreement. "Good Reason" shall be: (i) the failure by the Employer to comply with the provisions of Section 3 or material breach by the Employer of any other material provision of this Agreement, which failure or breach shall continue for more than sixty (60) days after the date on which the Board of Directors of the Employer receives such written notice; or (ii) the assignment of the Executive without his written consent to a position, responsibilities, or duties of a materially lesser status or degree of responsibility than his position, responsibilities, or duties at the Commencement Date.

(d) Certain Termination Benefits. In the event of termination by the Employer without Cause, or by the Executive with Good Reason, the Executive shall be entitled to the following benefits:

(i) For the period subsequent to the date of termination until the Expiration Date, the Employer shall continue to pay the Executive his Base Salary in effect on the date of termination, such payments to be made on the same periodic dates as salary payments would have been made to the Executive had his employment not been terminated, unless the Employer elects to make a lump sum severance payment in an equivalent amount within thirty (30) days of the date of termination.

(ii) Notwithstanding the foregoing, in the event of termination by the Employer without Cause or by the Executive with Good Reason after a Change of Control (as defined in Section 15) of UBSH or after the Employer ceases to be a direct or indirect wholly-owned subsidiary of UBSH, the Executive shall receive a lump sum severance payment within thirty (30) days of the date of termination in an amount equal to the greater of (A) his then current Base Salary for the period subsequent to the date of termination until the Expiration Date, or (B) his then current Base Salary for two years.

(iii) The Employer shall pay the Executive commissions for any loans originated by the Executive prior to the date of termination, regardless of their closing date, together with information indicating the manner and basis upon which such commissions were calculated.

(iv) For the period subsequent to the date of termination until the Expiration Date, the Employer shall pay the Executive for each calendar year beginning for the year during which his termination occurs and continuing through the Expiration Date (which payment shall be prorated for the year in which the Expiration Date occurs if less than a full year) an amount equal to the average of the Incentive Bonus paid to the Executive for each of the two full years, or such shorter period depending on the length of his employment, immediately preceding the year during which he is terminated. The payments of the Incentive Bonus provided for in this subsection will be paid to the Executive within ninety (90) days following the end of the year to which the Incentive Bonus relates.

(v) For the period subsequent to the date of termination until the Expiration Date, the Executive shall continue to receive health insurance benefits pursuant to plans made available by the Employer to its employees at the expense of the Employer to substantially the same extent the Executive received such benefits on the date of termination (it being acknowledged that the post-termination plans may be different from the plans in effect on the date of termination). For purposes of application of such benefits, the Executive shall be treated as if he had remained in the employ of the Employer, with an annual Base Salary at the rate in effect on the date of termination.

(vi) The Employer's obligation to provide the Executive with health insurance benefits pursuant to Section 4(d)(v) hereof shall terminate with respect to each particular type of insurance in the event the Executive becomes employed and has made available to him in connection with such employment that particular type of insurance, so long as such insurance is substantially similar to the insurance provided by the Employer.

5. Post-Termination Audit Rights. Following receipt of any payment to the Executive or his estate or the related information delivered under Section 4(b)(i), 4(b)(ii), 4(d)(iii) or 4(d)(iv) hereof (each a "Post-Termination Payment"), the Employer shall provide one or more representatives of the Executive or his estate (as the case may be, the "Executive Representative") with an opportunity to audit and review the Employer's books and records. The Executive or his estate (as the case may be) shall then have fifteen (15) days to give notice to the Employer that, based on the review of the Executive Representative, the Executive or his estate has a disagreement ("Disagreement Notice") with Employer regarding the amount of any such Post-Termination Payment and/or the manner or basis upon which any such Post-Termination Payment was calculated. The Executive or his estate and the Employer will use reasonable efforts to resolve between themselves any items of disagreement contained in the Disagreement Notice. If the Employer and the Executive or his estate do not finally resolve any of the objections within fifteen (15) days after the Employer has received the Disagreement Notice, however, the Employer and the Executive or his estate will select, within fifteen (15) days, a nationally or regionally recognized independent accounting firm mutually acceptable to each party (the agreement to the selection of which shall not be unreasonably withheld) to resolve any such differences (the "Arbitrator"). The Arbitrator shall settle any remaining disputed items by selecting the position of the party that the Arbitrator determines, in its sole discretion, to be the most correct, and the fees and expenses of such Arbitrator shall be borne as determined by the Arbitrator. The determination of the Arbitrator shall be set forth in writing, delivered to each of the Employer and the Executive or his estate and shall be final and binding on the parties hereto. Promptly following the delivery of any such determination of the Arbitrator, in the event that the Arbitrator determines that any amount owing to the Executive or his estate under Section 4(b)(i), 4(b)(ii), 4(d)(iii) or 4(d)(iv) hereof exceeds the amount of any Post-Termination Payment paid to the Executive or his estate, the Employer shall promptly pay to the Executive or his estate (as the case may be) the amount of any such difference.

6. Noncompetition and Confidential Information.

(a) Noncompetition and Nonsolicitation. The Executive agrees that during the Employment Period and for a two-year period following the expiration of this Agreement or, if sooner, the termination or cessation of his employment for any reason except as limited in clause (i) below, the Executive will not directly or indirectly, as a principal, agent, employee, employer, investor, co-partner or in any other individual or representative capacity whatsoever: (i) engage in a Competitive Business anywhere in the Market Area (as defined below) in any capacity that includes any of the kinds of responsibilities held or activities engaged in by the Executive while employed with the Employer or any of its Affiliates, provided that the restriction in this clause (i) on engaging in a Competitive Business shall not apply in the event of a termination by the Employer without Cause or a termination by the Executive for Good Reason; (ii) solicit, or assist any other person in soliciting, any customers of the Employer or its Affiliates to borrow money from or become customers of any other company conducting a Competitive Business in the Market Area; (iii) induce any customers of the Employer or its Affiliates to terminate their relationship with the Employer or its Affiliates; or (iv) contact, solicit, or assist in the solicitation of any employee to terminate his or her employment with the Employer or any of its Affiliates. Notwithstanding the foregoing, the Executive may purchase or otherwise acquire up to (but not more than) 1% of any class of securities of any business enterprise (but without otherwise participating in the activities of such enterprise) that engages in a Competitive Business in the Market Area and whose securities are listed on any national or regional securities exchange or have been registered under Section 12 of the Securities Exchange Act of 1934.

(b) Definitions. As used in this Agreement, the term "Competitive Business" means the origination, brokerage, and sale of retail mortgage loans and any additional distinct products and services the Employer may be offering at the date of the Executive's termination of employment; the term "Market Area" means the area within a twenty-five mile radius of each of the Employer's offices in Springfield, Fredericksburg, Norfolk and Woodbridge, Virginia, Frederick and Greenbelt, Maryland, and Myrtle Beach, South Carolina and any other offices that the Employer has established and is continuing to operate at the time of the termination of the Executive's employment; the term "Affiliate" means a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, UBSH; and the term "Person" means any person, partnership, corporation, company, group or other entity.

(c) Confidentiality. During the Employment Period and thereafter, and except as required by any court, supervisory authority or administrative agency or as may be otherwise required by applicable law, the Executive shall not, without the written consent of a person duly authorized by the Employer, disclose to any person (other than his personal attorney, or an employee of the Employer or an Affiliate, or a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Executive of his duties as an employee of the Employer) or utilize in conducting a business any confidential information obtained by him while in the employ of the Employer, unless such information has become a matter of public knowledge at the time of such disclosure.

(d) Acknowledgment; Enforcement. The covenants contained in this Section 6 shall be construed and interpreted in any proceeding to permit their enforcement to the maximum extent permitted by law. The Executive agrees that the restraints imposed herein are necessary for the reasonable and proper protection of the Employer and its Affiliates, and that each and every one of the restraints is reasonable in respect to length of time, geographic area and activities restricted. If, however, the time, geographic and/or scope of activity restrictions set forth in Section 6 are found by an arbitrator or court to be unenforceable because the restrictions are overbroad, the arbitrator or court, as applicable, is empowered and directed to modify the restriction(s) to the extent necessary to make them enforceable. The Executive further acknowledges that damages at law would not be a measurable or adequate remedy for breach of the covenants contained in this Section 6 and, accordingly, the Executive agrees to submit to the equitable jurisdiction of any court of competent jurisdiction in connection with any action to enjoin the Executive from violating any such covenants. All the provisions of this Section 6 will survive termination and expiration of this Agreement.

7. Withholding. All payments required to be made by the Employer hereunder to the Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Employer may reasonably determine should be withheld pursuant to any applicable law or regulation.

8. Certain Terminations. If the Executive terminates his employment under this Agreement without Good Reason (as defined in Section 4(c)) or if the Employer terminates such employment with Cause (as defined in Section 4(a)), then notwithstanding anything to the contrary in this or any other agreement between the parties: (i) the Executive shall forfeit all rights to any benefits under and this Agreement except as required by law to be granted to such a former employee; and (ii) the Executive shall continue to abide by the provisions of Section 6.

9. Arbitration.

(a) Except as provided in Section 9(c) below, the Executive and the Employer acknowledge and agree that any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, shall be settled by binding arbitration unless otherwise required by law, to be held in Fredericksburg, Virginia in accordance with the National Rules for the Resolution of Employment Disputes then in effect of the American Arbitration Association. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction. The party against whom the arbitrator(s) shall render an award shall pay the other party's reasonable attorneys' fees and other reasonable costs and expenses in connection with the enforcement of its rights under this Agreement (including the enforcement of any arbitration award in court), unless and to the extent the arbitrator(s) shall determine that under the circumstances recovery by the prevailing party of all or a part of any such fees and costs and expenses would be unjust.

(b) The arbitrator(s) shall apply Virginia law to the merits of any dispute or claim, without reference to rules of conflicts of law. The Executive hereby consents to the personal jurisdiction of the state and federal courts located in Virginia for any action or proceeding arising from or relating to this Agreement or relating to any arbitration in which the parties are participants.

(c) The parties may apply to any court of competent jurisdiction for a temporary restraining order, preliminary injunction, or other interim or conservatory relief, as necessary, without breach of this arbitration agreement and without abridgment of the powers of the arbitrator.

(d) THE EXECUTIVE HEREBY CONFIRMS HE HAS READ AND UNDERSTANDS THIS SECTION 9, WHICH DISCUSSES ARBITRATION, AND UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, HE AGREES, EXCEPT AS PROVIDED IN SECTION 9(c), TO SUBMIT ANY CLAIMS ARISING OUT OF, RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF TO BINDING ARBITRATION, UNLESS OTHERWISE REQUIRED BY LAW, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF HIS RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF HIS RELATIONSHIP WITH THE EMPLOYER.

10. Assignability. The Employer may assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any corporation, company or other entity with or into which the Employer may hereafter merge or consolidate or to which the Employer may transfer all or substantially all of its assets, if in any such case said corporation, company or other entity shall by operation of law or expressly in writing assume all obligations of the Employer hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or their rights and obligations hereunder. The Executive may not assign or transfer this Agreement or any rights or obligations hereunder.

11. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when sent via regular or certified mail, facsimile, or overnight delivery to the addresses set forth below:

To the Employer:	G. William Beale President Union Bankshares Corporation P. O. Box 446 211 North Main Street Bowling Green, Virginia 22427
To the Executive:	Philip E. Buscemi ____________________ ____________________

12. Amendment; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer or officers as may be specifically designated by the Boards of Directors of the Employer to sign on their behalf. No waiver by any party hereto at any time of any breach by any other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

14. Nature of Obligations. Nothing contained herein shall create or require the Employer to create a trust of any kind to fund any benefits which may be payable hereunder, and to the extent that the Executive acquires a right to receive benefits from the Employer hereunder, such right shall be no greater than the right of any unsecured general creditor of the Employer.

15. Change of Control Defined. For all purposes of this Agreement, a “Change of Control” shall mean:

(a) The acquisition by any Person of beneficial ownership of 20% or more of the then outstanding shares of common stock of UBSH, provided that an acquisition directly from UBSH (excluding an acquisition by virtue of the exercise of a conversion privilege) shall not constitute a Change in Control;

(b) Individuals who constitute the Board of Directors of UBSH on the date of this Agreement (the “Incumbent Board”) cease to constitute a majority of such Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of UBSH (as such terms are used in Rule 14a-11 promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”));

(c) Approval by the shareholders of UBSH of a reorganization, merger, share exchange or consolidation (a “Reorganization”), provided that shareholder approval of a Reorganization will not constitute a Change of Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(i) more than 60% of the then outstanding shares of common stock of the corporation resulting from the Reorganization is beneficially owned by all or substantially all of the former shareholders of UBSH in substantially the same proportions as their ownership existed in UBSH immediately prior to the Reorganization;

(ii) no Person beneficially owns 20% or more of either (1) the then outstanding shares of common stock of the corporation resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors; and

(iii) at least a majority of the members of the board of directors of the corporation resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization.

(d) Approval by the shareholders of UBSH of a complete liquidation or dissolution of UBSH, or of the sale or other disposition of all or substantially all of the assets of UBSH.

(e) For purposes of this Section 15, the term “Person” shall not include any employee benefit plan (or related trust) sponsored or maintained by UBSH or any affiliated company, and “beneficial ownership” has the meaning given the term in Rule 13d-3 under the Exchange Act.

16. No Mitigation. The Executive shall not be required to mitigate the amount of any benefits hereunder by seeking other employment or otherwise, nor shall the amount of any such benefits be reduced by any compensation earned by the Executive as a result of employment by another employer after the Date of Termination or otherwise.

17. Headings. The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

18. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

19. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

(Signatures appear on following page)

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

MORTGAGE CAPITAL INVESTORS, INC.

By: /s/ G. William Beale

G. William Beale
Chairman of the Board

UNION BANKSHARES CORPORATION

By: /s/ G. William Beale

G. William Beale
President

EXECUTIVE

/s/ Philip E. Buscemi

Philip E. Buscemi

Exhibit 21.0

Subsidiaries of Union Bankshares Corporation

Subsidiary	State of Incorporation
Union Bank & Trust Company	Virginia
Northern Neck State Bank	Virginia
Rappahannock National Bank	Federally Chartered
Union Investment Services, Inc.	Virginia
Bank of Williamsburg	Virginia
Mortgage Capital Investors, Inc.	Virginia
Union Insurance Group, Inc.	Virginia

Exhibit 23.1

Consent of Independent Auditors

The Board of Directors
Union Bankshares Corporation

We consent to incorporation by reference in Registration Statements No. 333-102012, No. 333-81199 on Form S-3 and No. 33-99900 on Form S-8 of Union Bankshares Corporation of our report dated January 14, 2004, relating to the consolidated balance sheets of Union Bankshares Corporation and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2003, 2002 and 2001, which report appears in the Company's 2003 Form 10-K.

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

Winchester, Virginia
March 8, 2004

Exhibit 31.1

CERTIFICATIONS

I, G. William Beale, certify that:

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

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

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

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

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

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

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

5. The registrant's other certifying 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: March 8, 2004

/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 annual report on Form 10-K of Union Bankshares Corporation;

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

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

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

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

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

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

5. The registrant's other certifying 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: March 8, 2004

/s/ D. Anthony Peay

D. Anthony Peay
Executive 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 Annual Report of Union Bankshares Corporation (the “Company”) on Form 10-K for the period ending December 31, 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

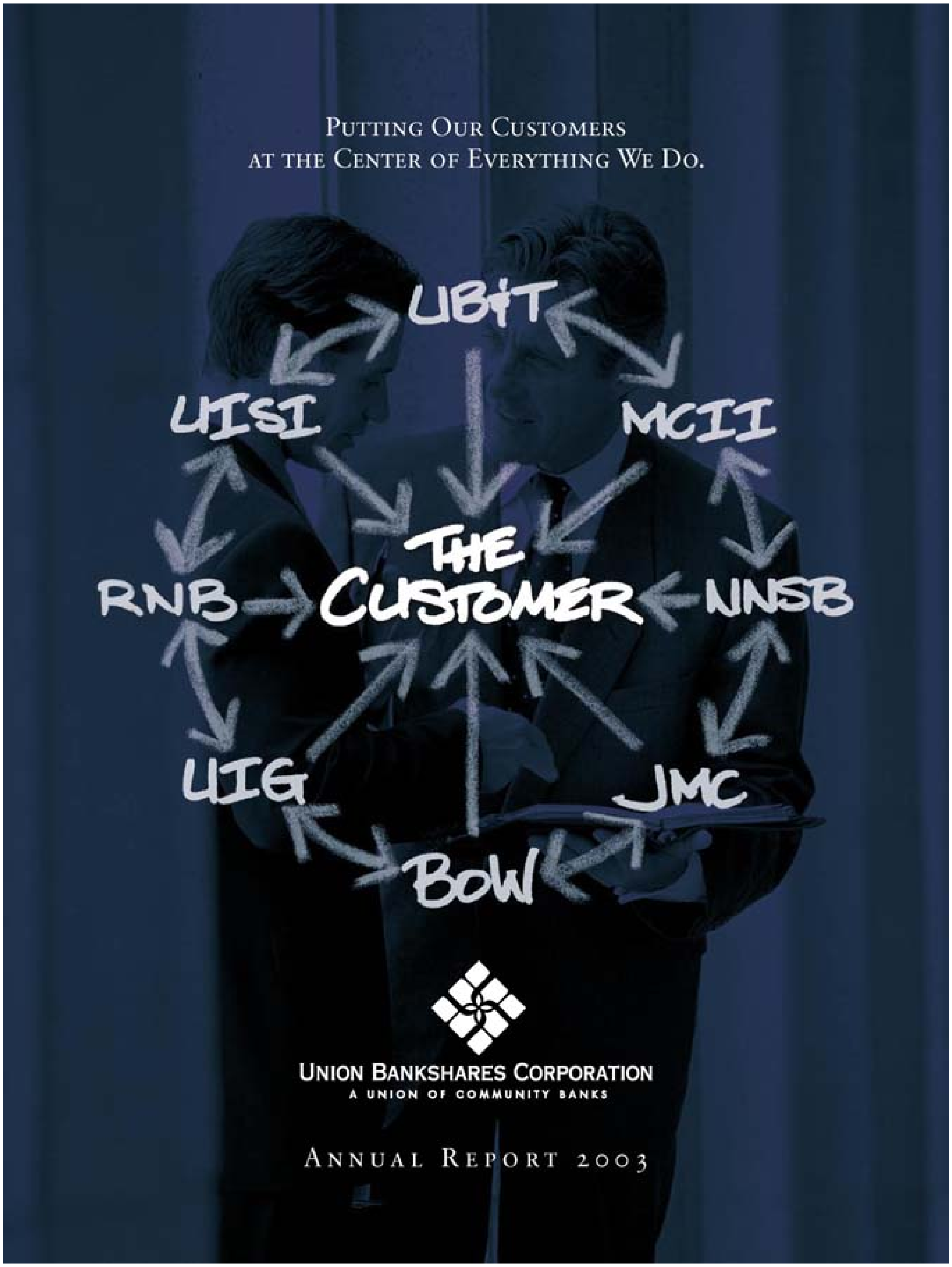
G. William Beale, Chief Executive Officer

/s/ D. Anthony Peay

D. Anthony Peay, Chief Financial Officer

March 8, 2004

Putting Our Customers
at the Center of Everything We Do.



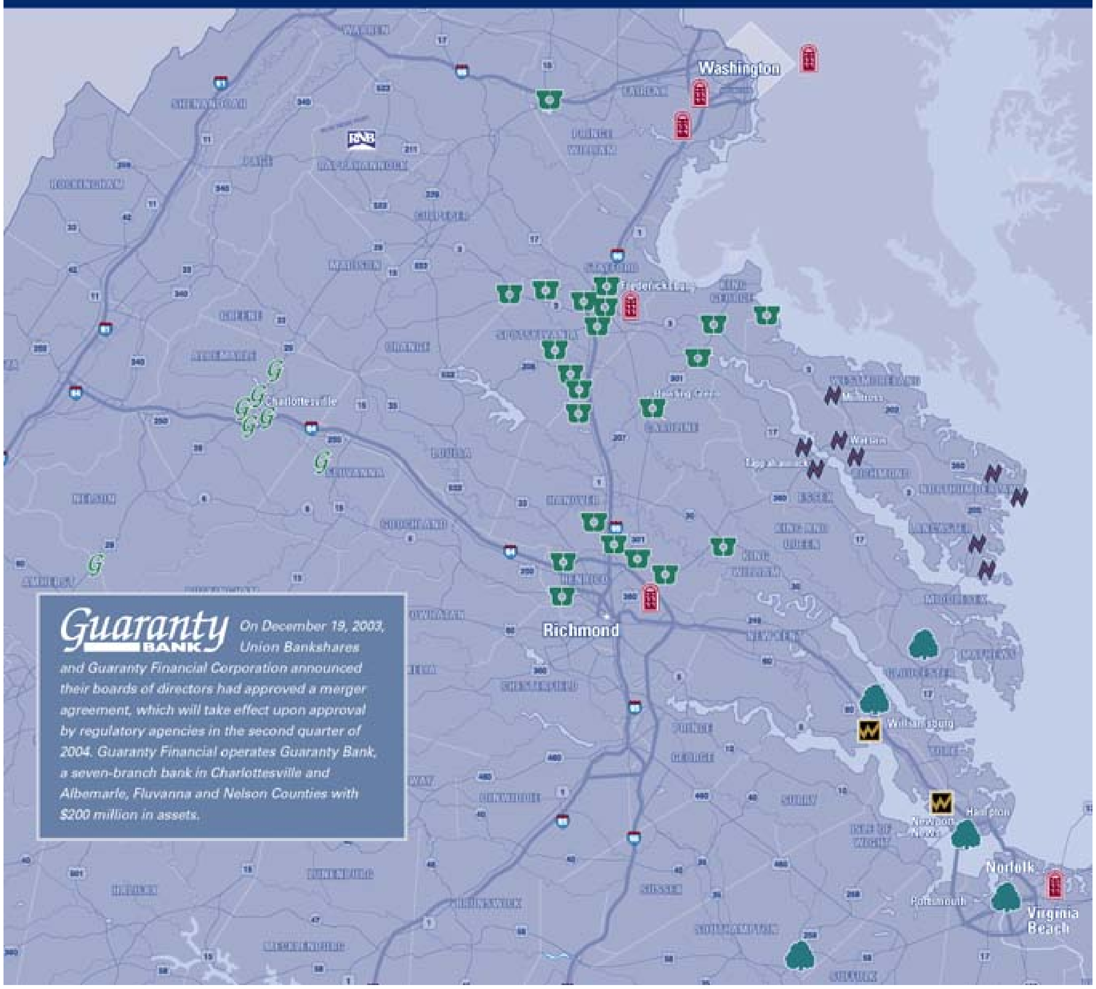
UNION BANKSHARES CORPORATION
A UNION OF COMMUNITY BANKS

ANNUAL REPORT 2003

Union Bankshares Corporation is a $1.3 billion financial services holding company committed to serving consumers and small and mid-sized businesses through community banks and financial services companies.

The companiy's four full-service community banks serve portions of central and Tidewater Virginia. They are Union Bank & Trust Company *(page 5)*, Northern Neck State Bank *(page 6)*, Rappahannock National Bank *(page 9)* and the Bank of Williamsburg *(page 10)*. Each bank is independently operated by local management and boards of directors to ensure community responsiveness. All are members of the Federal Reserve system with deposits insured by the Federal Deposit Insurance Corporation. By consolidating support services for greater efficiency, the banks can profitably deliver high quality products and services that are competitive with the largest banks.

Non-bank affiliates are Mortgage Capital Investors Inc. *(page 9)* and Johnson Mortgage Company LLC *(page 10)*, which offer an array of mortgage products in the banks' markets and other communities; Union Investment Services Inc. *(page 6)*, a full-service brokerage firm and Union Insurance Group LLC *(Page 5)* which offers insurance products through a joint venture.



Guaranty BANK *On December 19, 2003, Union Bankshares and Guaranty Financial Corporation announced their boards of directors had approved a merger agreement, which will take effect upon approval by regulatory agencies in the second quarter of 2004. Guaranty Financial operates Guaranty Bank, a seven-branch bank in Charlottesville and Albemarle, Fluvanna and Nelson Counties with $200 million in assets.*

This relationship wheel illustrates Union Bankshares' strategic concept of providing a broad range of financial services to customers through a network of affiliates.

FINANCIAL HIGHLIGHTS UNION BANKSHARES CORPORATION AND SUBSIDIARIES

	2003	2002	2001	2000	1999
	(dollars in thousands, except per share amounts)				
RESULTS OF OPERATIONS					
Interest income	**$ 67,017**	$ 65,205	$ 65,576	$ 64,867	$ 55,636
Interest expense	**23,905**	24,627	32,483	33,530	27,067
Net interest income	**43,112**	40,578	33,093	31,337	28,569
Provision for loan losses	**2,307**	2,878	2,126	2,101	2,216
Net interest income after provision for loan losses	**40,805**	37,700	30,967	29,236	26,353
Noninterest income	**22,840**	17,538	16,092	12,011	13,246
Noninterest expenses	**40,725**	35,922	32,447	32,424	32,689 [1]
Income before income taxes	**22,920**	19,316	14,612	8,823	6,910
Income tax expense	**6,256**	4,811	2,933	1,223	636
Net income	**$ 16,664**	$ 14,505	$ 11,679	$ 7,600	$ 6,274
KEY PERFORMANCE RATIOS					
Return on average assets (ROA)	**1.42 %**	1.41 %	1.27 %	0.88 %	0.79 %
Return on average equity (ROE)	**14.88 %**	14.91 %	13.55 %	10.69 %	8.74 %
Efficiency ratio	**59.36 %**	58.90 %	62.13 %	71.18 %	74.50 %
PER SHARE DATA					
Net income per share - basic	**$ 2.19**	$ 1.92	$ 1.55	$ 1.01	$ 0.84
Net income per share - diluted	**2.17**	1.90	1.55	1.01	0.83
Cash dividends declared	**0.60**	0.52	0.46	0.40	0.40
Book value at period-end	**15.54**	13.92	11.82	10.42	9.19
FINANCIAL CONDITION					
Total assets	**$ 1,234,732**	$ 1,115,725	$ 983,097	$ 881,961	$ 821,827
Total deposits	**1,000,477**	897,642	784,084	692,472	646,866
Total loans, net of unearned income	**878,267**	714,764	600,164	580,790	543,367
Stockholders' equity	**118,501**	105,492	88,979	78,352	68,794
ASSET QUALITY					
Allowance for loan losses	**$ 11,519**	$ 9,179	$ 7,336	$ 7,389	$ 6,617
Allowance as % of total loans	**1.31 %**	1.28 %	1.22 %	1.27 %	1.22 %
OTHER DATA					
Market value per share at period-end	**$ 30.50**	$ 27.25	$ 16.24	$ 10.25	$ 14.75
Price to earnings ratio	**14.1**	14.3	10.5	10.1	17.6
Price to book value ratio	**196 %**	196 %	137 %	98 %	161 %
Dividend payout ratio	**27.40 %**	27.08 %	29.68 %	39.60 %	42.62 %
Weighted average shares outstanding, basic	**7,602,872**	7,555,906	7,523,566	7,508,238	7,473,869
Weighted average shares outstanding, diluted	**7,675,437**	7,623,169	7,541,572	7,513,000	7,498,000

Dear Fellow Shareholders:

I'm pleased to submit to you a strong 2003 annual report for Union Bankshares Corporation. I could not chronicle all of the successes that contributed to our performance in this space, but our solid Financial Highlights on the previous page and the charts below demonstrate the effectiveness of management's initiatives.

Our Focus: Our Customers

Since the inception of Union Bankshares Corporation, we have worked to build an organization that is focused on meeting the varied financial needs of our customers. The cover and theme of this annual report depict our vision. We are far from finished. We have a platform in place that will enable us to deliver, in the foreseeable future, all of the products or services that our customers need while bringing us a reasonable financial return. To that end, we are making improvements to enhance our "cross company" referral process.

We have had much success increasing the depth of our customer relationships through the offering of investment, mortgage, and banking products. In this report, you can read about a small sample of how we meet the various financial needs of customers across company lines. In particular, we will affirmatively seek out opportunities to further build our menu of financial services by adding wealth management and insurance services.

INITIATIVES

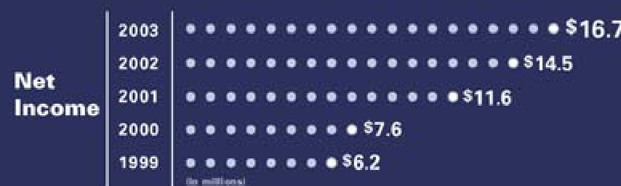
In 2003, we attracted key loan producers to the community banks and built management depth within the parent company. Our nominating committees were able to add board members at all levels of the organization, improving our diversity and our business knowledge, while reflecting our broader reach.

We established a Marine Finance unit based at Northern Neck State Bank, which booked an impressive portfolio of loans to high net worth individuals secured by documented vessels. We expect 2004 will reflect increased growth in this segment.

Our Union Bank & Trust Loan Production Offices (LPOs) located in Manassas and Richmond performed exceptionally well, with a special note of recognition due to the Richmond team of Jim Tyler, Melvin Watkins, and Bonnie TeStrake. The group attracted more than $100 million in new loans during their first year of operation, which is even more impressive considering we did not have a branch location in the market place to support them until late November when our Pouncey Tract office in the far West End of Henrico opened. The response to this location has exceeded our ambitious expectations.

Given our successful efforts in Richmond, we will continue to focus our resources there. We anticipate hiring additional lending staff for the Richmond market in 2004, although we do not anticipate that annual net loan growth will reach the lofty 2003 levels. We are at different stages of construction on three offices in the market and we will continue to seek out additional former bank branch sites to expand our presence there.

"We have a platform in place that will enable us to deliver, in the foreseeable future, all of the products or services that our customers need while bringing us a reasonable financial return." — G. William Beale, President/CEO



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.

Corporate Developments

During 2003, our organization experienced significant changes in its corporate structure. At Union Bankshares, Ron Tillet, Hunter Morin, and Bob Sledd joined our experienced board. Each brings a strong financial background and a diversity of business knowledge to the board. After a combined 64 years of service to our organization and its two largest banks, Ray Piland and Bill Wright, will retire from the parent board at the annual meeting. Management greatly appreciates the support and vision they have offered throughout their service. Union Bank & Trust attracted Bill Webb, Ray Slaughter, and Ginger Stanley to serve on its board. Allen Barber and Morgan Wright were elected to the boards of Bank of Williamsburg and Northern Neck State Bank, respectively.

a statewide banking organization. Guaranty holds the fifth largest market share in Charlottesville after four non-state banks. Our product platforms and sales techniques will allow Guaranty to grow quickly in this dynamic market.

Management Leadership

In January, the Union Bank & Trust Board of Directors promoted John C. Neal from Executive Vice President/ Chief Operating Officer to succeed me as President and Chief Executive Officer. John is a consummate banker; his promotion reflects his many contributions for some time.

Additionally, Denise Togger was named Managing Principal of Union Investments. Her focus will be on growing UISI with an emphasis on service within our ever-growing footprint.

Each board formally adopted written director guidelines (which previously were either verbal understandings or contained in various documents). The guidelines include provisions that require directors to hold and maintain a meaningful financial stake in Union Bankshares, above legal minimums. In addition, each board agreed that a greater portion of annual director compensation would be paid in the form of stock.

Guaranty Financial Merger

We concluded 2003 on a high note. Your board approved a definitive agreement to merge Guaranty Financial of Charlottesville, a $200 million bank with seven branches, into Union Bankshares. Since its inception, the board and management of Union Bankshares have agreed that expansion into Charlottesville was a key step in becoming

In closing, I want to thank Phil Buscemi for his leadership at Mortgage Capital Investors during Kevin Keegan's battle with cancer. Phil was named president and CEO following Mr. Keegan's death. During the transition, MCII managed to post record earnings. Increased mortgage rates will slow loan volume in 2004, but MCII will remain profitable.

Without the guidance and counsel of the board members of the holding company and its subsidiaries, management could not be successful. I want to acknowledge their contributions as well as those of our employees. A final thanks goes to you, our shareholders, for your continued support. Every day we execute our goal of building shareholder value.

William Beale

—G. William Beale, President/CEO

Eli Patrick, president of Purvis Ford, makes a point about good customer service to a willing audience, from left: Mike Torosian, senior vice president, and John C. Neal, president, Union Bank & Trust; Marvin Snoddy, chief financial officer, and Emily Patrick Snelling, vice president, Purvis Ford.

Union Bank & Trust has enjoyed a financial partnership with Eli Patrick and Purvis Ford, one of the top seven Ford dealerships in Virginia, for more than 20 years.

Patrick went to work at 16 as a mechanic's helper with a West Virginia auto dealership. With borrowed tools, he moved to Northern Virginia in 1963 as a mechanic, working his way up through two dealerships "from the grease rack to the front door," as service manager and then used car manager. He joined Purvis in 1972 as used car manager, becoming general manager and part-owner in 1976.

In 1993, Union Bank & Trust helped him buy the company upon the death of the majority owner. Today, Purvis Ford has a line of credit and loans to finance new facilities and real estate through the bank. Through its dealer division, the bank handles customer financing.

Bern Mahon at Union Investment Services handles the company's 401k retirement plan as well as personal investments for Patrick and Purvis' employees.

Patrick and his family bank with Union Bank & Trust, a relationship that includes home mortgages for him and his son. His daughter Emily Patrick Snelling, vice president of Purvis Ford, banks with Union Bank & Trust as does her husband's business.

"It's been a beautiful relationship," Patrick said. "Everything that I own and have, personally and business, I've done through Union Bank & Trust.

"I have Union Bank & Trust tattooed on my chest," he joked.

Union Bank & Trust (UB&T)

Operates 20 full-service banking branches concentrated in the Fredericksburg area (11) and in Hanover (4) and Caroline Counties (3), branches in Henrico and King William Counties, and two loan production offices in Henrico and Prince William Counties.

Net income for the bank set a record for the second consecutive year, demonstrating that Union Bank & Trust has reached a size that makes it possible to grow and maintain profitability.

In its core markets, the bank's growth and profitability was driven by increasing fee income from consumer services and by growth in credit cards—offering a low introductory interest rate—and a home equity line product that combined a below-prime, one-year fixed rate with a variable prime + 0% rate afterward.

"We also continue to benefit from mergers and acquisitions by larger banks that disrupt their customers' banking habits," John C. Neal, president, said. "These mergers also provide a wealth of talented, experienced bankers who join our staff and occasionally an attractive branch location."

The bank also used the expertise of Northern Neck State Bank to enter the marine financing business, by cultivating beneficial relationships with marinas in and near its service areas.

In its expansion markets, "we experienced better growth than anticipated from our Loan Production Office (LPO) in Prince William County, extending into Fairfax and even Loudoun counties, thanks to productive bankers who have joined us there and are well-accepted in the market," Neal said.

The Richmond LPO, which will become a full-service branch in spring 2004, established a strong foothold in the Richmond market without branch support. The Pouncey Tract branch opened late in the year in western Henrico. It was productive from the start, serving existing customers who work in the Innsbrook and Short Pump areas.

Looking ahead, Neal sees the challenge as managing a "shrinking interest margin in 2004, but we have excellent products and people who allow us to be extremely competitive with the larger banks and give us the opportunity to increase marketshare."

To capitalize on those opportunities, the bank has purchased sites for two new branches in eastern Hanover and two former branch banks in Chesterfield County. All four full-service branches will open this year. The bank plans to identify several more branch locations in the Richmond area by the end of 2004.

Union Insurance Group (UIG)

Will operate through branches of the member banks.

The potential for insurance as part of the portfolio of financial services that Union Bankshares offers has been recognized for some time. The corporation energized this concept in 2003 through investment in the Bankers Insurance LLC and will begin marketing its products more aggressively starting in 2004.

"While customers still like to buy investments and insurance from an individual they know and trust, increasingly they are seeking advisors who are affiliated with solid institutions with greater longevity than any individual," Myles W. H. Gaythwaite, executive vice president of Union Bankshares, said.

The trust that community banks enjoy with their customers, "creates a terrific opportunity to provide them with additional necessary financial services, like insurance," he added.

Union Insurance Group will add experienced insurance advisors during the year and make its services available through branches of all the corporation's banks as that recruitment process permits.

Northern Neck State Bank (NNSB)

Operator of nine full-service branches in the Northern Neck and Essex County .

In 2003, Northern Neck State Bank's net income was the best in its 97-year history—for the second year in a row — and represented a 14% increase over 2002. "We enjoyed strong growth in deposits, loans and assets as well as profitability," N. Byrd Newton, president of the bank, commented.

To generate above market-average growth, the bank must develop new initiatives. In 2003, it launched a marine financing effort throughout the Chesapeake Bay region for yachts worth in excess of $100,000. The bank exceeded its marine financing goal and this new segment now accounts for more than 10% of all loans. That is a significant percent of loan activity for NNSB because it does its own mortgage lending as well as typical bank lending.

"Our goals for 2004 include exceeding $300 million in assets," Newton said, looking forward. "Specifically, we intend to double our volume of marine financing during this year."

NNSB put a new organizational structure in place in 2003 to make the best use of its experienced bankers by relieving them of routine duties, allowing them to focus on the needs of their customers.

"From a competitive standpoint, we offer superior products compared to the other banks in our market. Our experienced people, coupled with attractive products, put us in a strong position to build our market share even further with an aggressive marketing campaign," Newton said.

The focus of our efforts will be on increasing non-interest income. In that connection, the bank's relationship with Union Investment Services is "helpful" in meeting a broader range of customer needs, he added.

Union Investment Services (UISI)

Union Investments provides brokerage services through the branches of all of Union Bankshares community banks, primarily to customers of those banks. Four Financial Advisors manage more than $175 million for clients.

After three years of depressing performance, the stock markets rallied dramatically in 2003. The combination of low interest rates and minimal inflation spurred accelerated economic growth, and Union Investments has benefited from increased investor confidence.

"We have experienced proportional growth in assets under management, as more and more investors are warming to the equity markets again," Bern Mahon, president, commented. In spite of the recent rally, the equity indexes remain below the highs reached in March of 2000, he noted.

The media was filled with negative financial news, especially about mutual fund issues, and investors' faith and trust were shaken badly. "We recognize that, unfortunately, the actions of a few individuals can put a cloud over an entire organization or entire industry. We welcome changes that will restore investor confidence and potentially prevent further abuses. We believe that the mutual fund industry is still healthy and capable of meeting investors' long-term objectives," Mahon said.

In 2003, Union Investments reached a milestone of serving investors for more than 10 years. It continued to add new client relationships, with the largest percentage growth in the high net worth area.

"We remain committed to providing unparalleled personal service and prudent advice regarding investment planning and to expanding our wealth management capabilities and our footprint," Denise Togger, managing principal of Union Investments, said of 2004. "Our experienced Financial Advisors are capable of helping clients achieve their financial goals. They work closely with representatives of the banks to help customers, and are available to meet at local branches. We continue to look for qualified and talented advisors to expand our team," she said.

"Retired" is not exactly the right word for Thomas H. Thompson Jr. *A native of Kinsale, he worked as a farmer and waterman until he took a job with Merck & Co. and moved to Philadelphia when he was 27.*

After 30 years in quality control of the formulas for making Merck's various pharmaceuticals, he took his retirement in a lump sum and returned home in 1994, but not to take it easy.

He built a home in Hague and also found a financial partner. Over the years, Thompson has added six parcels of land to his property until today he farms 115 acres. Northern Neck State Bank financed those additional acquisitions, as well as the farm tractor and machinery to make it productive.

Thompson's retirement went into an IRA at the bank and into investments that Union Investment Services Inc. helped him select.

More recently, Thompson's son has bought a parcel of land and his daughter purchased three parcels nearby, all with help from the bank.

Thomas H. Thompson Jr. of Hague, center, financed his farm tractor and manages most of his farm and personal financial dealings with Byrd Newton, president of Northern Neck State Bank, left, and Bern Mahon, president of Union Investment Services.

Stefanie Shaw prepares to serve up a sandwich to go from Burgers N' Things in Sperryville. Looking on from left are her husband and business partner, Ricky Shaw, Philip E. Buscemi, president of Mortgage Capital Investors and Michael T. Leake, president of Rappahannock National Bank.

Ricky and Stefanie Shaw are a young entrepreneurial couple *who partly own and operate two family businesses with the help of a close relationship with a strong community bank as a financial partner — Rappahannock National Bank.*

Ricky and his father, James Shaw, operate Shaw's Services, an auto repair shop. Stefanie and Ricky and her parents, Steve and Becky Butler, operate Burgers N' Things, a fast-food take-out restaurant. The businesses are next door to each other in Sperryville, about five miles from the bank.

Rappahannock National is focused on providing financial support to its communities and the Shaws are a great example of how the bank's relationship with Union Bankshares can work for them.

"Everything we've ever wanted, Mike has always helped us," Ricky Shaw said of Mike Leake, president of the bank. The two have been friends since childhood. "He helped us get started in our business."

In addition to being the personal bank for the Shaws and the Butlers, Rappahannock National provides transaction account services and financing assistance to both of their businesses. And, when Ricky and Stefanie Shaw wanted to refinance their home last year to take advantage of historic low interest rates, Mike Leake knew just how to help. He called in Mortgage Capital Investors to handle their mortgage quickly and painlessly.

Rappahannock National Bank (RNB)

After more than 100 years on the same site, the bank moved from historic downtown "Little" Washington, county seat of picturesque Rappahannock County, to a modern spacious banking center a half mile away on the main highway.

It was a tough act to follow, but 2003 proved to be another successful year for Rappahannock National Bank. In September 2002, Rappahannock National Bank celebrated its 100th anniversary. It has the second oldest national bank charter in Virginia. A year later, it celebrated the opening of its new headquarters.

"The new banking center solidifies our roots in this community for the next century," Michael T. Leake, president of the bank, said. "It provides conveniences and services that our customers have not been accustomed to, which has resulted in more than 200 new accounts since our move." The bank now offers drive-through banking and 24-hour banking, services urban and suburban bank customers have long taken for granted.

In addition to opening a new headquarters, the bank's assets grew to nearly $47 million, up 15% from the prior year.

"With the hiring of a new seasoned lender in June and the commitment to be the first referral source among local REALTORS and real estate attorneys, our loan portfolio has experienced the most dramatic growth in the bank's history—a 79% increase—without sacrificing credit quality," Leake said.

The growth has come from its primary market, Rappahannock County, and was due to "our commitment to ensure the institution is meeting the financial needs of all of its customers," he said.

What's next for this youthful 101-year-old? "It's time to start planning our next location," Leake said, "to serve additional customers in the surrounding area."

Mortgage Capital Investors (MCII)

Mortgage Capital Investors, based in Springfield, operates through seven full service mortgage production offices in Fredericksburg, Lake Ridge, Springfield and Virginia Beach and in Greenbelt and Frederick, MD, and Myrtle Beach, SC. There are satellite facilities in Mechanicsville and Hagerstown, MD. Mortgage Capital provides mortgage-lending services to all the branches of Union Bank & Trust, Northern Neck State Bank and Rappahannock National Bank.

Mortgage Capital Investors (MCII) is coming off the best year in its 17-year history. The mortgage market was indeed a great business to be in for 2003. The industry did over $3 trillion in mortgages with refinances making up over 50% of that volume.

"Our profits were stellar and that momentum will be needed to get us through the first quarter of 2004, which historically is not a strong quarter for mortgages," Philip E. Buscemi, president, said in looking forward.

"We expect a significant drop in refinance volume during 2004 and it will be challenging to get our fair share of volume as the industry shrinks to an expected total of $1.5 trillion in volume for 2004," he said.

MCII expects to add offices in Charlottesville, related to the Guaranty Bank merger, and Richmond during 2004 as well as focus its resources on solicitations of past customers. The company is also increasing its selection of loan products and expanding its builder and REALTOR relationships.

"We would like to thank our employees for a great 2003," Buscemi said. "We know we can count on their experience and effort in a tougher marketplace this year."

Bank of Williamsburg (BOW)

This bank operates two branches, one in Williamsburg and one adjoining the Oyster Point Town Center development in Newport News.

Bank of Williamsburg opened its second location in April of 2003, moving a successful loan production office (LPO) into spacious new quarters adjoining the Oyster Point Business Park in Newport News.

After doubling in size—assets, employees and offices—in 2002, the bank continued to grow rapidly, from $51 million to $68 million in assets, a 33% jump.

"Best of all, it was profitable growth," Robert L. Bailey, president of the bank noted. "Our net income increased nearly four times over the previous year—a 370% increase."

The Newport News office enabled the bank to grow in customers and deposits, but loans also grew in all categories—small business, consumer, real estate and construction, Bailey said. "The asset quality of the loans continues to be good."

"Our relationship with Johnson Mortgage Company (JMC) continues to benefit us," Bailey said. In late 2002, the bank purchased a 51% interest in JMC, which has five locations in Tidewater Virginia. JMC has proven to be a great referral source for construction and bridge financing loans and for home equity loans to enable buyers to qualify for a permanent mortgage. His comments were a mirror reflection of those by Allen Barber, president of Johnson Mortgage Company LLC (below).

The bank plans to continue its expansion efforts by adding more skilled community bankers to its staff.

10 Johnson Mortgage (JMC)

Operates five mortgage lending offices in Tidewater Virginia, in Franklin, Gloucester, Newport News, Portsmouth and Williamsburg.

"We had the biggest year in our history in 2003—more than $100 million in mortgages generated," Allen Barber, president of Johnson Mortgage, said. "It was also our first full year as a part of Union Bankshares, working in partnership with the Bank of Williamsburg."

That partnership certainly contributed to the record year, he said, but the overall economic situation played an even bigger role. So, what's the outlook for 2004?

"Challenging," Barber said. "The national forecast is that mortgage activity will be only 50% of what it was in 2003, but at that rate, it would still be the fourth best year in mortgage banking history."

The focus of the business will likely change this year from refinancing, as interest rates creep up slightly, to more purchase business, he added. The partnership with Bank of Williamsburg may play an even bigger role than the economy.

"It's mutually beneficial. As the bank grows, we benefit and we help the bank grow," he said. "So far, it has worked exactly as Morris Johnson, my partner and founder of JMC, and I hoped it would."

Bank of Williamsburg provides all the financing homebuyers need—construction, bridge loans and home equity loans—except the mortgage. JMC provides permanent mortgages, so customers benefit from being able to go to a single source for their home financing needs.

"We'll meet customers at the bank as well as in our offices or often times the (BOW) banker will meet us in our offices. It really is convenient for the customer," Barber commented.

Brian Hubbard is an entrepreneur. *He needs financial partners who are of that mindset. He found them at Bank of Williamsburg and Johnson Mortgage.*

His main business, Rebatt, started when he recognized an opportunity to purchase and recycle AA batteries from disposable cameras. After just 24 flashes, these batteries had most of their useful life remaining. Today, Rebatt recycles more than a million AA batteries a year! It sells them through various retailers nationwide.

Rebatt has extensive relationships with Bank of Williamsburg. In addition to a business checking account, Rebatt has lines of credit, mortgages and truck financing. Some of the loans would be too big for Bank of Williamsburg to handle alone, but it has used the lending capacity and resources of Union Bank & Trust. Hubbard has also used the services of Johnson Mortgage Co., which refinanced his home recently.

A footnote. Because Hubbard was so satisfied with its services, he recommended Bank of Williamsburg to his parents and their business—Hubbard Bros. Tree Service. When Hurricane Isabel hit last fall, it knocked down thousands of trees in Tidewater, Hubbard Bros. responded to the community's need by adding more crews. This created a sudden demand for working capital as homeowners had to wait for insurance claims to be processed to pay.

"Call Bob Bailey over at Bank of Williamsburg," Hubbard suggested to his folks. Hubbard Bros. Tree Service had its working capital line of credit in less than 24 hours. And Bank of Williamsburg had more new commercial business than just a single loan.

Brian Hubbard, left, is building his Robatt business on recycling AA batteries with the help of Allen Barber, center, president of Johnson Mortgage Co., and Bob Bailey, president of the Bank of Williamsburg.

Union Bankshares Board of Directors

First row, from left,
William M. Wright,
G. William Beale,
Ronald L. Hicks,
M. Raymond Piland III,
Walton Mahon
and Ronald L. Tillett.
Second row,
Frank B. Bradley III,
A.D. Whitaker,
W. Tayloe Murphy Jr.
and Robert C. Sledd.
Not pictured,
R. Hunter Morin

Stock Performance

Union Bankshares Corporation's commitment to the community extends beyond the typical corporate donations and contributions. Its employees give their time and energy to a significant number of volunteer groups and worthwhile causes and, typically, the corporation's donations are committed where its people are involved.

In Memoriam


Kevin Keegan

During 2003, several of our employees and family members were diagnosed with cancer. Three of them—Joyce Otto, manager of the Manquin branch, and Nancy Hahn, business development officer in Fredericksburg, both with Union Bank & Trust, and Kevin Keegan, president of Mortgage Capital Investors—passed away last year.

In an organization that prides itself on teamwork and relationships, this had a significant impact. Employees raised more than $5,000 in pledges for the annual Cancer Society's Relay for Life Walk. Then, in a show of support for their affected co-workers, several executives committed to shave their heads if an additional $4,000 was raised. Employees dug deep in their own pockets and donated nearly $7,000 in three days, bringing the total contribution to $12,000. That prompted the executives to gladly part with their locks.

CORPORATE HEADQUARTERS

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Bowling Green, Virginia 22427-0446
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Fax: (804) 633-1800
Website: www.ubsh.com

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 3:00 p.m. on Tuesday, April 20, 2004, at the Riverside Conference Center, Fredericksburg, Virginia. All shareholders are cordially invited to attend.

COMMON STOCK

Union Bankshares' Common Stock is quoted on the NASDAQ National Market where our symbol is UBSH. (CUSIP # 905399101)

TRANSFER AGENT

Shareholders seeking information on stock transfer requirements, lost certificates, dividends and other shareholder matters should contact our transfer agent:

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948
e-mail: info@rtco.com
web site: www.rtco.com

INDEPENDENT AUDITORS

Yount, Hyde & Barbour, P.C.
50 South Cameron Street
Winchester, VA 22601

CUSTOMER INVESTMENT PROGRAM

Existing or new stockholders of record who are customers of Union Bankshares' subsidiaries may now make monthly purchases of the Corporation's stock directly from an account at any of its affiliate banks without payment of any fees or broker's commissions. For more information, contact Investor Relations.

DIVIDEND REINVESTMENT PLAN

Union Bankshares' Dividend Reinvestment Plan provides each registered shareholder with an economical and convenient method of investing cash dividends in additional shares of the Company's common stock without fees and at a 5% discount from the prevailing market price. For a prospectus on the Dividend Reinvestment Plan, contact our Transfer Agent at the address indicated at left.

INVESTOR RELATIONS

Union Bankshares' Annual Report, Form 10-K, and other corporate publications are on the internet at www.ubsh.com or available to shareholders on request, without charge, by writing:

D. Anthony Peay
Executive Vice President and Chief Financial Officer
Union Bankshares Corporation
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(804) 632-2112 e-mail: tpeay@ubsh.com

UNION BANKSHARES CORPORATION
A UNION OF COMMUNITY BANKS

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