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, 2005

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

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. Employer Identification No.)**

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

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

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 (§ 229.405 of this chapter) 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (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, 2005 was approximately $311,565,733.

The number of shares of common stock outstanding as of February 14, 2006 was 8,799,892.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be used in conjunction with the registrant's 2006 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

UNION BANKSHARES CORPORATION
FORM 10-K
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PART I

Item 1. – Business

GENERAL

Union Bankshares Corporation (the “Company”) is a multi-bank holding company organized under Virginia law 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. The Company’s Community Banks and non-bank financial services affiliates are:

Community Banks

Union Bank and 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.	Annandale, 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. In connection with the merger, Union Bank & Trust Company (“Union Bank”) and Northern Neck State Bank became wholly owned bank subsidiaries of Union. Union Bankshares Corporation. Although the Company was formed in 1993, The Community Banks are among the oldest in Virginia. Union Bank and Rappahannock National Bank began business in 1902 and Northern Neck State Bank dates back to 1907. 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, King George State Bank was merged into Union Bank and ceased to be a subsidiary bank. The Company acquired Guaranty Financial Corporation and its wholly owned subsidiary, Guaranty Bank (“Guaranty”) on May 1, 2004 operating it as a separate subsidiary until September 13, 2004, when the operations of Guaranty were merged with and into the Company’s largest subsidiary, Union Bank.

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, as well as 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 is one of the largest community banking organizations based in Virginia, providing full service banking to the Central, Rappahannock, Williamsburg and Northern Neck regions of Virginia through 45 locations of its bank subsidiaries. Union Bank currently has 32 locations in the counties of Albemarle, Caroline, Chesterfield, Fluvanna, Hanover, Henrico, King George, King William, Nelson, Spotsylvania, Stafford, Westmoreland and the Cities of Charlottesville and Fredericksburg; Northern Neck State Bank has nine locations in the counties of Essex, Lancaster, Northumberland, Richmond and Westmoreland; Rappahannock National Bank in Washington, Virginia and Bank of Williamsburg, has two locations in Williamsburg and one in Newport News. Effective March 6, 2006, Bank of Williamsburg

will change its name to Bay Community Bank. Addtionally, Union Bank operates a loan production office in Manassas.

The Company provides other financial services through its non-bank affiliates, Union Investment Services, Inc., Mortgage Capital Investors, Inc. ("MCII") and Union Insurance Group, LLC. The Bank of Williamsburg also owns a non-controlling interest in Johnson Mortgage Company, LLC.

Union Investment Services has provided securities, brokerage and investment advisory services since its formation in February 1993. It has five offices within the Community Banks trade area. 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, Inc." a mortgage loan brokerage company headquartered in Springfield, Virginia, by merger of CMK Corporation into MCII, later to become a wholly owned subsidiary of Union Bank. MCII has nine offices located in Virginia (five), Maryland (three) and South Carolina (one), and is also licensed to do business in Washington, D.C. It 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 large insurance agency 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.

The Company had assets of $1.8 billion, deposits of $1.5 billion and stockholders' equity of $179.4 million at December 31, 2005. The Community Banks ranged in asset size from $72.7 million to $1.3 billion at December 31, 2005.

SEGMENTS

The Company has two reportable segments: its traditional full service community banking business and its mortgage loan origination business, each as described above. For more financial data and other information about each of the Company's operating segments, refer to the "Management's Discussion and Analysis of Financial Condition and Result of Operations" section, "Community Bank Segment" and to Note 18 "Segment Reporting" in the "Notes to Consolidated Financial Statements".

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 and purchases of former bank branch facilities. The Company generally considers acquisitions of companies in strong growth markets or with unique products or services that will 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, debt or a combination thereof. The amount and type of consideration and deal charges paid could have a dilutive short-term effect on the Company's earnings per share or book value. However, cost savings and revenue enhancements are anticipated to provide long-term economic benefit to the Company.

During 2005 and 2004, the Company opened six branches in the greater Richmond market, one branch in 2005 and five branches in 2004. These branches compliment the existing operations and further the

Company's expansion into the Richmond market. During 2005, the Company opened another branch in Williamsburg, Virginia, bringing the Company's total branch network in that market to three. The Company entered the Charlottesville, Virginia market when the Company acquired Guaranty on May 1, 2004, which operated as a separate subsidiary until September 13, 2004. Thereafter, the operations of Guaranty were merged with and into the Company's largest subsidiary, Union Bank.

On October 31, 2005, the Company announced the signing of a definitive agreement, pursuant to which it will acquire Prosperity Bank and Trust Company ("Prosperity") in an all cash transaction valued at $36 million. Prosperity, with nearly $130 million in assets, operates three offices in Springfield, Virginia, located in affluent Fairfax County, a suburb of Washington, D.C. Upon completion of the transaction, the Company will have total assets exceeding $2 billion. The acquisition is expected to close on or about April 1, 2006 with back office data conversion scheduled for September 2006.

EMPLOYEES

As of December 31, 2005, the Company had 589 full-time equivalent employees, 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 is 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, credit unions and other independent community banks, as well as credit unions, consumer finance companies, mortgage companies, loan production 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 various factors including 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. The Company's non-bank financial services affiliates also operate in highly competitive environments.

The Company is headquartered in Bowling Green, Virginia and is one of the largest independent bank holding companies 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. The Company's deposit market share in Virginia was 1.28% and 0.86 % as June 2005 and 2004, respectively. The increase of 42 basis points is largely a result of the 2004 Guaranty acquisition and the Company's penetration in existing and new markets within the state.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively and increasingly regulated under both federal and state law. The following description briefly addresses certain provisions of federal and state laws as well as certain regulations and proposed regulations along with 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”). The Federal Reserve 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. The Company has no plans to branch outside of the Commonwealth of Virginia.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy. Collectively, these 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 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 such depository institutions.

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. 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, 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 Community 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, 2005 were 10.97% and 12.14%, 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 adjusted 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, 2005, was 9.09%, which is above the minimum requirements. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Limits on Dividends and Other Payments

The Company is a legal entity, separate and distinct from its subsidiary institutions. 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. Non-bank subsidiaries pay the parent company dividends periodically on a non-regulated 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, loan operations, deposit operations, 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 estimated 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 and the SCC, except for Rappahannock National Bank, which is examined by the OCC and SCC. The various laws and regulations administered by the regulatory agencies affect corporate practices, such as the payment of dividends, incurrence 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 up to ten assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility. Many of the banks' competitors, such as credit unions, are not subject to the requirements of CRA.

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 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 2005, the Company paid only the base assessment rate for "well capitalized" institutions which amounted to $182 thousand 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 Community Banks each meet the definition of being "well capitalized" as of December 31, 2005.

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 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 (“SEC”). 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 practicable after the Company files such documents with the SEC. The Company’s filings are also available through the SEC’s website at *www.sec.gov*.

USA Patriot Act of 2001

In October, 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania and Northern Virginia which occurred on September 11, 2001. The Patriot Act is intended is to strengthen U.S. law enforcements’ and the intelligence communities’ abilities to work cohesively to combat terrorism on a variety of fronts. The continuing and potential impact of the Patriot Act and related regulations and policies on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws, and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Check 21

On October 28, 2003, President Bush signed into law the Check Clearing for the 21st Century Act, also known as Check 21. Check 21 gives “substitute checks,” such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions of Check 21 include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring recrediting of funds to an individual’s account on the next business day after a consumer proves that the financial institution has erred.

This legislation will likely affect capital spending as many financial institutions assess whether technological or operational changes are necessary to stay competitive and take advantage of the new opportunities presented by Check 21.

Effect of Governmental Monetary Policies

The Company's operations are affected not only by general economic conditions, but also by the policies of various regulatory authorities. In particular, the Federal Reserve regulates money and credit conditions and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits, and affect interest rates charged on loans or paid for time and savings deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future. We are unable to predict the effect of possible changes in monetary policies upon the future operating results of the Company.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation's financial institutions. The Company cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which the Company's business may be affected by any new regulation or statute.

Item 1A. – Risk Factors

General economic conditions, either national or within the Company's local markets.

The Company is affected by general economic conditions in the United States and the local markets within which it operates. An economic downturn within the Company's footprint or the nation as a whole. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond the Company's control could negatively impact the growth rate of loans (including mortgage originations) and deposits, the quality of the loan portfolio, loan and deposit pricing and other key drivers of the Company's business. Such negative developments could adversely impact the Company's financial condition and performance.

Changes in interest rates could affect the Company's income and cashflows.

The Company's income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and the policies of various governmental and regulatory agencies (in particular, the FRB). Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. The impact of these changes may be magnified if the Company does not effectively manage the relative sensitivity of its assets and liabilities to changes in market interest rates. Fluctuations in these areas may adversely affect the Company and its shareholders. Community banks are often at a competitive disadvantage in managing their cost of funds compared to the large regional, super-regional or national banks that have access to the national and international capital markets.

The Company generally seeks to maintain a neutral position in terms of the volume of assets and liabilities that mature or re-price during any period, so that it may reasonably maintain its net interest margin; however, interest rate fluctuations, loan prepayments, loan production and deposit flows are constantly changing and influence the ability to maintain a neutral position. Generally speaking, the Company's earnings will be more sensitive to fluctuations in interest rates the greater the variance in volume of assets and liabilities that mature and re-price in any period. The extent and duration of the sensitivity will depend on the cumulative variance over time, the velocity and direction of interest rates, and whether the Company is more asset sensitive or liability sensitive. Accordingly, the Company may not be successful in maintaining a neutral position and, as a result, the Company's net interest margin may be impacted.

The Company faces substantial competition that could adversely affect the Company's growth and/or operating results.

The Company operates in a competitive market for financial services and faces intense competition from other financial institutions both in making loans and in attracting deposits. Many of these financial institutions have been in business for many years, are significantly larger, have established customer bases, and have greater financial resources and lending limits.

The inability of the Company to successfully manage its growth or implement its growth strategy may adversely affect the result of operations and financial conditions.

The Company may not be able to successfully implement its growth strategy if unable to identify attractive markets, locations or opportunities to expand in the future. The ability to manage growth successfully also depends on whether the Company can maintain capital levels adequate to support its growth, maintain cost controls, asset quality and successfully integrate any businesses acquired into the organization.

As the Company continues to implement its growth strategy by opening new branches or acquiring branches or banks, it expects to incur increased personnel, occupancy and other operating expenses. In the case of new branches, the Company must absorb those higher expenses while it begins to generate new deposits, and there is a further time lag involved in redeploying new deposits into attractively priced loans and other higher yielding earning assets. Thus, the Company's plans to branch could depress earnings in the short run, even if it efficiently executes a branching strategy leading to long-term financial benefits.

Difficulties in combining the operations of acquired entities with the Company's own operations may prevent the Company from achieving the expected benefits from acquisitions.

The Company may not be able to achieve fully the strategic objectives and operating efficiencies in an acquisition. Inherent uncertainties exist in integrating the operations of an acquired entity. In addition, the markets and industries in which the Company and its potential acquisition targets operate are highly competitive. The Company may lose customers or the customers of acquired entities as a result of an acquisition. The Company also may lose key personnel, either from the acquired entity or from itself, as a result of an acquisition. These factors could contribute to the Company not achieving the expected benefits from its acquisitions within desired time frames, if at all. Future business acquisitions could be material to the Company and it may issue additional shares of common stock to pay for those acquisitions, which would dilute current shareholders' ownership interest. Acquisitions also could require the Company to use substantial cash or other liquid assets or to incur debt. In those events, it could become more susceptible to economic downturns and competitive pressures.

The Company exposure to operational risk may adversely affect the Company.

Similar to other financial institutions, the Company is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

The Company's dependency on its management team and the unexpected loss of any of those personnel could adversely affect operations.

The Company is a customer-focused and relationship-driven organization. Future growth is expected to be driven by a large part in the relationships maintained with customers. While the Company has assembled an experienced management team, is building the depth of that team and has management development plans in place, the unexpected loss of key employees could have a material adverse effect on the Company's business and may result in lower revenues, reducing earnings.

The Company's concentration in loans secured by real estate may adversely impact earnings due to changes in the real estate markets.

The Company offers a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Many of the Company's loans are secured by real estate (both residential and commercial) in the Company's market area. A major change in the real estate market, resulting in deterioration in the value of this collateral, or in the local or national economy, could adversely affect the customers' ability to pay these loans, which in turn could impact the Company. Risk of loan defaults and foreclosures are unavoidable in the banking industry, and the Company tries to limit its exposure to this risk by monitoring extensions of credit carefully. The Company cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

If the Company's allowance for loan losses becomes inadequate, the results of operations may be adversely affected.

The Company maintains an allowance for loan losses that it believes is a reasonable estimate of known and inherent losses within the loan portfolio. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with the Company. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond the Company's control, and these losses may exceed current estimates. Rapidly growing loan portfolios are, by their nature, unseasoned. As a result, estimating loan loss allowances is more difficult, and may be more susceptible to changes in estimates, and to losses exceeding estimates, than more seasoned portfolios. Although the Company believes the allowance for loan losses is a reasonable estimate of known and inherent losses in the loan portfolio, it cannot fully predict such losses or that loan the loss allowance will be adequate in the future. Excessive loan losses could have a material impact on financial performance. Consistent with the loan loss reserve methodology, the Company expects to make additions to the loan loss reserve levels as a result of its growth strategy, which may affect the Company's short-term earnings.

Federal and state regulators periodically review the allowance for loan losses and may require the Company to increase its provision for loan losses or recognize further loan charge-offs, based on judgments different than those of management. Any increase in the amount of the provision or loans charged-off as required by these regulatory agencies could have a negative effect on the Company's operating results.

Legislative or regulatory changes or actions, or significant litigation, could adversely impact the Company or the businesses in which the Company is engaged.

The Company is subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of its operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact the Company or its ability to increase the value of its business. Additionally, actions by regulatory agencies or significant litigation against the Company could cause it to devote significant time and resources to defending itself and may lead to penalties that materially affect the Company and its shareholders. Future changes in the laws or regulations or their interpretations or enforcement could be materially adverse to the Company and its shareholders.

Changes in accounting standards could impact reported earnings.

The accounting standard setters, including the FASB, SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of the Company's consolidated financial statements. These changes can be hard to predict and can materially impact how it records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

Item 1B. – Unresolved Staff Comments

The Company does not have any unresolved staff comments to report for the year ended December 31, 2005.

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. In addition to the properties listed below, the Company is developing plans for the acquisition of land and construction of a new operations center in nearby Carmel Church, Virginia which it anticipates will be completed in the second quarter of 2007. 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 listed below are owned by the Company and its subsidiaries as of December 31, 2005.

Locations

Corporate Headquarters	
212 North Main Street	Bowling Green, Virginia
Banking Offices - Union Bank and Trust Company	
211 North Main Street	Bowling Green, Virginia
18048 Jefferson Davis Highway	Ladysmith, Virginia
U. S Route 301	Port Royal, Virginia
4540 Lafayette Boulevard	Fredericksburg, Virginia
U. S 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	Falmouth, 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
6479 Mechanicsville Turnpike	Mechanicsville, Virginia
10045 Kings Highway	King George, Virginia
840 McKinney Boulevard	Colonial Beach, Virginia
5510 Morris Road	Spotsylvania, Virginia
4690 Pouncey Tract Road	Glen Allen, Virginia (leased)
8300 Bell Creek Road	Mechanicsville, Virginia
1773 Parham Road	Richmond, Virginia
11101 Hull Street Road	Midlothian, Virginia
13644 Hull Street Road	Midlothian, Virginia
400 East Main Street	Charlottesville, Virginia (leased)
1700 Seminole Trail	Charlottesville, Virginia (leased)
124 Main Street	Lovingston, Virginia
1924 Arlington Boulevard	Charlottesville, Virginia (leased)
1658 State Farm Boulevard	Charlottesville, Virginia
5980 Thomas Jefferson Parkway	Palmyra, Virginia
3290 Worth Crossing	Charlottesville, Virginia
13700 Midlothian Turnpike	Midlothian, Virginia (leased)

Banking Offices - Northern Neck State Bank	
5839 Richmond Road	Warsaw, Virginia
4256 Richmond Road	Warsaw, Virginia
17191 Kings Highway	Montross, Virginia
1649 Tappahannock Boulevard	Tappahannock, Virginia
1660 Tappahannock Boulevard (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 Offices – Bank of Williamsburg	
5125 John Tyler Highway	Williamsburg, Virginia
603 Pilot House Drive	Newport News, Virginia (leased)
171 Monticello Avenue	Williamsburg, Virginia (leased)
Union Investment Services, Inc.	
111 Davis Court	Bowling Green, Virginia
10469 Atlee Station Road, Suite 100	Ashland, Virginia
2811 Fall Hill Avenue	Fredericksburg, Virginia
171 Monticello Avenue	Williamsburg, Virginia
1658 State Farm Boulevard	Charlottesville, Virginia
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
3120 Waccamaw Boulevard, Suite F	Myrtle Beach, South Carolina
6330 Newtown Road, #211	Norfolk, Virginia
7619 Little River Turnpike, Suite 400	Annandale, Virginia
12741 Darby Brooke Court, Suite 102	Woodbridge, Virginia
1658 State Farm Boulevard	Charlottesville, Virginia
10469 Atlee Station Road, Suite 120	Ashland, 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, 2005.

PART II

Item 5. – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company'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 8,797,325 shares of the Company's common stock outstanding at the close of business on December 31, 2005, which were held by 2,442 shareholders of record. The closing price of the Company's stock on December 31, 2005 was $43.10 per share as compared to $38.43 on December 31, 2004.

The following table summarizes the high and low closing sales prices and dividends declared for quarterly periods during the two years ended December 31, 2005.

	Market Values				Dividends Declared	
	2005		2004		2005	2004
	High	Low	High	Low		
First Quarter	**$37.18**	**$30.74**	$34.30	$30.90	**$ —**	$ —
Second Quarter	**39.24**	**29.39**	33.09	27.50	**0.37**	0.33
Third Quarter	**44.11**	**37.78**	33.50	27.98	**—**	—
Fourth Quarter	**49.05**	**38.49**	40.07	30.70	**0.40**	0.35
					$0.77	$ 0.68

Regulatory restrictions on the ability of the Community Banks to transfer funds to the Company at December 31, 2005, are set forth in Note 17 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 "Supervision and Regulation - The Community Banks."

In October of 2005, the Company announced it would begin paying its dividend on a quarterly basis instead of semi-annually starting in 2006. It is anticipated the dividends will be paid at the end of February, May, August and November of each quarter. In making its decision on the payment of dividends on the Company's common stock, the Board of Directors considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns and other factors.

The Board of Directors renewed authorization for the Company to buy up to 150,000 shares of its outstanding common stock in the open market at prices that management and the Board of Directors determine to be prudent. This authorization expires May 31, 2006. The Company considers current market conditions and the Company's current capital level, in addition to other factors, when deciding whether to repurchase stock. It is anticipated that any repurchased shares will be used primarily for general corporate purposes, including the dividend reinvestment plan, incentive stock option plan and other employee benefit plans. No shares have been purchased under this authorization to date.

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Item 6. – Selected Financial Data

The following table sets forth selected financial data for the Company over the past five years:

	2005	2004	2003	2002	2001
			(in thousands, except per share amounts)		
RESULTS OF OPERATIONS					
Interest income	**$ 102,317**	$ 80,544	$ 67,017	$ 65,205	$ 65,576
Interest expense	**32,967**	25,652	23,905	24,627	32,483
Net interest income	**69,350**	54,892	43,112	40,578	33,093
Provision for loan losses	**1,172**	2,154	2,307	2,878	2,126
Net interest income after provision for loan losses	**68,178**	52,738	40,805	37,700	30,967
Noninterest income	**25,510**	23,302	22,840	17,538	16,092
Noninterest expenses	**58,275**	51,221	40,725	35,922	32,447
Income before income taxes	**35,413**	24,819	22,920	19,316	14,612
Income tax expense	**10,591**	6,894	6,256	4,811	2,933
Net income	**$ 24,822**	$ 17,925	$ 16,664	$ 14,505	$ 11,679
KEY PERFORMANCE RATIOS					
Return on average assets (ROA)	**1.43%**	1.19%	1.42%	1.41%	1.27%
Return on average equity (ROE)	**14.49%**	12.18%	14.88%	14.91%	13.55%
Efficiency ratio [2]	**61.43%**	65.51%	61.75%	58.90%	62.13%
PER SHARE DATA					
Net income per share - basic	**$ 2.83**	$ 2.13	$ 2.19	$ 1.92	$ 1.55
Net income per share - diluted	**2.81**	2.11	2.17	1.90	1.55
Cash dividends declared	**0.77**	0.68	0.60	0.52	0.46
Book value at period-end	**20.39**	18.61	15.54	13.92	11.82
FINANCIAL CONDITION					
Total assets	**$1,824,958**	$1,672,210	$1,234,732	$1,115,725	$ 983,097
Total deposits	**1,456,515**	1,314,317	999,771	897,642	784,084
Total loans, net of unearned income	**1,362,254**	1,264,841	878,267	714,764	600,164
Stockholders' equity	**179,358**	162,758	118,501	105,492	88,979
ASSET QUALITY					
Allowance for loan losses	**$ 17,116**	$ 16,384	$ 11,519	$ 9,179	$ 7,336
Allowance as % of total loans	**1.26%**	1.30%	1.31%	1.28%	1.22%
OTHER DATA					
Market value per share at period-end	**$ 43.10**	$ 38.43	$ 30.50	$ 27.25	$ 16.24
Price to earnings ratio	**15.3**	18.2	14.1	14.3	10.5
Price to book value ratio	**211%**	207%	196%	196%	137%
Equity to assets	**9.8%**	9.7%	9.6%	9.5%	9.1%
Dividend payout ratio	**27.21%**	31.92%	27.40%	27.08%	29.68%
Weighted average shares outstanding, basic	**8,761,999**	8,402,791	7,602,872	7,555,906	7,523,566
Weighted average shares outstanding, diluted	**8,850,049**	8,482,142	7,675,437	7,623,169	7,541,572
Cash basis EPS fully diluted [1]	**$ 2.89**	$ 2.19	$ 2.22	$ 1.95	$ 1.59
Cash basis return on average tangible assets[1]	**1.51%**	1.26%	1.45%	1.46%	1.31%
Cash basis return on average tangible equity[1]	**19.57%**	15.78%	16.08%	16.43%	14.99%

(1) Refer to Item 7, "Management Discussion and Analysis", section "Non GAAP Measures" for a reconciliation.

(2) Efficiency ratio is calculated by dividing noninterest expense into the sum of net interest income plus noninterest income.

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

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

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

Allowance for Loan Losses

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 occurrence is

probable 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.

The Company adopted SFAS No. 114, which has been amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*. SFAS No. 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment is to be based on the net realizable value of the collateral. SFAS No. 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans.

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 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 net realizable 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 Intangible Assets

SFAS No. 141, *Business Combinations*, requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. For purchase acquisitions, the Company 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. Additionally, 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 their estimated useful lives.

Goodwill totaled $31.3 million and $31.0 million at year ended December 31, 2005 and 2004 respectively. Based on the testing of goodwill for impairment, there were no impairment charges for 2005, 2004 or 2003. Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 5 to 15 years. Core deposit intangibles, net of amortization, amounted to $8.5 million and $9.7 million at year ended December 31, 2005 and 2004, respectively. Amortization expense of core deposit intangibles for the years ended December 31, 2005, 2004 and 2003 totaled $1.2 million, $1.0 million and $571 thousand, respectively.

Mergers and Acquisitions

On May 1, 2004, the Company completed its acquisition of Guaranty, headquartered in Charlottesville, Virginia. This acquisition was accounted for using the purchase method of accounting. The total consideration paid to Guaranty stockholders in connection with the acquisition was approximately $54.9 million and was comprised of approximately $23.2 million in cash and 1,023,000 shares of the Company's common stock. Guaranty transactions have been included in the Company's financial results since May 1, 2004. Acquired assets on May 1, 2004 totaled $248 million, including $165 million in loans and $184 million in deposits. As part of the purchase price allocation at May 1, 2004, the Company recorded $5.8 million in core deposit intangibles and goodwill of approximately $30.1 million.

The acquisition of Guaranty fell under the guidance of the Emerging Issues Task Force ("EITF") in EITF Issue No 94-3,*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)* Under EITF Issue No. 94-3, an entity recognizes a liability for an exit cost on the date that the entity commits itself to an exit plan. "Exit costs" are defined to include those costs recorded by Guaranty prior to the merger date and therefore are not included in the Company's results of operations. In 2004, Guaranty recorded exit costs of $1.3 million relating to severance and costs associated with terminating contracts.

The Company's exit costs, referred to herein as "merger-related" costs, are defined to include those costs for combining operations such as systems conversions, integration planning consultant fees and marketing consultant fees incurred by the Company prior to and after the merger date and are included in the Company's results of operations. The Company expensed merger-related costs which totaled approximately $343 thousand for year ended December 31, 2004. The costs associated with these activities are included in noninterest expenses.

On October 31, 2005, the Company announced the signing of a definitive agreement, pursuant to which it will acquire Prosperity Bank and Trust Company ("Prosperity") in an all cash transaction valued at $36 million. Prosperity, with nearly $130 million in assets, operates three offices in Springfield, Virginia, located in affluent Fairfax County, a suburb of Washington, D.C. Upon completion of the transaction, the Company will have total assets exceeding $2.0 billion. The acquisition is expected to close on or about April 1, 2006 with back office data conversion scheduled for September 2006.

OVERVIEW

Net income for the year 2005 was $24.8 million, up 38.5% from $17.9 million for the same period in 2004. Over this same period, earnings per share on a diluted basis increased from $2.11 to $2.81. Return on average equity for the year ended December 31, 2005 was 14.49%, while return on average assets for the same period was 1.43%, compared to 12.18% and 1.19% respectively, for the year ended December 31, 2004. Results for the first four months of 2004 do not reflect the May 1, 2004 acquisition of Guaranty.

The most significant factor impacting the Company's operating results in 2005 was the improvement in the net interest margin. This improvement was driven by the Federal Reserve's increase in short-term interest rates and was enhanced by the Company's presence in strong markets which provided continued strong asset growth. Short-term rates are expected to increase slightly in 2006 which should help the

Company's net interest margin, but a flat yield curve, where the gap between short- and long-term rates is small, will put pressure on the Company's net interest margin.

The Company's continued expansion in both new and existing markets also impacted results for the year. Two new bank branches were opened in 2005, following the opening of five branches, and the relocation of one of the Company's convenience store branches (to a larger traditional banking facility) in 2004. The costs associated with these branches include personnel, occupancy, marketing and other related expenses and are typically greater than the revenue generated for the first 18-24 months as the branch expands in customer base in those markets.

The Company experienced steady growth in 2005 as assets grew by 9.1% to $1.82 billion. Net loans were $1.35 billion and $1.25 billion at December 31, 2005 and 2004, respectively, an increase of $100 million. Growth occurred predominately within the commercial real estate, commercial construction, and equity line portfolios. The rising interest rate environment has improved the Company's yield on earning assets from 5.96% to 6.53%. Total deposits increased from $1.31 billion to $1.46 billion at December 31, 2005. This increase was primarily in large certificates of deposit (those greater than $100 thousand). Demand deposits increased $28 million, which slowing the increase in the cost of funds which was up 29 basis points, from 2.23% to 2.52% year over year.

At December 31, 2005 total assets were $1.82 billion, up 9.1%, or approximately $153 million from $1.67 billion a year earlier. Securities increased to $246.0 million compared to $233.5 million for the same period. The Company's capital position remained strong with an equity-to-assets ratio of 9.83 %.

Community Bank Segment

For the year ended December 31, 2005, the Community Bank segment net income increased $7.2 million or 43% to $23.7 million from $16.5 million at December 31, 2004. Net interest income expansion of $14.8 million, lower loan loss provisions of $1.0 million, increased noninterest income of $1.1 million, offset by $5.8 million increase in noninterest expenses drove the annual net income increase. Additionally, total assets increased $151.7 million or 9% to $1.8 billion.

The increase in net interest income of $14.8 million was primarily driven by increases in the Federal funds rate coupled with the Community Banks' asset sensitivity. Additionally, due to the asset sensitive position, yields on interest earning assets re-priced faster than yields on interest bearing deposits. Moreover, noninterest bearing deposits increased as a percentage of deposits favorably contributing to the overall improvement in the margin.

The $1.1 million increase in noninterest income is principally a result of additional service charges and fees totaling $929 thousand, tied largely to the growing customer base. Other operating income increased $212 thousand mainly due to revenue generated from Johnson Mortgage Company, LLC and investments in Bankers Insurance Group and bank owned life insurance.

The $5.8 million or 14% increase in noninterest expense was driven by higher costs associated with salaries and benefits of $3.6 million or 18%, occupancy of $654 thousand or 23%, premises and fixed asset deprecation of $488 thousand or 16%, and other operating expenses of $1.1 million or 8%. Consulting and data processing fees decreased $780 thousand or 25% principally as a result of the 2004 Guaranty acquisition (there was no related 2005 expense), which in turn offset the increase in noninterest expense and or operating expenses.

Mortgage Segment

For the year ended December 31, 2005, the mortgage segment reported net income of $1.1 million, a decline of $0.3 million, or 20% from $1.4 million in 2004. Despite production volumes increasing from

$496.2 million to $556.8 million, or 12.2%, unit levels increased only 1.2% on loan products that were less profitable than those in the prior year. Due to customer demand, the less profitable loan products became a larger percentage of production volume during 2005. Additionally, a flattening yield curve and increased competition have put pressure on profitability. Moreover, MCII's service area has recently seen a slowdown in purchase activity compared to last year.

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 average 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.

Since June 2004, there has been an increase in the Federal Funds target at each Federal Reserve Open Market Committee ("FOMC") meeting, benefiting the Company due to its asset sensitive position. For the year ended December 31, 2005, net interest income on a FTE basis increased $14.1 million or 25% over the same period one year ago. Rising interest rates pushed yields on average earning assets up by 57 basis points, or 9.6%, on growth of $207.1 million in interest-earning assets. The cost of interest-bearing liabilities was tightly controlled, increasing 29 basis points, or 13.2%, on growth of $155.2 million in interest-bearing liabilities. The remaining margin improvement was due to growth of demand deposit accounts of $49.1 million or 25% from 2004.

For year ended December 31, 2004, loan volumes generated interest income to more than offset the decline in volume and rates in other asset categories resulting in an increase in income from earning assets on a FTE basis of $13.4 million, or 19%. At the same time, volume increases in all interest-bearing liabilities were accompanied by rate declines in all categories resulting in an increase in interest expense of only $1.7 million, or 7%. As a result, net interest income on a FTE basis increased $11.6 million, or 26%, compared to the prior year.

Based upon its asset liability management modeling, management anticipates the Company's net interest margin will moderate at current levels. In an effort to protect its improved net interest margin and reduce its interest rate sensitivity, management will continue to closely monitor its interest rate risk as the FOMC nears the anticipated end of the current tightening cycle.

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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. Non-accrual loans are included in average loans outstanding.

AVERAGE BALANCES[3], INCOME AND EXPENSES, YIELDS AND RATES (TAXABLE EQUIVALENT BASIS)

For the years ended December 31, (Dollars in thousands)

	2005			2004			2003		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets:									
Securities:									
Taxable	**$ 154,954**	**$ 7,791**	**5.03%**	$ 159,709	$ 7,709	4.83%	$ 168,022	$ 8,171	4.86%
Tax-exempt[1]	**74,936**	**5,677**	**7.58%**	80,224	6,049	7.54%	85,506	6,594	7.71%
Total securities	**229,890**	**13,468**	**5.86%**	239,933	13,758	5.73%	253,528	14,765	5.82%
Loans, net [1] [2]	**1,315,695**	**88,089**	**6.70%**	1,104,942	67,114	6.07%	789,934	52,266	6.62%
Loans held for sale	**38,975**	**2,367**	**6.07%**	34,326	1,917	5.58%	45,890	2,351	5.12%
Federal funds sold	**11,143**	**349**	**3.13%**	8,090	102	1.26%	16,241	138	0.85%
Money market investments	**73**	**2**	**2.79%**	101	1	0.99%	1,913	22	1.15%
Interest-bearing deposits in other banks	**1,665**	**49**	**2.92%**	3,645	29	0.80%	2,137	22	1.03%
Other interest-bearing deposits	**2,598**	**81**	**3.13%**	1,889	33	1.75%	—	—	
Total earning assets	**1,600,039**	**104,405**	**6.53%**	1,392,926	82,954	5.96%	1,109,643	69,564	6.27%
Allowance for loan losses	**(16,687)**			(14,167)			(10,279)		
Total non-earning assets	**154,653**			126,098			78,293		
Total assets	**$1,738,005**			$1,504,857			$1,177,657		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 198,969**	**$ 704**	**0.35%**	$ 175,659	$ 488	0.28%	$ 136,621	$ 567	0.42%
Money market savings	**187,673**	**3,174**	**1.69%**	159,111	1,555	0.98%	97,368	967	0.99%
Regular savings	**119,309**	**998**	**0.84%**	112,953	726	0.64%	90,208	746	0.83%
Certificates of deposit:									
$100,000 and over	**259,185**	**9,427**	**3.64%**	190,506	6,582	3.46%	163,330	6,277	3.84%
Under $ 100,000	**365,758**	**11,605**	**3.17%**	352,589	10,678	3.03%	322,111	11,316	3.51%
Total interest-bearing deposits	**1,130,894**	**25,908**	**2.29%**	990,818	20,029	2.02%	809,638	19,873	2.45%
Other borrowings	**175,309**	**7,059**	**4.03%**	160,213	5,623	3.51%	103,866	4,032	3.88%
Total interest-bearing liabilities	**1,306,203**	**32,967**	**2.52%**	1,151,031	25,652	2.23%	913,504	23,905	2.62%
Noninterest bearing liabilities:									
Demand deposits	245,587			196,520			140,526		
Other liabilities	14,994			10,140			11,614		
Total liabilities	**1,566,784**			1,357,691			1,065,644		
Stockholders' equity	**171,221**			147,166			112,013		
Total liabilities and stockholders' equity	**$1,738,005**			$1,504,857			$1,177,657		
Net interest income		**$ 71,438**			$57,302			$45,659	
Interest rate spread			**4.00%**			3.73%			3.65%
Interest expense as a percent of average earning assets			**2.06%**			1.84%			2.15%
Net interest margin			**4.46%**			4.11%			4.11%

(1) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%

(2) Collection of $311 thousand in foregone interest on a previously charged off credit has been excluded.

(3) Includes Guaranty from acquisition date of May 1, 2004.

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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.

VOLUME AND RATE ANALYSIS* (TAXABLE EQUIVALENT BASIS)
(in thousands)

	Years Ended December 31,					
	2005 vs. 2004 Increase (Decrease) Due to Changes in:			2004 vs. 2003 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total
EARNING ASSETS:						
Securities:						
Taxable	**$ (233)**	**$ 315**	**$ 82**	$ (402)	$ (60)	$ (462)
Tax-exempt	**(400)**	**28**	**(372)**	(401)	(144)	(545)
Loans, net	**13,654**	**7,321**	**20,975**	19,424	(4,576)	14,848
Loans held for sale	**274**	**176**	**450**	(631)	197	(434)
Federal funds sold	**51**	**196**	**247**	(86)	50	(36)
Money market investments	**—**	**1**	**1**	(19)	(2)	(21)
Interest-bearing deposits in other banks	**(22)**	**42**	**20**	12	(5)	7
Other interest-bearing deposits	**16**	**32**	**48**	33	—	33
Total earning assets	**13,340**	**8,111**	**21,451**	17,930	(4,540)	13,390
INTEREST-BEARING LIABILITIES:						
Checking	**71**	**145**	**216**	137	(216)	(79)
Money market savings	**320**	**1,299**	**1,619**	603	(15)	588
Regular savings	**43**	**229**	**272**	165	(185)	(20)
CDs $100,000 and over	**2,483**	**362**	**2,845**	978	(673)	305
CDs < $100,000	**408**	**519**	**927**	1,010	(1,648)	(638)
Total interest-bearing deposits	**3,325**	**2,554**	**5,879**	2,893	(2,737)	156
Other borrowings	**561**	**875**	**1,436**	2,009	(418)	1,591
Total interest-bearing liabilities	**3,886**	**3,429**	**7,315**	4,902	(3,155)	1,747
Change in net interest income	**$ 9,454**	**$4,682**	**$14,136**	$13,028	$(1,385)	$11,643

* *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 re-pricing 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 and practices 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, regional and local economy, and other financial and business risk factors. The Company uses computer simulation modeling to measure and monitor the effect of various interest rate scenarios and business strategies 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, 2005 and 2004, the Company was in an asset sensitive position. As described in the table below, management’s simulation model indicates net interest income will increase as rates increase. 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. Although the static gap report indicates $193.1 million and $56.5 million at December 31, 2005 and 2004, respectively, more liabilities than assets re-pricing within one year, 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 re-price throughout the year resulting in changes in the earning asset rate, the cost of funds rate, and the 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. Such assumptions are monitored and periodically adjusted as appropriate. All maturities, calls and prepayments in the securities portfolio are assumed to be reinvested in like instruments. Mortgage loans and mortgage backed securities prepayment assumptions are based on industry estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Different interest rate scenarios and yield curves are used to measure the sensitivity of earnings to changing interest rates. Interest rates on different asset and liability accounts move differently when the prime rate changes and are reflected in the different rate scenarios.

The Company uses its simulation model to estimate earnings in rate environments where rates ramp up or down around a "most likely" rate scenario, based on implied forward rates. The analysis assesses the impact on net interest income over a 12-month time horizon by applying 12-month rate ramps (with interest rates rising gradually versus an immediate increase or "shock" in rates) of 50 basis points up to 200 basis points. The following table represents the interest rate sensitivity on net interest income for the Company across the rate paths modeled:

	Change in Net Interest Income	
Change in Yield Curve	**(Percent)**	**($ in thousands)**
+200 basis points	5.65%	$ 4,462
+50 basis points	1.36%	1,074
Most likely rate scenario	0.00%	0
-50 basis points	-1.44%	(1,138)
-200 basis points	-5.79%	(4,567)

ECONOMIC VALUE SIMULATION

Economic value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Economic values are calculated based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value over different rate environments is an indication of the longer term earnings capability of the balance sheet. The same assumptions are used in the economic value simulation as in the earnings simulation. The economic value simulation uses instantanious rate shocks to the balance sheet where the earnings simulation uses rate ramps over 12-months. The following chart reflects the estimated change in net economic value over different rate environments using economic value simulation:

	Change in Economic Value of Equity	
Change in Yield Curve	(Percent)	($ in thousands)
+200 basis points	0.19%	$ 599
+50 basis points	0.19%	610
Most likely rate scenario	0.00%	—
-50 basis points	-0.93%	(2,939)
-200 basis points	-6.21%	(19,734)

NONINTEREST INCOME

Noninterest income increased by $2.2 million, or 9.5%, from $23.3 in 2004 to $25.5 million in 2005. This increase was largely due to a $1.1 million, or 9.6% increase in gains on the sale of loans which grew to $13 million for the year. Mortgage loan originations increased 12.2%, or $60.6 million driving the increased gains on loan sales. Additionally, other service charges and fees increased $929 thousand, or 27% from $3.4 million to $4.4 million. This increase is principally due to income received from debit cards (due to increased acceptance), letters of credit, exchange fees and brokerage commissions from Union Investment Services, Inc. Service charges on deposit accounts decreased $36 thousand, but contributed $6.8 million for the year ended December 31, 2005. Other operating income increased $197 thousand or 17.4%, including income from the Bank of Williamsburg’s investment in Johnson Mortgage Company, LLC, of $92 thousand and an increase in cash surrender value of bank-owned life insurance of $71 thousand.

Noninterest income increased by $462 thousand, or 2%, from $22.8 million in 2003 to $23.3 million in 2004. This increase was relatively small due to a $1.4 million decrease in gains on sales of loans, which declined from $13.3 million in 2003 to $11.8 million in 2004. Mortgage loan originations were $496.2 million in 2004, down from $535.5 million in 2003, but there was also margin tightening attributable largely to a shift in product mix from fixed rate to adjustable rate products and increasing competitive pressures. Service charges on deposits rose 22.0% from $5.6 million to $6.8 million largely 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 increased from $2.5 million in 2003 to $3.4 million in 2004 as net brokerage commissions were up $278 thousand, debit card income was up $218 thousand, and ATM-related fees were up $306 thousand. In addition, other operating income decreased from $1.2 million in 2003 to $1.1 million in 2004. This decrease was the result of a reduction of $205 thousand in income from the Bank of Williamsburg’s investment in Johnson Mortgage Company, LLC, partially offset by an increase in income from Bank-owned life insurance of $126 thousand.

NONINTEREST EXPENSES

Noninterest expenses were up $7.1 million or 13.8% to $58.3 million in 2005, compared to $51.2 million in 2004. Salaries and benefits were $33.6 million in 2005, up $4.4 million or 15.2% compared to $29.1 million in 2004. The increase in salary and benefits is due to the opening of additional branches, hiring support staff, increased commissions in the mortgage segment related to increased loan production, as well as compensation adjustments. Other contributing factors include increased health insurance expense and increases in profit sharing expenses correlating to the improvements in net income. Occupancy expenses were at $4.1 million, up $721 thousand from 2004. The opening of two additional branches in the current year and a full year’s expense for the Guaranty branches, accounted for approximately $535 thousand of the increase in occupancy expense. Furniture and equipment expense was $3.9 million compared to $3.4 million in 2004. This increase of $483 thousand is due to the branch expansion efforts previously mentioned, software purchases and enhancements and additional equipment maintenance. Other operating expense was $16.6 million, up $1.4 million from $15.2 million in 2004.

Of the $1.4 million increase in operating expenses, approximately $527 thousand resulted from increased courier services, internet activity and communication activity with customers, $465 thousand in other bank losses related primarily to customer fraud activity, $304 thousand from media and advertising campaigns, $213 thousand related to amortizing additional core deposit intangibles related to the Guaranty acquisition, $196 thousand from increased directors' fees as the compensation structure was modified in May 2005, $181 thousand was from increased ATM processing and placement of additional ATM machines within the Company's existing footprint. An additional $112 thousand was due to data processing costs related to increased activity in the bankcard department. Other expense increases relate to training and seminars of $100 thousand, as well as mileage reimbursement of $75 thousand. These expenses were offset by lower data processing costs of $445 thousand and conversion charges of $326 thousand both relating to the Guaranty acquisition in 2004.

In 2004, noninterest expenses were up $10.5 million or 25.8% to $51.2 million, compared to $40.7 million in 2003. Salaries and benefits were $29.1 million in 2004, up $4.0 million or 15.9% compared to $25.1 million in 2003. Compensation expense related to the operation of the seven former Guaranty branches amounted to $1.9 million of the increase, and includes amounts related to positions which have been eliminated with the integration of the former Guaranty operation into Union Bank. The Community Bank segment's salaries and benefits, excluding the impact of the Guaranty acquisition, were up $2.4 million from 2003 to 2004. This was the result of a full year of expenses from the addition of one new branch opened in 2003, five new branches opened in 2004, higher cost of group insurance, expanded staffing in the retail locations and merit increases. Occupancy expenses were $3.4 million, up $743 thousand over $2.7 million in 2003. The Guaranty acquisition and the five new branches accounted for $554 thousand of this increase. Equipment expense was $3.4 million versus $2.6 million in 2003, an increase of $835 thousand, of which $493 thousand was related to Guaranty ($349 thousand) and the new branches ($144 thousand). Other operating expense was $15.2 million, up $4.9 million from $10.3 million in 2003.

Consulting expenses related to the overdraft privilege service represented $576 thousand of the increase in 2004. Director expenses also increased by $231 thousand as the Company enhanced its director compensation structure and responded to the additional requirements of Sarbanes-Oxley. This included implementation of a director certification program and engagement of compensation consultants to review executive compensation. The outsourcing of data processing services in September 2003 also contributed approximately $626 thousand to the increase in other expenses in 2004. The Company's decision to outsource this function reflects the changing face of technology and the Company's commitment to maintain the appropriate operating foundation for future growth. Amortization of core deposit intangibles increased $439 thousand due to the Guaranty merger, and there were approximately $343 thousand in merger-related expenses including data and systems conversion, marketing, communications, and other integration costs. Marketing and advertising expense increased by $463 thousand over 2003, and other expenses including telephone expense, courier and armored car expense and postage expense were up $497 thousand compared to 2003.

LOAN PORTFOLIO

Loans, net of unearned income, totaled $1.4 billion at December 31, 2005, an increase of $97.4 million, or 7.7%, over $1.3 billion at December 31, 2004. Loans secured by real estate continue to represent the Company's largest category, comprising 79.6% of the total loan portfolio at December 31, 2005. Residential 1-4 family loans, not including home equity lines, comprised 21.7% of total loans, at December 31, 2005, down from 22.8% in 2004. Loans secured by commercial real estate comprised 28.8% of the total loan portfolio at December 31, 2005, as compared to 29.3% in 2004, 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 20.1% of total loans outstanding at December 31, 2005, up significantly from 17.5% in 2004. Home equity lines were flat in 2005, comprising 7.1% of the total loan portfolio both years.

Commercial business loans decreased $8.8 million in 2005, due largely to increasing interest rates. They comprised 9.3% of total loans at the end of 2005, down from 10.7% at the end of 2004. The Company's consumer loan portfolio consists principally of installment loans. Such loans to individuals for household, family and other personal expenditures totaled 10.0% of total loans at December 31, 2005, up from 9.7% in 2004. Loans to the agricultural industry totaled less than 1.0% of the loan portfolio in each of the last five years.

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

LOAN PORTFOLIO

	DECEMBER 31,					% of Total	
	2005	2004	2003	2002	2001	2005	2004
			(in thousands)				
Commercial	**$ 127,048**	$ 135,907	$112,760	$ 78,289	$ 70,739	**9.3%**	10.7%
Loans to finance agriculture production and other loans to farmers	**884**	1,591	818	1,128	4,075	**0.1%**	0.1%
Real estate:							
Real estate construction	**273,262**	221,190	105,417	85,335	57,940	**20.1%**	17.5%
Real estate mortgage:							
Residential (1-4 family)	**295,809**	288,358	227,450	190,427	169,426	**21.7%**	22.8%
Home equity lines	**96,490**	90,042	48,034	32,320	24,474	**7.1%**	7.1%
Multi-family	**14,648**	18,287	11,075	3,066	3,418	**1.1%**	1.4%
Commercial	**394,094**	368,816	239,804	200,125	155,093	**28.8%**	29.3%
Agriculture	**11,145**	5,530	6,745	4,466	2,497	**0.8%**	0.4%
Total real estate	**1,085,448**	992,223	638,525	515,739	412,848	**79.6%**	78.5%
Loans to individuals:							
Consumer	**126,174**	113,841	110,285	102,528	94,620	**9.3%**	9.0%
Credit card	**9,388**	8,655	7,004	5,350	4,140	**0.7%**	0.7%
Total loans to individuals	**135,562**	122,496	117,289	107,878	98,760	**10.0%**	9.7%
All other loans	**13,312**	12,628	8,901	11,836	14,048	**1.0%**	1.0%
Total loans	**1,362,254**	1,264,845	878,293	714,870	600,470	**100.0%**	100.0%
Less unearned income	**—**	4	26	106	306		
Total net loans	**$1,362,254**	$1,264,841	$878,267	$714,764	$600,164		

The following table displays the remaining maturities and type of rate (variable or fixed) on commercial and real estate constructions loans:

REMAINING MATURITIES OF SELECTED LOANS

At December 31, 2005
(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	$ 76,390	$ 4,156	$ 514	$4,670	$ 40,704	$5,284	$45,988	$127,048
Real Estate Construction	$264,363	$ 3,481	$ —	$3,481	$ 2,906	$2,512	$ 5,418	$273,262

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. MCII serves as a mortgage brokerage operation, selling the majority of its loan production in the secondary market or selling loans to the Community Banks that meet the banks' current asset/liability management needs. This venture has provided the Community Bank's 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

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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 the 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 in the determination of the sufficiency of the Company's allowance for loan losses. As of December 31, 2005, the allowance for loan losses was $17.1 million or 1.26% of total loans as compared to $16.4 million, or 1.30% in 2004. The provision for loan losses was $1.2 million in 2005 and $2.2 million in 2004. Contributing to the year to year decline in the provision for loan losses has been improved credit quality and the payout of a number of low credit quality loans. Recoveries for the year ended December 31, 2005 were lower than the same period a year ago as the Company completed, in 2004, the recovery of principal on a large loan charged-off in prior years. For the year ended December 31, 2005, approximately $311 thousand was collected in foregone interest on the aforementioned credit and recorded in interest income.

ALLOWANCE FOR LOAN LOSSES

	DECEMBER 31,				
	2005	2004	2003	2002	2001
			(in thousands)		
Balance, beginning of year	**$16,384**	$11,519	$ 9,179	$7,336	$7,389
Allowance from acquired bank	**—**	2,040	—	—	—
Loans charged-off:					
Commercial	**25**	167	77	310	1,716
Real estate	**6**	5	1	—	3
Consumer	**809**	1,002	877	1,271	880
Total loans charged-off	**840**	1,174	955	1,581	2,599
Recoveries:					
Commercial	**43**	1,388	684	245	154
Real estate	**—**	42	—	33	15
Consumer	**357**	415	304	268	251
Total recoveries	**400**	1,845	988	546	420
Net charge-offs (recoveries)	**440**	(671)	(33)	1,035	2,179
Provision for loan losses	**1,172**	2,154	2,307	2,878	2,126
Balance, end of year	**$17,116**	$16,384	$11,519	$9,179	$7,336
Ratio of allowance for loan losses to total loans outstanding at end of year	**1.26%**	1.30%	1.31%	1.28%	1.22%
Ratio of net charge-offs (recoveries) to average loans outstanding during year	**0.03%**	-0.06%	0.00%	0.16%	0.37%

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, as well as, the ratio of the related outstanding loan balances to total loans.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

	2005		2004		2003		2002		2001	
	Allowance	Percent[1]	Allowance	Percent[1]	Allowance	Percent[1]	Allowance	Percent[1]	Allowance	Percent[1]
					(in thousands)					
December 31:										
Commercial, financial and agriculture	**$ 4,320**	**9.4%**	$ 4,971	10.8%	$ 4,500	12.9%	$ 3,249	11.1%	$ 2,846	12.5%
Real estate construction	**9,229**	**20.0%**	7,998	17.5%	4,176	12.0%	3,492	11.9%	2,205	9.7%
Real estate mortgage	**541**	**59.6%**	518	61.0%	493	60.7%	426	60.2%	383	59.1%
Consumer & other	**3,026**	**10.9%**	2,897	10.7%	2,350	14.4%	2,012	16.8%	1,902	18.7%
Total	**$17,116**	**100.0%**	$16,384	100.0%	$11,519	100.0%	$ 9,179	100.0%	$ 7,336	100.0%

[1] Percent is loan in category divided by total loans.

NONPERFORMING ASSETS

Nonperforming assets were $11.2 million at December 31, 2005; flat compared to December 31, 2004. During 2005, foreclosed properties were fully-disposed, reducing the balance to zero from $14 thousand in 2004. The following table presents a five-year comparison of nonperforming assets:

NONPERFORMING ASSETS

	DECEMBER 31,				
	2005	2004	2003	2002	2001
			(in thousands)		
Nonaccrual loans	**$11,255**	$11,169	$ 9,174	$ 136	$ 915
Foreclosed properties	—	14	444	774	639
Real estate investment	—	—	—	—	129
Total nonperforming assets	**$11,255**	$11,183	$ 9,618	$ 910	$ 1,683
Loans past due 90 days and accruing interest	**$ 150**	$ 822	$ 957	$ 896	$ 2,757
Nonperforming assets to year-end loans, foreclosed properties and real estate investment	**0.83%**	0.88%	1.09%	0.13%	0.28%
Allowance for loan losses to nonaccrual loans	**152.07%**	146.69%	125.56%	6749.26%	801.75%

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. At December 31, 2005, nonperforming assets totaled $11.2 million, including a single credit relationship totaling $10.8 million. The loans to this relationship are secured by real estate (two assisted living facilities and other real estate). Based on the information currently available, management has allocated $1.3 million in specific reserves to this relationship.

The Company entered into a workout agreement with the borrower in March 2004. Under the terms of the agreement, the Company extended further credit secured by additional property with significant equity. The Company continues to have constructive dialogue with the borrower toward resolution of the affiliated loans; however, bankruptcy filings by some affiliates of the borrower have delayed the accomplishment of targeted actions. The Company continues to anticipate that this workout will ultimately result in a reduction of the Company's overall exposure to the borrower.

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SECURITIES AVAILABLE FOR SALE

At December 31, 2005, the Company had securities available for sale in the amount of $246.0 million or 13% of total assets, as compared to $233.5 million or 14% of total assets at December 31, 2004. 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. It also focuses on purchasing 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; therefore a higher taxable equivalent yield exists on the portfolio compared to its peers. The Company does not engage in structured derivative or hedging activities. The following table sets forth a summary of the securities available for sale over the past three years:

	As of December 31,		
	2005	2004	2003
		(in thousands)	
Available-for sale securities, at fair value:			
U.S. government and agency securities	**$ 1,935**	$ 8,020	$ 11,709
Obligations of states and political subdivisions	**86,218**	83,338	91,027
Corporate and other bonds	**40,779**	38,673	57,219
Mortgage-backed securities	**106,706**	92,923	75,023
Federal Reserve Bank stock	**2,213**	2,153	688
Federal Home Loan Bank stock	**7,392**	7,474	3,678
Other securities	**774**	886	780
	$ 246,017	$ 233,467	$ 240,124

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. The following table summarizes the contractual maturity of securities available for sale and their weighted average yields:

	DECEMBER 31, 2005				
	1 YEAR OR LESS	1-5 YEARS	5-10 YEARS	OVER 10 YEARS & EQUITY SECURITIES	TOTAL
			(in thousands)		
U.S. government and agency securities:					
Amortized cost	$ 500	$ 1,477	$ —	$ —	$ 1,977
Fair value	490	1,445	—	—	1,935
Weighted average yield[(1)]	2.63%	4.01%	—	—	3.66%
Mortgage backed securities:					
Amortized cost	$ —	$ 3,950	$51,097	$ 53,529	$108,576
Fair value	—	3,843	50,239	52,625	106,707
Weighted average yield[(1)]	—	4.05%	4.62%	4.77%	4.68%
Obligations of states and political subdivisions:					
Amortized cost	$ 3,128	$13,367	$42,947	$ 24,467	$ 83,909
Fair value	3,129	13,477	44,408	25,204	86,218
Weighted average yield[(1)]	4.08%	5.04%	4.90%	4.59%	4.80%
Other securities:					
Amortized cost	$ 4,001	$ 2,042	$ —	$ 42,734	$ 48,777
Fair value	4,006	2,013	—	45,138	51,157
Weighted average yield[(1)]	6.02%	3.59%	—	6.84%	6.63%
Total securities:					
Amortized cost	$ 7,629	$20,836	$94,044	$ 120,730	$243,239
Fair value	7,625	20,778	94,647	122,967	246,017
Weighted average yield[(1)]	5.01%	4.64%	4.75%	5.47%	5.10%

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

DEPOSITS

Total deposits increased $142.2 million or 11% to $1.5 billion at December 31, 2005 from December 31, 2004. Total deposits consist of noninterest-bearing demand deposits of $258 million or 18% and interest-bearing deposits of $1.2 billion or 82%.

Average interest-bearing deposits increased $140.1 million or 14% to $1.1 billion year over year in all categories mentioned in the below table. Average NOW accounts and money market accounts account for 37% of the growth and increased $23.3 million or 13% and $28.6 million or 18%, respectively. Time deposits of $100,000 and over account for nearly half the growth of $140.1 million increase in aggregate average deposits and increased $68.6 million due primarily to higher interest rates in the second half of 2005. The average balance in the lowest-cost funding source or noninterest-bearing demand deposits

increased by a total of $49.0 million or 25% to $245.6 million year over year. The Company has no brokered deposits. The average deposits and rates paid for the past three years and maturities of certificates of deposit of $100,000 and over as of December 31, 2005 are as follows:

AVERAGE DEPOSITS AND RATES PAID

	DECEMBER 31,					
	2005		2004		2003	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
			(in thousands)			
Noninterest-bearing demand deposits	**$ 245,587**		$ 196,520		$141,228	
Interest-bearing deposits:						
NOW accounts	**198,969**	**0.35%**	175,659	0.28%	136,621	0.42%
Money market accounts	**187,673**	**1.69%**	159,111	0.98%	97,368	0.99%
Savings accounts	**119,309**	**0.84%**	112,953	0.64%	90,208	0.83%
Time deposits of $100,000 and over	**259,185**	**3.64%**	190,506	3.46%	163,330	3.84%
Other time deposits	**365,758**	**3.17%**	352,589	3.03%	322,111	3.51%
Total interest-bearing	**1,130,894**	**2.29%**	990,818	2.02%	809,638	2.45%
Total average deposits	**$1,376,481**		$1,187,338		$950,866	

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
			(in thousands)			
December 31, 2005	$ 95,599	$37,064	$100,613	$100,433	$333,709	22.91%

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, 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 intangible items. The Company had a ratio of total capital to risk-weighted assets of 12.14% and 11.63% on December 31, 2005 and 2004, respectively. The Company’s ratio of Tier 1 capital to risk-weighted assets was 10.97% and 10.41% at December 31, 2005 and 2004, 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 2005 and 2004. The Company’s current strategic plan includes a targeted equity to asset ratio between 8% and 9%. As of December 31, 2005, that ratio was 9.82%.

In connection with the acquisition of Guaranty, the Company issued trust preferred capital notes to fund the cash portion of that acquisition, which approximated $22.5 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.

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ANALYSIS OF CAPITAL

	DECEMBER 31,		
	2005	**2004**	**2003**
		(in thousands)	
Tier 1 capital:			
Common stock	**$ 17,595**	$ 17,488	$ 15,254
Surplus	**35,426**	33,716	2,401
Retained earnings	**124,531**	106,460	94,102
Total equity	**177,552**	157,664	111,757
Plus: qualifying trust preferred capital notes	**22,500**	22,500	—
Less: core deposit intangibles/goodwill	**(39,801)**	(40,714)	(5,779)
Total Tier 1 capital	**160,251**	139,450	105,978
Tier 2 capital:			
Allowance for loan losses	**17,116**	16,384	11,519
Total Tier 2 capital.	**17,116**	16,384	11,519
Total risk-based capital	**$ 177,367**	$ 155,834	$117,497
Risk-weighted assets	**$1,460,607**	$1,339,900	$989,236
Capital ratios:			
Tier 1 risk-based capital ratio	**10.97%**	10.41%	10.71%
Total risk-based capital ratio	**12.14%**	11.63%	11.88%
Tier 1 capital to average adjusted total assets	**9.09%**	8.60%	8.72%
Equity to total assets	**9.82%**	10.77%	9.60%

COMMITMENTS AND OFF-BALANCE SHEET OBLIGATIONS

The following table represents the Company's other commitments with balance sheet or off-balance sheet risk as of December 31, 2005 (in thousands):

	Total
Commitments with off-balance sheet risk:	
Commitments to extend credit [(1)]	$654,590
Standby letters of credit	28,243
Commitments to purchase securities	446
Mortgage loan rate lock commitments	27,159
Total commitments with off-balance sheet risk	710,438
Commitments with balance sheet risk:	
Loans held for sale	28,068
Total commitments with balance sheet risk	28,068
Total other commitments	**$738,506**

(1) Includes unfunded overdraft protection.

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk 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. For more information pertaining to these commitments, reference Note 11 "Financial Instruments with Off-Balance Sheet Risk" in the "Notes to Consolidated Financial Statements".

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 off-balance sheet financial instruments with credit risk.

At December 31, 2005, MCII had rate lock commitments to originate mortgage loans amounting to approximately $27.2 million and loans held for sale of $28.1 million. The mortgage company has entered into corresponding mandatory commitments, on a best-efforts basis, to sell loans servicing released totaling approximately $55.3 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, money market investments, Federal funds sold, securities available for sale, loans held for sale and loans maturing or re-pricing within one year. Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary through Federal funds lines with several correspondent banks and a line of credit with the Federal Home Loan Bank of Atlanta ("FHLB"). Management considers the Company's overall liquidity to be sufficient to satisfy its depositors' requirements and to meet its customers' credit needs.

At December 31, 2005, cash and cash equivalents and securities classified as available for sale comprised of 17.3% of total assets, compared to 15.9% at December 31, 2004. 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 Community Banks maintain Federal funds lines with several regional banks totaling approximately $65 million at December 31, 2005. Also, the banks had $61 million of outstanding borrowings pursuant to securities sold under agreements to repurchase transactions with a maturity of one day and $47 million of other short-term borrowing at December 31, 2005. Lastly, the Company had a line of credit with the FHLB for $541 million at December 31, 2005.

The below 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, 2005. For more information pertaining to the below table, reference Note 5 "Bank Premise and Equipment" and Note 8 "Other Borrowings" in the "Notes to Consolidated Financial Statements".

	Payments due by Period				
	Total	Less than a year	1 -3 years	4-5 years	More than 5 years
			(in thousands)		
Long-term debt	$ 70,196	$ —	$ 15,000	$ 20,000	$ 35,196
Operating leases	6,231	1,104	2,642	705	1,780
Other short-term borrowings	42,600	42,600	—	—	—
Repurchase agreements	60,828	60,828	—	—	—
Total contractual obligations	$ 179,855	$ 104,532	$ 17,642	$ 20,705	$ 36,976

Non GAAP Measures

SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Prior to the issuance of SFAS No. 141, the Company accounted for most of its acquisition activity using the pooling method of accounting. The recent acquisition of Guaranty is the

Company's most significant business combination to be accounted for using the purchase method of accounting. At December 31, 2005, core deposit intangibles totaled $8.5 million, down from $9.7 million a year earlier and goodwill totaled $31.3 million, up from $31.0 million at December 31, 2004.

In reporting the results of 2005, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization. Cash basis operating earnings per share was $2.89 per share for the year ended December 31, 2005, as compared to $2.19 per share a year earlier. Cash basis return on average tangible equity for 2005 was 19.57% as compared to 15.78% a year earlier, and cash basis return on average tangible assets was 1.51% as compared to 1.26% for 2004.

These measures are a supplement to GAAP used to prepare the Company's financial statements and should not be viewed as a substitute for GAAP measures. In addition, the Company's non-GAAP measures may not be comparable to non-GAAP measures of other companies. A reconciliation of these non-GAAP measures from their respective GAAP basis measures can be found in the following table:

	December 31,	
	2005	2004
	(in thousands)	
Net income	**$ 24,822**	$ 17,925
Plus amortization of core deposit intangibles, net of tax	**792**	657
Cash basis operating earnings	**25,614**	18,582
Average assets	**1,738,005**	1,504,857
Less average goodwill	**(31,227)**	(21,039)
Less average core deposit intangibles	**(9,112)**	(8,368)
Average tangible assets	**1,697,666**	1,475,450
Average equity	**171,221**	147,166
Less average goodwill	**(31,227)**	(21,039)
Less average core deposit intangibles	**(9,112)**	(8,368)
Average tangible equity	**$ 130,882**	$ 117,759
Weighted average shares outstanding	**8,850,049**	8,482,142
Cash basis EPS fully diluted	**$ 2.89**	$ 2.19
Cash basis return on average tangible assets	**1.51%**	1.26%
Cash basis return on average tangible equity	**19.57%**	15.78%

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QUARTERLY RESULTS

The following table presents the Company's quarterly performance for the years ended December 31, 2005 and 2004:

	2005				
	FOURTH	THIRD	SECOND	FIRST	TOTAL
	(in thousands, except per share amounts)				
Interest and dividend income	**$ 27,560**	**$ 26,437**	**$ 24,888**	**$ 23,432**	**$ 102,317**
Interest expense	**9,443**	**8,517**	**7,866**	**7,141**	**32,967**
Net interest income	**18,117**	**17,920**	**17,022**	**16,291**	**69,350**
Provision for loan losses	**275**	**430**	**135**	**332**	**1,172**
Net interest income after provision for loan losses	**17,842**	**17,490**	**16,887**	**15,959**	**68,178**
Noninterest income	**5,858**	**7,287**	**7,017**	**5,348**	**25,510**
Noninterest expenses	**15,495**	**14,816**	**14,494**	**13,470**	**58,275**
Income before income taxes	**8,205**	**9,961**	**9,410**	**7,837**	**35,413**
Income tax expense	**2,331**	**3,078**	**2,798**	**2,384**	**10,591**
Net income	**$ 5,874**	**$ 6,883**	**$ 6,612**	**$ 5,453**	**$ 24,822**
Net income per share:					
Basic	**$ 0.67**	**$ 0.79**	**$ 0.75**	**$ 0.62**	**$ 2.83**
Diluted	**$ 0.66**	**$ 0.78**	**$ 0.75**	**$ 0.62**	**$ 2.81**

	2004				
	FOURTH	THIRD	SECOND	FIRST	TOTAL
	(in thousands, except per share amounts)				
Interest and dividend income	$ 22,718	$ 21,582	$ 19,354	$ 16,890	$ 80,544
Interest expense	6,985	6,705	6,188	5,774	25,652
Net interest income	15,733	14,877	13,166	11,116	54,892
Provision for loan losses	520	895	308	431	2,154
Net interest income after provision for loan losses	15,213	13,982	12,858	10,685	52,738
Noninterest income	6,247	6,098	6,274	4,683	23,302
Noninterest expenses	13,964	13,992	12,755	10,510	51,221
Income before income taxes	7,496	6,088	6,377	4,858	24,819
Income tax expense	2,199	1,631	1,816	1,248	6,894
Net income	$ 5,297	$ 4,457	$ 4,561	$ 3,610	$ 17,925
Net income per share:					
Basic	$ 0.62	$ 0.51	$ 0.53	$ 0.47	$ 2.13
Diluted	$ 0.60	$ 0.51	$ 0.53	$ 0.47	$ 2.11

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" of this Form 10-K.

Item 8. – Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Union Bankshares Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Union Bankshares Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Union Bankshares Corporation and subsidiaries' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Union Bankshares Corporation and subsidiaries' internal control over financial reporting based on our audits. We did not audit the financial statements of Mortgage Capital Investors, Inc. for 2004 and 2003, a consolidated subsidiary which reflects total assets and revenue constituting 3% and 13%, respectively, in 2004 and 3% and 17%, respectively, in 2003 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, Inc. is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A corporation's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 Union Bankshares Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, based on our audit, management's assessment that Union Bankshares Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Furthermore, in our opinion, based on our audit, Union Bankshares Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

Winchester, Virginia
February 13, 2006

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(in thousands, except per share amounts)

	2005	2004
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 47,731**	$ 29,920
Interest-bearing deposits in other banks	**578**	523
Money market investments	**94**	130
Other interest-bearing deposits	**2,598**	2,598
Federal funds sold	**18,537**	73
Total cash and cash equivalents	**69,538**	33,244
Securities available for sale, at fair value	**246,017**	233,467
Loans held for sale	**28,068**	42,668
Loans, net of unearned income	**1,362,254**	1,264,841
Less allowance for loan losses	**17,116**	16,384
Net loans	**1,345,138**	1,248,457
Bank premises and equipment, net	**45,332**	40,945
Other real estate owned	**—**	14
Core deposit intangibles, net	**8,504**	9,721
Goodwill	**31,297**	30,992
Other assets	**51,064**	32,702
Total assets	**$ 1,824,958**	$ 1,672,210
LIABILITIES		
Noninterest-bearing demand deposits	**$ 258,085**	$ 230,055
Interest-bearing deposits:		
NOW accounts	**197,888**	195,309
Money market accounts	**178,346**	197,617
Savings accounts	**117,046**	117,851
Time deposits of $100,000 and over	**333,709**	209,929
Other time deposits	**371,441**	363,556
Total interest-bearing deposits	**1,198,430**	1,084,262
Total deposits	**1,456,515**	1,314,317
Securities sold under agreements to repurchase	**60,828**	45,024
Other short-term borrowings	**42,600**	24,514
Trust preferred capital notes	**23,196**	23,196
Long-term borrowings	**47,000**	90,271
Other liabilities	**15,461**	12,130
Total liabilities	**1,645,600**	1,509,452
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, $2 par value; authorized 24,000,000 shares; issued and outstanding, 8,797,325 shares in 2005 and 8,744,176 shares in 2004	**17,595**	17,488
Surplus	**35,426**	33,716
Retained earnings	**124,531**	106,460
Accumulated other comprehensive income	**1,806**	5,094
Total stockholders' equity	**179,358**	162,758
Total liabilities and stockholders' equity	**$ 1,824,958**	$ 1,672,210

See accompanying notes to consolidated financial statements.

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(in thousands, except per share amounts)

	2005	2004	2003
Interest and dividend income :			
Interest and fees on loans	**$ 90,355**	$ 68,738	$ 54,312
Interest on Federal funds sold	**349**	102	138
Interest on deposits in other banks	**49**	29	22
Interest on money market investments	**2**	1	22
Interest on other interest-bearing deposits	**81**	33	—
Interest and dividends on securities:			
Taxable	**7,791**	7,709	8,171
Nontaxable	**3,690**	3,932	4,352
Total interest and dividend income	**102,317**	80,544	67,017
Interest expense:			
Interest on deposits	**25,908**	20,029	19,873
Interest on short-term borrowings	**2,013**	697	325
Interest on long-term borrowings	**5,046**	4,926	3,707
Total interest expense	**32,967**	25,652	23,905
Net interest income	**69,350**	54,892	43,112
Provision for loan losses	**1,172**	2,154	2,307
Net interest income after provision for loan losses	**68,178**	52,738	40,805
Noninterest income:			
Service charges on deposit accounts	**6,790**	6,826	5,597
Other service charges, commissions and fees	**4,360**	3,431	2,509
Gains on securities transactions, net	**26**	49	113
Gains on sales of loans	**12,973**	11,836	13,260
Gains on sales of other real estate owned and bank premises, net	**33**	29	165
Other operating income	**1,328**	1,131	1,196
Total noninterest income	**25,510**	23,302	22,840
Noninterest expenses:			
Salaries and benefits	**33,556**	29,128	25,137
Occupancy expenses	**4,148**	3,427	2,684
Furniture and equipment expenses	**3,927**	3,444	2,609
Other operating expenses	**16,644**	15,222	10,295
Total noninterest expenses	**58,275**	51,221	40,725
Income before income taxes	**35,413**	24,819	22,920
Income tax expense	**10,591**	6,894	6,256
Net income	**$ 24,822**	$ 17,925	$ 16,664
Earnings per share, basic	**$ 2.83**	$ 2.13	$ 2.19
Earnings per share, diluted	**$ 2.81**	$ 2.11	$ 2.17

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(in thousands, except per share amounts)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total
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 losses arising during the period (net of tax, $39)					(75)	
Reclassification adjustment for gains included in net income (net of tax, $38)					(75)	
Other comprehensive 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**
Comprehensive income:						
Net income - 2004			17,925		$ 17,925	$ 17,925
Unrealized holding losses arising during the period (net of tax, $871)					(1,618)	
Reclassification adjustment for gains included in net income (net of tax, $17)					(32)	
Other comprehensive loss (net of tax, $888)				(1,650)	(1,650)	(1,650)
Total comprehensive income					$ 16,275	
Cash dividends - 2004 ($.68 per share)			(5,567)			(5,567)
Issuance of common stock under Dividend Reinvestment Plan (18,678 shares)	37	529				566
Issuance of common stock under Incentive Stock Option Plan (66,586 shares)	134	860				994
Issuance of common stock for services rendered (8,908 shares)	17	292				309
Issuance of common stock in exchange for net assets in acquisition (1,022,756 shares)	2,046	29,634				31,680
Balance - December 31, 2004	**$17,488**	**$33,716**	**$106,460**	**$ 5,094**		**$162,758**
Comprehensive income:						
Net income - 2005			**24,822**		**$ 24,822**	**24,822**
Unrealized holding losses arising during the period (net of tax, $1,762)					**(3,271)**	
Reclassification adjustment for gains included in net income (net of tax, $9)					**(17)**	
Other comprehensive loss (net of tax, $1,771)				**(3,288)**	**(3,288)**	**(3,288)**
Total comprehensive income					**$ 21,534**	
Cash dividends - 2005 ($.77 per share)			**(6,751)**			**(6,751)**
Tax benefit from exercise of stock awards		**169**				**169**
Accelerated vesting of stock options		**64**				**64**
Award of performance stock grants		**48**				**48**
Unearned compensation on restricted stock, net of amortization		**(157)**				**(157)**
Issuance of common stock under Dividend Reinvestment Plan (19,594 shares)	**40**	**683**				**723**
Issuance of common stock under Incentive Stock Option Plan (19,222 shares)	**38**	**330**				**368**
Issuance of common stock for services rendered (9,003 shares)	**18**	**392**				**410**
Issuance of restricted stock under Incentive Stock Option Plan (5,330 shares)	**11**	**181**				**192**
Balance - December 31, 2005	**$17,595**	**$35,426**	**$124,531**	**$ 1,806**		**$179,358**

See accompanying notes to consolidated financial statements.

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ending December 31, 2005, 2004 and 2003
(in thousands)

	2005	2004	2003
Operating activities:			
Net income	$ 24,822	$ 17,925	$ 16,664
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization of bank premises and equipment	3,396	2,994	2,041
Amortization, net	1,556	1,679	2,237
Provision for loan losses	1,172	2,154	2,307
Gains on securities available for sale	(26)	(49)	(113)
Origination of loans held for sale	(556,774)	(496,153)	(535,482)
Proceeds from sales of loans held for sale	571,374	482,168	546,570
Gains on sales of other real estate owned and premises, net	(33)	(29)	(165)
Stock-based compensation expenses	147	—	—
Increase in other assets	(16,946)	(335)	(655)
Increase (decrease) in other liabilities	3,500	(594)	(232)
Net cash and cash equivalents provided by operating activities	32,188	9,760	33,172
Investing activities:			
Purchases of securities available for sale	(56,417)	(76,574)	(71,065)
Proceeds from sales of securities available for sale	—	12,354	9,775
Proceeds from maturities, calls and paydowns of securities available for sale	38,545	87,806	92,455
Net increase in loans	(97,853)	(218,801)	(163,470)
Purchases of bank premises and equipment	(7,797)	(9,483)	(7,678)
Proceeds from sales of bank premises and equipment	—	—	15
Proceeds from sales of other real estate owned	61	494	486
Cash paid in bank acquisition	—	(23,235)	—
Cash acquired in bank acquisition	—	16,701	—
Net cash and cash equivalents used in investing activities	(123,461)	(210,738)	(139,482)
Financing activities:			
Net increase in noninterest-bearing deposits	28,030	45,129	12,957
Net increase in interest-bearing deposits	114,168	84,933	89,878
Net increase (decrease) in short-term borrowings	33,890	19,936	(2,175)
Net increase (decrease) in long-term borrowings	(42,700)	37,500	5,000
Repayment of long-term borrowings	(571)	(13,437)	(1,011)
Proceeds from trust preferred capital notes	—	23,196	—
Cash dividends paid	(6,751)	(5,567)	(4,559)
Issuance of common stock	1,501	1,560	908
Stock repurchased under Stock Repurchase Plan and option exchange	—	—	(118)
Net cash and cash equivalents provided by financing activities	127,567	193,250	100,880
Increase (decrease) in cash and cash equivalents	36,294	(7,728)	(5,430)
Cash and cash equivalents at beginning of the period	33,244	40,972	46,402
Cash and cash equivalents at end of the period	$ 69,538	$ 33,244	$ 40,972
Supplemental Disclosure of Cash Flow Information			
Cash payments for:			
Interest	$ 25,221	$ 25,404	$ 23,965
Income taxes	12,178	6,896	7,211
Supplemental schedule of noncash investing and financing activities:			
Unrealized loss on securities available for sale	(5,059)	(2,381)	(227)
Issuance of common stock for services rendered	410	309	—
Issuance of common stock in exchange for net assets in acquisition	—	31,680	264
Issuance of common stock pursuant to restricted stock awards	192	—	—
Transactions related to the acquisition of subsidiary:			
Increase in assets and liabilities:			
Loans	$ —	$ 165,062	$ —
Securities	—	19,931	—
Other Assets	—	39,220	—
Noninterest bearing deposits	—	38,503	—
Interest bearing deposits	—	145,981	—
Borrowings	—	7,000	—
Other Liabilities	—	2,130	—
Issuance of common stock	—	31,680	—

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004, and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and practices of Union Bankshares Corporation and subsidiaries (the “Company”) conform with accounting principles generally accepted in the United States of America and follow 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 the Company, which is a bank holding company that owns all of the outstanding common stock of its banking subsidiaries, Union Bank and Trust Company (“Union Bank”), Northern Neck State Bank, Rappahannock National Bank, Bank of Williamsburg and of Union Investment Services. Mortgage Capital Investors, Inc. is a wholly-owned subsidiary of Union Bank. The Bank of Williamsburg has a non-controlling interest in Johnson Mortgage Company, LLC, which is accounted for under the equity method of accounting. The Company’s Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable Capital Securities in connection with the Company’s acquisition of Guaranty. Financial Accounting Standards Board (“FASB”) Interpretation No. 46R *“Consolidation of Variable Interest—an interpretation of ARB No. 51”* (“FIN 46R”) precludes the Company from consolidating Statutory Trust I, an unconsolidated subsidiary. The subordinated debt payable to the trust is reported as a liability of the Company. All significant inter-company balances and transactions have been eliminated. The accompanying consolidated financial statements for prior periods reflect certain reclassifications in order to conform to the current presentation.

(B) Investment Securities

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. 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 reported at fair value, with unrealized gains or losses on, net of deferred taxes, included in accumulated other comprehensive income (loss) in stockholders’ equity.

Securities classified as held for trading are those debt and equity securities that are bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings.

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. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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(C) Loans Held For Sale

Loans originated and intended for sale in the secondary market are sold servicing released and carried at the lower of cost or estimated fair value which is 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 and commercial real estate 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 non-accrual 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 non-accrual status or charged-off is reversed against interest income. 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or

observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for various qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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. The Company's policy is 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) Goodwill and Intangible Assets

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, the Company 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. 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.

(H) 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.

(I) Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the carrying amount or 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.

(J) 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, other interest-bearing deposits, and Federal funds sold.

(K) 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.

(L) Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in equity 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 of America are included in comprehensive income but excluded from net income, such as unrealized gains and losses on certain investments in debt and equity securities.

(M) 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 goodwill and intangible assets, foreclosed real estate and deferred tax assets and liabilities.

(N) Advertising Costs

The Company follows a policy of charging the cost of advertising to expense as incurred. Total advertising costs included in other operating expenses for 2005, 2004 and 2003 were $1.3 million, $1.2 million and $820 thousand, respectively.

(O) 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.

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(P) 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 30 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.

(Q) Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46,*Consolidation of Variable Interest Entities—an interpretation of ARB No. 51* (“FIN 46”), which states that if a business enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate the entity. FIN 46 also requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. Due to the significant implementation concerns, the FASB revised Interpretation No. FIN 46. Management has evaluated the Company’s investment in variable interest entities and potential variable interest entities or transactions, particularly in trust preferred securities structures because these entities constitute the Company’s primary exposure.

Currently, other than the impact described above from the deconsolidation of the trust preferred capital notes, the adoption of FIN 46 and FIN 46R has not had a material impact on the financial condition or the operating results of the Company.

(R) Asset Prepayment Rates

The Company purchases amortizing loan pools and investment securities in which the underlying assets are residential mortgage loans subject to prepayments. The actual principal reduction on these assets varies from the expected contractual principal reduction due to principal prepayments resulting from the borrowers’ election to refinance the underlying mortgage based on market and other conditions. The purchase premiums and discounts associated with these assets are amortized or accreted to interest income over the estimated life of the related assets. The estimated life is calculated by projecting future prepayments and the resulting principal cash flows until maturity. Prepayment rate projections utilize actual prepayment speed experience and available market information on like-kind instruments. The prepayment rates form the basis for income recognition of premiums and discounts on the related assets. Changes in prepayment estimates may cause the earnings recognized on these assets to vary over the term

that the assets are held, creating volatility in the net interest margin. Prepayment rate assumptions are monitored and updated monthly to reflect actual activity and the most recent market projections.

(S) Concentrations of Credit Risk

Most of the Company's activities are with customers located in portions of central and Tidewater Virginia. Securities Available for Sale are discussed in Note 2. Loans are discussed in Note 3.

(T) Stock Compensation Plan

The Company accounts for the stock options 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 Company's stock option plans 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. Included in 2005 was $792 thousand related to shares vesting in connection with the acceleration of stock options.

	Years Ended December 31,		
(in thousands except per share data)	2005	2004	2003
Net income, as reported	**$24,822**	$17,925	$16,664
Total stock-based compensation expense determined under fair value based method for all awards	**(1,194)**	(378)	(338)
Pro forma net income	**$23,628**	$17,547	$16,326
Earning per share:			
Basic - as reported	**$ 2.83**	$ 2.13	$ 2.19
Basic - pro forma	**$ 2.70**	$ 2.09	$ 2.15
Diluted - as reported	**$ 2.81**	$ 2.11	$ 2.17
Diluted - pro forma	**$ 2.67**	$ 2.07	$ 2.13

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:

	2005	2004	2003
Dividend yield	**2.30%**	2.39%	2.43%
Expected life	**10 years**	10 years	10 years
Expected volatility	**32.93%**	34.54%	35.54%
Risk-free interest rate	**4.22%**	4.23%	4.03%

(U) Recent Accounting Pronouncements

In November 2005, FASB Staff Position (FSP) 115-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" was issued. The FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". The FSP applies to investments in debt and equity securities and cost-method investments. The application guidance within the FSP includes items to consider in determining whether an investment is impaired, in evaluating if an impairment is other than temporary and recognizing impairment losses equal to the difference between the investment's cost and its fair value when an impairment is determined. The FSP is required for all reporting periods beginning after December 15, 2005. Earlier application is permitted. The Company does not anticipate the amendment will have a material effect on its financial statements.

In May 2005, FASB issued Statement No. 154, ("SFAS No. 154")*"Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3."* The new standard changes the requirements for the accounting for and reporting of a change in accounting principle. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement. " The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not anticipate this revision will have a material effect on its financial statements.

In December 2004, FASB issued Statement No. 123 (Revised 2004) (SFAS No. 123R)*"Share-Based Payment"*, which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Share-based compensation arrangements include share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123R requires all share-based payments to employees to be valued using a fair value method on the date of grant and expensed based on that fair value over the applicable vesting period. SFAS No. 123R also amends SFAS No. 95 "Statement of Cash Flows" requiring the benefits of tax deductions in excess of recognized compensation cost be reported as financing instead of operating cash flows. The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"), which expresses the SEC's views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations. Additionally, SAB No. 107 provides guidance related to share-based payment transactions for public companies. The Company will be required to apply SFAS No. 123R as of the annual reporting period that begins after September 15, 2005.

On December 30, 2005, the Company accelerated the vesting of stock options in order to eliminate the recognition of compensation expense associated with the affected options under SFAS No. 123R, which will apply to the Company beginning in the first quarter of 2006. The Company anticipates that the aggregate pre-tax compensation expense associated with the accelerated options that will be avoided by this action is approximately $792 thousand, of which approximately $312 thousand would have been recognized in 2006. The Company believes that it will not be required to recognize any compensation expense in future periods associated with the affected options. However, there can be no assurance that the

acceleration of vesting of these options may not result in some future compensation expense. The Company is seeking consent from option holders affected by Section 422 of the Internal Revenue Code of 1986, as amended, to accelerate options held. If these holders withhold consent the pre-tax compensation expense of approximately $792 thousand will be reduced by approximately $229 thousand.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans purchased by the Company or acquired in business combinations. SOP 03-3 does not apply to loans originated by the Company. The Company adopted the provisions of SOP 03-3 effective January 1, 2005. The initial implementation had no material effect on the Company's financial statements.

(V) Business Combinations

On May 1, 2004, the Company completed its acquisition of Guaranty headquartered in Charlottesville, Virginia. This acquisition was accounted for using the purchase method of accounting. The total consideration paid to Guaranty stockholders in connection with the acquisition was approximately $54.9 million with approximately $23.2 million in cash and 1,023,000 shares of the Company's common stock. The Company operated Guaranty as a separate subsidiary until September 13, 2004, when the operations of Guaranty were merged with and into the Company's largest subsidiary, Union Bank. Guaranty transactions have been included in Union Bank's financial results since May 1, 2004. Acquired assets on May 1, 2004 totaled $248 million, including $165 million in loans and $184 million in deposits. As part of the purchase price allocation at May 1, 2004, Union Bank recorded $5.8 million in core deposit intangibles, and goodwill totaled approximately $30.1 million. The core deposit intangible asset for this acquisition is being amortized over an average of 8.74 years.

The acquisition of Guaranty fell under the guidance of the Emerging Issues Task Force ("EITF") in EITF Issue No 94-3,*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)* Under EITF Issue No. 94-3, an entity recognizes a liability for an exit cost on the date that the entity commits itself to an exit plan. "Exit costs" are defined to include those costs recorded by Guaranty prior to the merger date and therefore are not included in the Company's results of operations. Guaranty recorded exit costs of $1.3 million relating to severance and costs associated with terminating contracts.

The Company's exit costs, referred to herein as "merger-related" costs, are defined to include those costs for combining operations such as systems conversions, integration planning consultant fees and marketing consultant fees incurred by the Company prior to and after the merger date and are included in the results of operations. The Company expensed merger-related costs which totaled approximately $343 thousand for year ended December 31, 2004. The costs associated with these activities are included in noninterest expenses.

Additionally, the Company recently announced the signing of a definitive agreement, pursuant to which it will acquire Prosperity Bank and Trust Company ("Prosperity") in an all cash transaction valued at $36 million. Prosperity, with nearly $130 million in assets, operates three offices in Springfield, Virginia, located in affluent Fairfax County, a suburb of Washington, D.C. This acquisition will close on or about April 1, 2006 with back office data conversion scheduled for September 2006.

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, 2005 and 2004 are summarized as follows (in thousands):

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. government and agency securities	**$ 1,977**	**$ —**	**$ (42)**	**$ 1,935**
Obligations of states and political subdivisions	**83,908**	**2,487**	**(177)**	**86,218**
Corporate and other bonds	**38,423**	**2,603**	**(247)**	**40,779**
Mortgage-backed securities	**108,576**	**183**	**(2,053)**	**106,706**
Federal Reserve Bank stock - restricted	**2,213**	**—**	**—**	**2,213**
Federal Home Loan Bank stock - restricted	**7,392**	**—**	**—**	**7,392**
Other securities	**750**	**24**	**—**	**774**
	$ 243,239	**$ 5,297**	**$ (2,519)**	**$ 246,017**

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
U.S. government and agency securities	$ 8,016	$ 14	$ (10)	$ 8,020
Obligations of states and political subdivisions	80,051	3,333	(46)	83,338
Corporate and other bonds	34,759	3,914	—	38,673
Mortgage-backed securities	92,425	779	(281)	92,923
Federal Reserve Bank stock - restricted	2,153	—	—	2,153
Federal Home Loan Bank stock - restricted	7,474	—	—	7,474
Other securities	751	135	—	886
	$ 225,629	$ 8,175	$ (337)	$ 233,467

The amortized cost and estimated fair value (in thousands) of securities available for sale at December 31, 2005, 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	$ 7,629	$ 7,625
Due after one year through five years	20,836	20,778
Due after five years through ten years	94,044	94,647
Due after ten years	110,375	112,588
	232,884	235,638
Federal Reserve Bank stock - restricted	7,392	7,392
Federal Home Loan Bank stock - restricted	2,213	2,213
Other securities	750	774
	$ 243,239	**$ 246,017**

Securities with an amortized cost of approximately $92.2 million and $89.3 million at December 31, 2005 and 2004 were pledged to secure public deposits, repurchase agreements and for other purposes.

Sales, call, maturities and paydowns of securities available for sale produced the following results for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Proceeds from sales	**$ —**	$ 12,354	$ 9,775
Proceeds from calls, maturities and paydowns	**38,545**	87,806	92,455
Total proceeds	**$ 38,545**	$ 100,160	$ 102,230
Gross realized gains	**$ 26**	$ 124	$ 160
Gross realized (losses)	**—**	(75)	(47)
Net realized gains (losses)	**$ 26**	$ 49	$ 113

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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 includes 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 cause of temporary impairments is the decline in the prices of the bonds as rates have risen. There are approximately 91 securities totaling $110.1 million that have been in a continuous loss position greater than 12 months, primarily consisting of mortgage-backed securities. Since the declines in fair value were attributable to changes in market interest rates, not in estimated cash flows or credit quality, no other-than-temporary impairment was recorded at December 31, 2005.

The following tables present the gross unrealized losses and fair values at December 31, 2005 and 2004, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position:

As of December 31, 2005 (in thousands)	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	**$ 490**	**$ (10)**	**$ 1,445**	**$ (32)**	**$ 1,935**	**$ (42)**
Obligations of states and political subdivisions	**1,247**	**(12)**	**5,287**	**(165)**	**6,534**	**(177)**
Mortgage-backed securities	**—**	**—**	**95,390**	**(2,053)**	**95,390**	**(2,053)**
Corporate and other bonds	**1,997**	**(3)**	**7,973**	**(244)**	**9,970**	**(247)**
	$ 3,734	**$ (25)**	**$ 110,095**	**$ (2,494)**	**$ 113,829**	**$ (2,519)**

As of December 31, 2004 (in thousands)	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	$ 2,519	$ (10)	$ —	$ —	$ 2,519	$ (10)
Obligations of states and political subdivisions	1,532	(23)	1,264	(23)	2,796	(46)
Mortgage-backed securities	31,112	(220)	1,871	(61)	32,983	(281)
	$ 35,163	$ (253)	$ 3,135	$ (84)	$ 38,298	$ (337)

3. LOANS

Loans are stated at their face amount, net of unearned income, and consist of the following at December 31, 2005 and 2004 (in thousands):

	2005	2004
Mortgage loans on real estate:		
Residential 1-4 family	**$ 271,721**	$ 270,341
Commercial	**394,094**	368,816
Construction	**273,262**	221,190
Second mortgages	**24,088**	18,017
Equity lines of credit	**96,490**	90,042
Multifamily	**14,648**	18,287
Agriculture	**11,145**	5,530
Total real estate loans	**1,085,448**	992,223
Commercial Loans	**127,048**	135,907
Consumer installment loans		
Personal	**126,174**	113,841
Credit cards	**9,388**	8,655
Total consumer installment loans	**135,562**	122,496
All other loans	**14,196**	14,219
Gross loans	**1,362,254**	1,264,845
Less unearned income on loans	**—**	4
Loans, net of unearned income	**$ 1,362,254**	$ 1,264,841

At December 31, 2005 and 2004, 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 $11.3 million and $11.3 million, respectively. The valuation allowance related to impaired loans on December 31, 2005 and 2004 is $1.3 million and $1.2 million, respectively. For the years ended December 31, 2005, 2004 and 2003, the average investment in impaired loans was $11.4 million, $10.7 million and $10.0 million, respectively. Had these loans performed in accordance with their original terms, interest income of approximately $870 thousand and $784 thousand would have been recorded in 2005 and 2004, respectively. There was no interest income recorded on impaired loans in 2005 and 2004. There were no non-accrual loans excluded from impaired loan disclosure at December 31, 2005 and 2004. Loans past due 90 days or more and accruing interest totaled $150 thousand and $822 thousand at December 31, 2005 and 2004, respectively.

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4. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses for the years ended December 31, 2005, 2004 and 2003 is summarized below (in thousands):

	2005	2004	2003
Balance, beginning of year	**$ 16,384**	$ 11,519	$ 9,179
Allowance from acquired bank	**—**	2,040	—
Provision charged to operations	**1,172**	2,154	2,307
Recoveries credited to allowance	**400**	1,845	988
Total	**17,956**	17,558	12,474
Loans charged off	**840**	1,174	955
Balance, end of year	**$ 17,116**	$ 16,384	$ 11,519

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Land	**$12,492**	$11,157
Land improvements and buildings	**27,855**	27,422
Leasehold improvements	**1,175**	1,088
Furniture and equipment	**20,254**	18,634
Construction in progress	**6,423**	2,571
Total	**68,199**	60,872
Less accumulated depreciation and amortization	**22,867**	19,927
Bank premises and equipment, net	**$45,332**	$40,945

Depreciation expense for 2005, 2004 and 2003 was $3.4 million, $3.0 million, and $2.0 million, respectively. Future minimum rental payments required under non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year as of December 31, 2005 are as follows (in thousands):

2006	**$1,104**
2007	**938**
2008	**886**
2009	**818**
2010	**705**
Thereafter	**1,780**
	$6,231

The leases contain options to extend for periods up to 18 years. Rental expense for years ended December 31, 2005, 2004 and 2003 totaled $1.5 million, $1.3 million, and $1.2 million, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

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. Based on the testing for impairment of goodwill and intangible assets, there were no impairment charges for 2005, 2004 or 2003. Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 5 to 15 years. As part of the purchase price allocation for the acquisition of Guaranty, the Company recorded approximately $5.8 million in core deposit intangible assets and $30.1 million in goodwill, in 2004. The core deposit intangible assets recorded in the Guaranty acquisition are being amortized over an average of 8.74 years. Information concerning goodwill and intangible assets is presented in the following table:

	December 31, 2005			December 31, 2004		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	**$ 13,623**	**5,119**	**$ 8,504**	$ 13,623	$ 3,902	$ 9,721
Unamortizable goodwill	**31,639**	**342**	**31,297**	31,334	342	30,992

Amortization expense of core deposit intangibles for the years ended December 31, 2005, 2004 and 2003 totaled $1.2 million, $1.0 million and $571 thousand, respectively. Estimated amortization expense of core deposit intangibles for the years ended December 31 are as follows (in thousands):

2006	**$1,218**
2007	**1,218**
2008	**1,209**
2009	**1,195**
2010	**1,196**
Thereafter	**2,468**
	$8,504

7. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2005 and 2004 was $333.7 million and $209.9 million, respectively. At December 31, 2005, the scheduled maturities of time deposits are as follows (in thousands):

2006	**$428,366**
2007	**138,879**
2008	**81,995**
2009	**40,321**
2010	**15,316**
Thereafter	**273**
	$705,150

8. OTHER BORROWINGS

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 $1.4 billion at December 31, 2005. Short-term borrowings consist of the following at December 31, 2005 and 2004 (in thousands):

	2005	2004
Securities sold under agreements to repurchase	**$ 60,828**	$45,024
Federal funds purchased	**—**	12,014
Other short-term borrowings	**42,600**	12,500
Total	**$103,428**	$69,538
Maximum month-end outstanding balance	**$103,428**	$93,082
Average outstanding balance during the year	**62,452**	64,649
Average interest rate during the year	**2.62%**	1.08%
Average interest rate at end of year	**3.14%**	1.85%

The contractual maturities of long-term debt are as follows as of December 31, 2005 (in thousands):

	Fixed Rate	Floating Rate	Total
Due in 2006	$ —	$ —	**$ —**
Due in 2007	—	—	**—**
Due in 2008	5,000	—	**5,000**
Due in 2009	10,000	—	**10,000**
Due in 2010	20,000	—	**20,000**
Thereafter	12,000	23,196	**35,196**
Total long term debt	**$ 47,000**	**$ 23,196**	**$ 70,196**

At December 31, 2005, the Company's fixed-rate long-term debt totals $47.0 million and matures through 2011. The interest rate on the fixed-rate notes payable ranges from 5.22% to 6.32%. At December 31, 2004, the Company had fixed-rate long-term debt totaling $89.7 million, maturing through 2013.

During the first quarter of 2004, the Company's Statutory Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable Capital Securities in connection with the Company's acquisition of Guaranty. On March 18, 2004, $22.5 million of Trust Preferred Capital Notes were issued through a pooled underwriting totaling approximately $858.8 million. The securities have a LIBOR-indexed floating rate of interest (three-month LIBOR plus 2.75%) which adjusts, and is payable, quarterly. The interest rate at December 31, 2005 and 2004 was 7.25% and 5.25%, respectively. The securities may be redeemed at par beginning on June 17, 2009 and each quarterly anniversary of such date until the securities mature on June 17, 2034. The principal asset of the Trust is $23.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Capital Securities. The obligations of the Company with respect to the issuance of the Capital Securities constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the Capital Securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities and require a deferral of common dividends.

The Company determined that certain trusts created to issue trust preferred capital notes required deconsolidation due to the provisions of FIN 46R. The deconsolidation required the Company to remove $22.5 million in trust preferred capital notes from its consolidated financial statements and to record junior subordinated debentures payable to these trusts of $23.2 million and record the Company's investment in the trusts of $696 thousand in other assets. The trust preferred capital notes had been counted as Tier 1 capital for regulatory purposes as minority interests in consolidated subsidiaries. In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include the trust preferred capital notes in Tier 1 capital for regulatory capital purposes until further notice, even though the trusts that issued the trust preferred capital notes were not

consolidated with their parent bank holding companies under FIN 46. On May 6, 2004, the Federal Reserve proposed changes to its capital adequacy rules that would continue to include limited amounts of qualified trust preferred capital notes as Tier 1 capital, notwithstanding the change in GAAP resulting from FIN 46 and FIN 46R.

The subsidiary banks maintain Federal funds lines with several correspondent banks totaling $65 million for years ending December 31, 2005 and 2004. The Company also had a line of credit with the Federal Home Loan Bank of Atlanta totaling $541 million and $504 million for years ended December 31, 2005 and 2004, respectively.

9. INCOME TAXES

Net deferred tax assets (liabilities) consist of the following components as of December 31, 2005 and 2004 (in thousands):

	2005	2004
Deferred tax assets:		
Allowance for loan losses	**$5,990**	$5,734
Benefit plans	**608**	549
Nonaccrual loans	**694**	389
Conversion expenses	**93**	229
Other	**385**	277
Total deferred tax assets	**7,770**	7,178
Deferred tax liabilities:		
Depreciation	**2,374**	2,760
Purchase accounting intangibles	**1,907**	1,977
Other	**278**	310
Securities available for sale	**972**	2,743
Total deferred tax liabilities	**5,531**	7,790
Net deferred tax asset (liability)	**$2,239**	$ (612)

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, 2005, 2004 and 2003 consists of the following (in thousands):

	2005	2004	2003
Current tax expense	**$11,671**	$7,229	$6,911
Deferred tax expense (benefit)	**(1,080)**	(335)	(655)
Income tax expense	**$10,591**	$6,894	$6,256

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, 2005, 2004 and 2003, due to the following (in thousands):

	2005	2004	2003
Computed "expected" tax expense	**$12,394**	$ 8,687	$ 8,022
(Decrease) in taxes resulting from:			
Tax-exempt interest income, net	**(1,432)**	(1,483)	(1,555)
Other, net	**(371)**	(310)	(211)
Income tax expense	**$10,591**	$ 6,894	$ 6,256

The effective tax rates were 29.9%, 27.8% and 27.3% for years 2005, 2004 and 2003, respectively. Tax credits totaled $106 thousand, $84 thousand, and $42 thousand for the years ended December 31, 2005, 2004 and 2003, respectively.

10. EMPLOYEE BENEFITS

The Company has a 401(k) plan that allows employees to make pre-tax contributions for retirement. The 401(k) plan provides for matching contributions by the Company for employee contributions 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 2005, 2004 and 2003 are as follows (in thousands):

	2005	2004	2003
401(k) Plan	**$1,020**	$1,184	$ 843
ESOP	**790**	379	618
Cash	**192**	329	276
	$2,001	$1,892	$1,737

The Company has an obligation to certain members of the subsidiary banks' Boards of Directors under deferred compensation plans in the amount of $2.5 million and $1.8 million at December 31, 2005 and 2004, respectively. The expense related to the deferred compensation plans was $115 thousand, $158 thousand and $132 thousand for the years ended December 31, 2005, 2004 and 2003, respectively. These benefits will be fully funded by life insurance proceeds.

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 cash return on equity and earnings per share growth 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 $645 thousand, $392 thousand, and $315 thousand for the years ended December 31, 2005, 2004 and 2003, 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 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 plans, 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 plans may be subject to a graded vesting schedule.

Effective January 1, 1992, the Company established the ESOP. The ESOP is a tax-qualified retirement plan intended to invest primarily in Company stock, and it is subject to the applicable requirements of the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. Participants become 100% vested after six years of credited service. The ESOP contains a put option which allows a withdrawing participant to require the Company or the ESOP to purchase his or her allocated shares if the shares are not readily tradable on an established market at the time of its distribution. Contributions each year are at the discretion of the Board of Directors, within certain limitations prescribed by federal tax regulations. The ESOP held 175,472 shares as of December 31, 2005. All shares held by the ESOP are treated as outstanding for purposes of computing earnings per share.

A summary of changes in outstanding stock options for the years 2005, 2004 and 2003 follows:

	December 31,					
	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, January 1	**226,729**	**$ 23.61**	222,139	$ 19.84	194,415	$ 16.47
Granted	**22,925**	**37.16**	54,800	33.82	66,350	27.77
Assumed from acquisition	—	—	25,260	11.87	—	—
Forfeited	**(10,050)**	**28.08**	(8,884)	24.56	(11,923)	21.17
Exercised	**(15,642)**	**19.38**	(66,586)	14.90	(26,703)	14.38
Options outstanding, December 31	**223,962**	**$ 25.04**	226,729	$ 23.61	222,139	$ 19.84
Weighted average fair value per option of options granted during year		**$ 13.40**		$ 12.46		$ 10.29

A summary of options outstanding at December 31, 2005 follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 12.50	2,300	1.1 yrs	$ 12.50	2,300	12.50
12.81	10,210	5.1	12.81	8,210	12.81
13.00	8,597	4.1	13.00	8,597	13.00
16.00	35,970	5.9	16.00	29,570	16.00
20.13	48,140	2.1	20.13	48,140	20.13
27.87	48,220	7.1	27.87	38,500	27.87
28.50	1,000	7.6	28.50	1,000	28.50
30.50	2,500	8.0	30.50	2,500	30.50
33.98	46,050	8.1	33.98	31,690	33.98
35.25	16,475	9.1	35.25	16,475	35.25
41.27	2,500	9.6	41.27	2,500	41.27
47.76	2,000	10.0	47.76	2,000	47.76
$12.50 - 47.76	**223,962**	**6.0**	**$ 25.04**	**191,482**	**24.66**

11. 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 off-balance sheet 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, 2005 and 2004, the Company had outstanding loan commitments approximating $654.6 million and $571.6 million, 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 $28.2 million for both years ended at December 31, 2005 and 2004.

At December 31, 2005, the mortgage company had rate lock commitments to originate mortgage loans amounting to approximately $27.2 million and loans held for sale of $28.1 million. The mortgage company has entered into corresponding mandatory commitments on a best-efforts basis to sell loans servicing released totaling approximately $55.3 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.

12. 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 $24.9 million and $23.3 million as of December 31, 2005 and 2004, respectively. During 2005 new advances to such related parties amounted to $7.9 million and repayments amounted to $6.3 million.

13. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares

outstanding attributable to stock awards. There were 2,000, 35,000 and 33,000 anti-dilutive options as of December 31, 2005, 2004 and 2003, respectively.

The following is a reconcilement of the denominators of the basic and diluted EPS computations for the years ended December 31, 2005, 2004 and 2003 (in thousands except per share data):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the Year Ended December 31, 2005			
Basic EPS	**$ 24,822**	**8,762**	**$ 2.83**
Effect of dilutive stock awards	**—**	**88**	**(0.02)**
Diluted EPS	**$ 24,822**	**8,850**	**$ 2.81**
For the Year Ended December 31, 2004			
Basic EPS	$ 17,925	8,403	$ 2.13
Effect of dilutive stock awards	—	79	(0.02)
Diluted EPS	$ 17,925	8,482	$ 2.11
For the Year Ended December 31, 2003			
Basic EPS	$ 16,664	7,603	$ 2.19
Effect of dilutive stock awards	—	72	(0.02)
Diluted EPS	$ 16,664	7,675	$ 2.17

14. COMMITMENTS AND LIABILITIES

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.

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, 2005 and 2004, the aggregate amount of daily average required reserves, net of vault cash, was approximately $1.8 million and $1.4 million, respectively.

The Company has approximately $1.3 million in deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2005.

15. REGULATORY MATTERS

The Company 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, 2005, that the Company and Banks meet all capital adequacy requirements to which they are subject.

The Company's and principal banking subsidiaries' actual capital amounts and ratios are also presented in the following 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, 2005						
Total capital to risk weighted assets						
Consolidated	**$177,367**	**12.14%**	**$116,881**	**8.00%**	**NA**	**NA**
Union Bank & Trust	**123,969**	**11.14%**	**89,026**	**8.00%**	**$ 111,283**	**10.00%**
Northern Neck State Bank	**27,716**	**12.67%**	**17,500**	**8.00%**	**21,875**	**10.00%**
Tier 1 capital to risk weighted assets						
Consolidated	**160,251**	**10.97%**	**58,432**	**4.00%**	**NA**	**NA**
Union Bank & Trust	**110,142**	**9.90%**	**44,502**	**4.00%**	**66,753**	**6.00%**
Northern Neck State Bank	**25,765**	**11.78%**	**8,749**	**4.00%**	**13,123**	**6.00%**
Tier 1 capital to average adjusted assets						
Consolidated	**160,251**	**9.09%**	**70,517**	**4.00%**	**NA**	**NA**
Union Bank & Trust	**110,142**	**8.55%**	**51,528**	**4.00%**	**64,411**	**5.00%**
Northern Neck State Bank	**25,765**	**8.11%**	**12,708**	**4.00%**	**15,885**	**5.00%**
As of December 31, 2004						
Total capital to risk weighted assets						
Consolidated	$155,834	11.63%	$107,194	8.00%	NA	NA
Union Bank & Trust	109,023	10.69%	81,589	8.00%	$ 101,986	10.00%
Northern Neck State Bank	25,213	12.11%	16,656	8.00%	20,820	10.00%
Tier 1 capital to risk weighted assets						
Consolidated	139,449	10.41%	53,583	4.00%	NA	NA
Union Bank & Trust	96,271	9.44%	40,793	4.00%	61,189	6.00%
Northern Neck State Bank	23,149	11.12%	8,327	4.00%	12,490	6.00%
Tier 1 capital to average adjusted assets						
Consolidated	139,450	8.60%	64,860	4.00%	NA	NA
Union Bank & Trust	96,271	8.07%	47,718	4.00%	59,647	5.00%
Northern Neck State Bank	23,149	7.69%	12,041	4.00%	15,051	5.00%

16. 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 non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

CASH AND CASH EQUIVALENTS

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

INVESTMENT SECURITIES AVAILABLE FOR SALE

For investment 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, 2005 and 2004, 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, 2005 and 2004 are as follows (in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 69,538**	**$ 69,538**	$ 33,244	$ 33,244
Securities available for sale	**246,017**	**246,017**	233,467	233,467
Loans held for sale	**28,068**	**28,068**	42,668	42,668
Net loans	**1,345,138**	**1,359,193**	1,248,457	1,280,186
Accrued interest receivable	**8,919**	**8,919**	8,048	8,048
Financial liabilities:				
Deposits	**1,456,515**	**1,447,389**	1,314,317	1,312,423
Borrowings	**173,624**	**179,152**	183,005	187,784
Accrued interest payable	**2,146**	**2,146**	1,617	1,617

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.

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17. PARENT COMPANY FINANCIAL INFORMATION

The primary sources of funds for the dividends paid by Union Bankshares Corporation (the “Parent Company”) are dividends received from its subsidiary banks. The payments of 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, 2005, the aggregate amount of unrestricted funds, which could be transferred from the Company’s subsidiaries to the Parent Company, without prior regulatory approval, totaled approximately $37.6 million or 2.1% of the consolidated net assets.

Financial information for the Parent Company follows:

UNION BANKSHARES CORPORATION (“PARENT COMPANY ONLY”)
BALANCE SHEETS
DECEMBER 31, 2005 and 2004
(in thousands)

	2005	2004
Assets:		
Cash	**$ 4,558**	$ 4,050
Securities available for sale	**559**	580
Premises and equipment, net	**3,321**	2,909
Other assets	**2,558**	2,511
Investment in subsidiaries	**192,599**	177,150
Total assets	**$ 203,595**	$ 187,200
Liabilities and Stockholders’ Equity:		
Long-term debt	**$ —**	$ 571
Trust preferred capital notes	**23,196**	23,196
Other liabilities	**1,041**	675
Total liabilities	**24,237**	24,442
Common stock	**17,595**	17,488
Surplus	**35,426**	33,716
Retained earnings	**124,531**	106,460
Accumulated other comprehensive income	**1,806**	5,094
Total stockholders’ equity	**179,358**	162,758
Total liabilities and stockholders’ equity	**$ 203,595**	$ 187,200

CONDENSED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(in thousands)

	2005	2004	2003
Income:			
Interest and dividend income	**$ 3**	$ 22	$ 3
Dividends received from subsidiaries	**9,297**	7,119	8,591
Management fee received from subsidiaries	**10,854**	9,333	8,135
Equity in undistributed net income of subsidiaries	**17,048**	11,899	8,509
Gain on sale of AFS securities	**—**	94	—
(Loss) on sale of fixed assets	**(5)**	—	—
Other income	**1**	—	1
Total income	**37,198**	28,467	25,239
Expenses:			
Interest expense	**1,385**	779	40
Salaries and benefits	**7,354**	6,474	5,688
Other operating expenses	**3,637**	3,289	2,847
Total expenses	**12,376**	10,542	8,575
Net income	**$ 24,822**	$ 17,925	$ 16,664

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CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2004 and 2003
(in thousands)

	2005	2004	2003
Operating activities:			
Net income	**$ 24,822**	$ 17,925	$16,664
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	**(17,048)**	(11,899)	(8,509)
(Increase) in other assets	**(357)**	(137)	(604)
Other, net	**682**	117	595
Net cash and cash equivalents provided by operating activities	**8,099**	6,006	8,146
Investing activities:			
Purchases of securities available for sale	**31**	(23,031)	(395)
Payment for investments in subsidiaries	**(1,000)**	(25,293)	—
Proceeds from maturity of available for sale securities	**—**	23,078	180
Purchase of equipment	**(801)**	(781)	(1,374)
Net cash and cash equivalents used in investing activities	**(1,770)**	(26,027)	(1,589)
Financing activities:			
Proceeds from long-term borrowings	**—**	23,196	—
Repayment of long-term borrowings	**(571)**	(762)	(761)
Cash dividends paid	**(6,751)**	(5,567)	(4,559)
Issuance of common stock	**—**	1,870	908
Stock repurchased under Stock Repurchase Plan and option exchange	**1,501**	—	(118)
Net cash and cash equivalents provided (used in) by financing activities	**(5,821)**	18,737	(4,530)
Increase (decrease) in cash and cash equivalents	**508**	(1,284)	2,027
Cash and cash equivalents at beginning of year	**4,050**	5,334	3,307
Cash and cash equivalents at end of year	**$ 4,558**	$ 4,050	$ 5,334
Supplemental schedule of noncash investing and financing activities			
Issuance of common stock in exchange for net assets in acquisition	—	31,680	–

18. SEGMENT REPORTING

The Company 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 45 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 miminis risk.

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

Both of the Company's reportable segments are service based. The mortgage business is a fee-based business while the 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.

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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 plus 25 basis points. 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, 2005, 2004 and 2003 are as follows:

2005 (in thousands)	Community Banks	Mortgage	Elimination	Consolidated Totals
Net interest income	**$ 68,453**	**$ 897**	**$ —**	**$ 69,350**
Provision for loan losses	**1,172**	**—**	**—**	**1,172**
Net interest income after provision for loan losses	**67,281**	**897**	**—**	**68,178**
Noninterest income	**12,729**	**12,973**	**(192)**	**25,510**
Noninterest expenses	**46,463**	**12,004**	**(192)**	**58,275**
Income before income taxes	**33,547**	**1,866**	**—**	**35,413**
Income tax expense	**9,855**	**736**	**—**	**10,591**
Net income	**23,692**	**1,130**	**—**	**24,822**
Total assets	**$ 1,820,366**	**$ 33,064**	**$ (28,472)**	**$ 1,824,958**
Capitalized expenditures (1)	**$ 7,523**	**$ 274**	**$ —**	**$ 7,797**

2004 (in thousands)	Community Banks	Mortgage	Elimination	Consolidated Totals
Net interest income	$ 53,671	$ 1,221	$ —	$ 54,892
Provision for loan losses	2,154	—	—	2,154
Net interest income after provision for loan losses	51,517	1,221	—	52,738
Noninterest income	11,673	11,806	(177)	23,302
Noninterest expenses	40,666	10,732	(177)	51,221
Income before income taxes	22,524	2,295	—	24,819
Income tax expense	6,009	885	—	6,894
Net income	$ 16,515	$ 1,410	$ —	$ 17,925
Total assets	$ 1,668,652	$ 47,397	$ (43,839)	$ 1,672,210
Capitalized expenditures (1)	$ 9,406	$ 77	$ —	$ 9,483

2003 (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 (1)	$ 6,022	$ 268	$ —	$ 6,290

(1) Capitalized expenditures include purchases of property, furniture and equipment.

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

Evaluation of Disclosure Controls and Procedures. The Company maintains “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commissions rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective.

Management’s Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company’s internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control-Integrated Framework*. Based on the assessment using those criteria, management concluded that the internal control over financial reporting was effective as of December 31, 2005.

Management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Yount, Hyde & Barbour P.C., an independent registered public accounting firm, as stated in their report of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting. There was no change in the internal control over financial reporting that occurred during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

Item 9B. – Other Information

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

PART III

Item 10. – Directors and Executive Officers of the Registrant

Information regarding directors, executive officers and the audit committee financial expert is incorporated by reference from the Company's definitive proxy statement for the Company's 2006 Annual Meeting of Shareholders to be held April 18, 2006 ("Proxy Statement"), under the captions "Election of Directors," "Board of Directors and Committees," and "Executive Officers."

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

The Company has adopted a broad based code of ethics for all employees and directors. The Company has also adopted a code of ethics tailored for directors and senior officers who have financial responsibilities. A copy of the codes may be obtained without charge by request from the Company's corporate secretary.

Item 11. – Executive Compensation

This information is incorporated by reference from the Proxy Statement under the caption "Executive Compensation."

Item 12. – Security Ownership of Certain Beneficial Owners and Management and Relative Stockholder Matters

This information is incorporated by reference from the Proxy Statement under the caption "Ownership of Company Common Stock" and "Executive Compensation" and from Item 5 of this 10-K.

Item 13. – Certain Relationships and Related Transactions

This information is incorporated by reference from the Proxy Statement under the caption "Interest of Directors and Officers in Certain Transactions."

Item 14. – Principal Accounting Fees and Services

This information is incorporated by reference from the Proxy Statement under the caption "Principal Accounting Fees."

PART IV

Item 15. – Exhibits, Financial Statement Schedules

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 35 thru 63:

Report of Independent Registered Public Accounting Firm	34
Consolidated Balance Sheets - December 31, 2005 and 2004	36
Consolidated Statements of Income - Years ended December 31, 2005, 2004 and 2003	37
Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2005, 2004 and 2003	38
Consolidated Statements of Cash Flows -Years ended December 31, 2005, 2004 and 2003	39
Notes to Consolidated Financial Statements	40

(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.

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(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).
2.2	Agreement and Plan of Reorganization, dated October 31, 2005, by and between Union Bankshares Corporation and Prosperity Bank and Trust Company (incorporated by reference to Form 8-k)
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 Rawley H. Watson, III
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)
10.8	Union Bankshares Corporation 2003 Stock Incentive Plan (incorporated by reference to Form S-8 Registration Statement; SEC file no. 333-113839)
10.9	Change in Control Employment Agreement of Janis Orfe
11.0	Statement re: Computation of Per Share Earnings (incorporated by reference to note 13 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Union Bankshares Corporation

By: /s/ G. William Beale
G. William Beale
President and Chief Executive Officer

Date: March 10, 2006

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 10, 2006.

Signature	Title
/s/ G. William Beale G. William Beale	President, Chief Executive Officer and Director (principal executive officer)
/s/ Douglas E. Caton Douglas E. Caton	Director
/s/ Ronald L. Hicks Ronald L. Hicks	Chairman of the Board of Directors
/s/ Patrick J. McCann Patrick J. McCann	Director
/s/ Hullihen W. Moore Hullihen W. Moore	Director
/s/ R. Hunter Morin R. Hunter Morin	Director
/s/ W. Tayloe Murphy, Jr. W. Tayloe Murphy, Jr.	Vice Chairman of the Board of Directors
/s/ D. Anthony Peay D. Anthony Peay	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Ronald L. Tillett Ronald L. Tillett	Director
/s/ A. D. Whittaker A. D. Whittaker	Director

Exhibit 3.1

RESTATED ARTICLES OF INCORPORATION

OF

UNION BANKSHARES CORPORATION

I. Name

The name of the corporation is Union Bankshares Corporation.

II. Purpose

The purpose for which the Corporation is organized is to act as a bank holding company and to transact any and all lawful business, not required to be specifically stated in the Articles of Incorporation, for which corporations may be incorporated under the Virginia Stock Corporation Act.

III. Capital Stock

The Corporation shall have authority to issue Four million (4,000,000) shares of Common Stock, par value $10.00 per share, and five hundred thousand (500,000) shares of Serial Preferred Stock, par value $10.00 per share.

A. *Serial Preferred Stock*

1. *Issuance in Series.* Authority is hereby vested in the Board of Directors to divide the Serial Preferred Stock into and cause the Serial Preferred Stock to be issued in series, to designate each series so as to distinguish the shares thereof from the shares of all other series or classes, to fix the number of shares of each series, and to fix and determine the variations in the relative rights and preferences of each series within the limitations hereinafter set forth in this paragraph. All shares of Serial Preferred Stock shall be identical except as to the following relative rights and preferences, which may be fixed and determined by the Board of Directors and as to which there may be variations between different series:

(a) the rate of dividend, if any, payable on shares of such series, the time of payment and the dates from which dividends shall be cumulative if such dividends shall be cumulative, and the extent of participation rights, if any, of the shares of such series;

(b) any right to vote with holders of shares of any other series or class and any right to vote as a class, either generally or as a condition to specified corporate action;

(c) the price at and the terms and conditions on which shares may be redeemed;

(d) the amount payable upon shares in the event of involuntary liquidation;

(e) the amount payable upon shares in the event of voluntary liquidation;

(f) any sinking fund provisions for the redemption or purchase of shares; and

(g) the terms and conditions on which shares may be may be converted, if the shares of any series are issued with the privilege of conversion.

2. *Dividends*. The holders of the Serial Preferred Stock of each series as to which the Board of Directors shall have specified a rate of dividend shall be entitled to receive, if and when declared payable by the Board of Directors, dividends at the dividend rate for such series, and not exceeding such rate except to the extent of any participation right. Such dividends shall be payable on such dates as shall be specified for such series. Dividends, if cumulative and in arrears, shall not bear interest.

No dividends shall be declared or paid upon or set apart for the Common Stock or for stock of any other class hereafter created ranking junior to the Serial Preferred Stock in respect to dividends or assets (hereinafter called “Junior Stock”), or for any shares of Serial Preferred Stock which are entitled to participate with the Common Stock, and no shares of Serial Preferred Stock, Common Stock or Junior Stock shall be purchased, redeemed or otherwise reacquired for a consideration, nor shall any funds be set aside for or paid to any sinking fund therefor, unless and until (i) full dividends on the outstanding Serial Preferred Stock at the dividend rate or rates therefor, together with the full additional amount required by any participation right, shall have been paid or declared and set apart for payment wish respect to all past dividend periods, to the extent that the holders of the Serial Preferred Stock are entitled to dividends with respect to any past dividend period, and the current dividend period, and (ii) all mandatory sinking fund payments that shall have become due in respect of any series of the Serial Preferred Stock shall have been made. Unless full dividends with respect to all past dividend periods on the outstanding Serial Preferred Stock at the dividend rate or rates therefor, to the extent that holders of the Serial Preferred Stock are entitled to dividends with respect to any particular past dividend period, together with the full additional amount required by any participation right, shall have been paid or declared and set apart for payment and all mandatory sinking fund payments that shall have become due in respect of any series of the Serial Preferred Stock shall have been made, no distributions shall be made to the holders of the Serial Preferred Stock of any series unless distributions are made to the holders of the Serial Preferred Stock of all series then outstanding in proportion to the aggregate amounts of the deficiencies in payments due to the respective series, and all payments shall be applied first, to dividends accrued and in arrears, next, to any amount required by any participation right, and, finally, to mandatory sinking fund payments. The terms “current dividend period” and “past dividend period” mean, if two or more series of Serial Preferred Stock having different dividend periods are at the time outstanding, the current dividend period or any past dividend period, as the case may be, with respect to each such series.

3. *Preference on Liquidation*. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Serial Preferred Stock of each series shall be entitled to receive, for each share thereof, the fixed liquidation price for such series, plus, in case such liquidation, dissolution or winding up shall have been voluntary, the fixed liquidation premium for such series, if any, together in all cases with a sum equal to all dividends, if any, accrued or in arrears thereon and the full additional amount required by any participation right, before any distribution of the assets shall be made to holders of the Common Stock or Junior Stock; but the holders of the Serial Preferred Stock shall be entitled to no further participation in such distribution. If, upon any such liquidation, dissolution or winding up, the assets distributable among the holders of the Serial Preferred Stock shall be insufficient to permit the payment of the full preferential amounts aforesaid, then such assets shall be distributed among the holders of the Serial Preferred Stock then outstanding, ratably in proportion to the full preferential amounts to which they are respectively entitled. A merger of the Corporation into any other corporation, or merger of any other corporation into the Corporation, or consolidation of the

Corporation with any other corporation or a sale or transfer of the property of the Corporation as or substantially as an entirety shall not be deemed to be a liquidation, dissolution or winding up of the Corporation.

B. *Common Stock*

1. *Dividends.* Subject to the provisions of law and the rights of holders of shares at the time outstanding of all classes of stock having prior rights as to dividends, the holders of Common Stock at the time outstanding shall be entitled to receive such dividends at such times and in such amounts as the Board of Directors may deem advisable.

2. *Liquidation*. In the event of any liquidation, dissolution or winding up (whether voluntary or involuntary) of the Corporation, after payment or provision for the payment of all the liabilities and obligations of the Corporation and all preferential amounts to which the holders of shares at the time outstanding of all classes of stock having prior rights thereto shall be entitled, the remaining net assets of the Corporation shall be distributed ratably among the holders of the shares at the time outstanding of Common Stock.

3. *Voting*. Except to the extent to which the Board of Directors shall have specified voting power with respect to any other class of stock and except as otherwise provided by law, the exclusive voting power shall be vested in the Common Stock, the holder thereof being entitled to one vote for each share of Common Stock at all meetings of the shareholders of the Corporation.

IV. No Preemptive Rights

No holder of shares of the capital stock of the Corporation of any class shall have any preemptive or preferential right to subscribe to or purchase (i) any shares of capital stock of the Corporation, (ii) any securities convertible into such shares or (iii) any options, warrants or rights to purchase such shares or securities convertible into any such shares.

V. Directors

The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors consisting of such number of directors as may be fixed from time to time in the bylaws or by resolution adopted by the affirmative vote of a majority of the Directors then in office. The Directors shall be divided into three classes, designated as Class I, Class II, and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of Directors constituting the entire Board of Directors, with one class to be originally elected for a term of one year, another class to be originally elected for a term expiring in two years, and another class to be originally elected for a term of three years. At each succeeding annual meeting of shareholders beginning in 1993, successors to the class of Directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of Directors has changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, but in no case will a decrease in the number of Directors shorten the term of any incumbent Director. A Director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or

series, to elect Directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such Directorships shall be governed by the terms of these Articles of Incorporation applicable thereto, and such Directors so elected shall not be divided into classes pursuant to this Article V unless expressly provided by such terms.

If the office of any Director shall become vacant, the Directors then in office, whether or not a quorum, may by majority vote choose a successor who shall hold office until the next annual meeting of shareholders. In such event, the successor elected by the shareholders at that annual meeting shall hold office for a term that shall coincide with the remaining term of the class of Directors to which that person has been elected. Vacancies resulting from the increase in the number of Directors shall be filled in the same manner.

Directors of the Corporation may be removed by shareholders of the Corporation only for cause and with the affirmative vote of at least two-thirds of the outstanding shares entitled to vote.

Advance notice of shareholder nominations for the election of Directors shall be given in the manner provided in the Bylaws of the Corporation.

VI. Indemnification and Limit on Liability

(a) *Mandatory Indemnification*. To the full extent permitted by the Virginia Stock Corporation Act, as it exists on the date hereof or may hereafter be amended, each Director and officer shall be indemnified by the Corporation against liabilities, fines, penalties and claims imposed upon or asserted against him (including amounts paid in settlement) by reason of having been such Director or officer, whether or not then continuing so to be, and against all expenses (including counsel fees) reasonably incurred by him in connection therewith, except in relation to matters as to which he shall have been finally adjudged liable by reason of his willful misconduct or a knowing violation of criminal law in the performance of his duty as such Director or officer. The determination that the indemnification under this subsection (a) is permissible shall be made as provided by law. The right of indemnification hereby provided shall not be exclusive of any other rights to which any Director or officer may be entitled.

(b) *Limitation of Liability.* To the full extent permitted by the Virginia Stock Corporation Act, as it exists on the date hereof or may hereafter be amended, in any proceeding brought by a shareholder of the Corporation in the right of the Corporation or brought by or on behalf of shareholders of the Corporation, a director or officer of the Corporation shall not be liable in any monetary amount for damages arising out of or resulting from a single transaction, occurrence or course of conduct, provided that the elimination of liability herein set forth shall not be applicable if the Director or officer engaged in willful misconduct or a knowing violation of the criminal law or of any federal or state securities law.

(c) *Agents and Employees.* The Board of Directors is hereby empowered, by a majority vote of a quorum of disinterested Directors, to indemnify or contract in advance to indemnify any person not specified in subsection (a) of this Article against liabilities, fines, penalties and claims imposed upon or asserted against him (including amounts paid in settlement) by reason of having been an employee, agent or consultant of the Corporation, whether or not then continuing so to be, and against all expenses (including counsel fees) reasonably incurred by him in connection therewith, to the same extent as if such person were specified as one to whom indemnification is granted in subsection (a) of this Article.

(d) *References*. Every reference in this Article to Director, officer, employee, agent or consultant shall include (i) every Director, officer, employee, agent or consultant of the

Corporation or any corporation the majority of the voting stock or which is owned directly or indirectly by the Corporation, (ii) every former Director, officer, employee, agent or consultant of the Corporation, (iii) every person who may have served at the request of or on behalf of the Corporation as a Director, officer, employee, agent, consultant or trustee of another corporation, partnership, joint venture, trust or other entity, and (iv) in all of such cases, his executors and administrators.

(e) *Effective Date*. The provisions of this Article VI shall be applicable from and after its adoption even though some or all of the underlying conduct or events relating to such a proceeding may have occurred before such adoption. No amendment, modification or repeal of this Article VI shall diminish the rights provided hereunder to any person arising from conduct or events occurring before the adoption of such amendment, modification or repeal.

(f) *Change in Control*. In the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification is claimed, any determination as to indemnification and advancements of expenses with respect to any claim for indemnification made pursuant to Subsection (a) of this Article VI shall be made by special legal counsel agreed upon by the Board of Directors and the proposed indemnitee. If the Board of Directors and the proposed indemnitee are unable to agree upon such special legal counsel, the Board of Directors and the proposed indemnitee each shall select a nominee, and the nominees shall select such special legal counsel.

VII. Shareholder Approval of Certain Transactions

An amendment of the Corporation's Articles of Incorporation, a plan of merger or share exchange, a transaction involving the sale of all or substantially all the Corporation's assets other than in the regular course of business and a plan of dissolution shall be approved by the vote of a majority of all the votes entitled to be cast on such transactions by each voting group entitled to vote on the transaction at a meeting at which a quorum of the voting group is present, provided that the transaction has been approved and recommended by at least two-thirds of the Directors in office at the time of such approval and recommendation. If the transaction is not so approved and recommended, then the transaction shall be approved by the vote of eighty percent (80%) or more of all the votes entitled to be cast on such transactions by each voting group entitled to vote on the transaction.

ARTICLES OF AMENDMENT

of the Articles of Incorporation of

UNION BANKSHARES CORPORATION

I. Name. The name of the Corporation is Union Bankshares Corporation.

II. Text of Amendment. The introductory paragraph to Article III of the Articles of Incorporation, as amended, of the Corporation shall be amended as follows in order to increase the number of authorized shares of common stock and to change the par value thereof.

> The Corporation shall have authority to issue twelve million (12,000,000) shares of Common Stock, par value $4.00 per share, and five hundred thousand (500,000) shares of Serial Preferred Stock, par value $10.00 per share.

III. Implementation of Amendment. The above amendment shall be implemented in the following manner: on the effective date of the amendment, the issued and outstanding shares of the Corporation's common stock shall be changed into and become three shares of common stock for every one share of common stock theretofore outstanding. Each shareholder of record upon the effective date of this amendment shall be entitled to an additional share certificate evidencing two additional shares of common stock for every one share of common stock registered in his name on the books of the Corporation on such date.

IV. Adoption and Date of Adoption. The above amendment was adopted on July 12, 1993 by the Corporation's Board of Directors without shareholder action pursuant to

Section 13.1-706(3) and (4) of the Virginia Stock Corporation Act. The Corporation has one class of capital stock outstanding, and shareholder action on the amendment was not required.

V. Effective Date. The Certificate of Amendment shall become effective at 5:00 p.m. on July 16, 1993, in accordance with Section 13.1-606 of the Virginia Stock Corporation Act.

Dated: July 12, 1993

UNION BANKSHARES CORPORATION

By: /s/ G. William Beale
G. William Beale
President

ARTICLES OF AMENDMENT

TO THE ARTICLES OF INCORPORATION OF

UNION BANKSHARES CORPORATION

I. Name. The name of the Corporation is Union Bankshares Corporation.

II. Text of Amendment. Article III of the Corporation's Articles of Incorporation shall be amended to increase the number of authorized shares of Common Stock from 12,000,000 to 24,000,000 shares, and to reduce the par value of each share of Common Stock from $4.00 to $2.00 per share. The introductory paragraph to Article III, as amended, shall read as follows:

> The Corporation shall have authority to issue twenty four million (24,000,000) shares of Common Stock, par value $2,00 per share, and five hundred thousand (500,000) shares of Serial Preferred Stock, par value $10.00 per share.

III. Implementation of Amendment. The foregoing amendment shall be implemented in the following manner: on the effective date of the amendment, the issued and outstanding shares of the Corporation's common stock shall be changed into and become two shares of common stock for every one share of common stock theretofore outstanding. Each shareholder of record upon the effective date of this amendment shall be entitled to an additional share certificate evidencing one additional share of common stock for every one share of common stock registered in his, her or its name on the books of the Corporation on such date.

IV. Adoption and Date of Adoption. The foregoing amendment was adopted on April 23, 1998 by the Corporation's Board of Directors without shareholder approval pursuant

to Section 13.1-706(3) and (4) of the Virginia Stock Corporation Act. The Corporation has one class of capital stock outstanding, and shareholder action on the amendment was not required.

V. Effective Date. The Certificate of Amendment shall become effective at 2:00 p.m., eastern standard time, on May 21, 1998 in accordance with Section 13.1-606 of the Virginia Stock Corporation Act.

Dated: May 19, 1998

UNION BANKSHARES CORPORATION

By: ______________________________

D. Anthony Peay
Vice President, Corporate Secretary and
Chief Financial Officer

Exhibit 10.6

MANAGEMENT CONTINUITY AGREEMENT

This Agreement ("Agreement"), dated as of December 16, 2005, is between Union Bankshares Corporation, a Virginia corporation (the "Company"), and Rawley H. Watson, III (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 December 16, 2005 and will expire on December 31, 2006; provided that on January 1, 2006 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, provided, however, that the Company shall not have the right to give any such non-renewal notice if a Change in Control of the Company (as defined in Section 12) has occurred (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 Welfare 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: ______________________________
Ronald L. Hicks
Chairman of the Board

EXECUTIVE:

____
Rawley H. Watson, III

Exhibit 10.9

MANAGEMENT CONTINUITY AGREEMENT

This Agreement ("Agreement"), dated as of December 16, 2005, is between Union Bankshares Corporation, a Virginia corporation (the "Company"), and Janis Orfe (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 December 16, 2005 and will expire on December 31, 2006; provided that on January 1, 2006 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, provided, however, that the Company shall not have the right to give any such non-renewal notice if a Change in Control of the Company (as defined in Section 12) has occurred (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 Welfare 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: ______________________________

Ronald L. Hicks
Chairman of the Board

EXECUTIVE:

____

Janis Orfe

Exhibit 21.0

Subsidiaries of Union Bankshares Corporation

Subsidiary	State of Incorporation
Union Bank and 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
Carmel Church Properties, LLC	Virginia

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to incorporation by reference in Registration Statements No., No. 333-102012 and No. 333-81199, No. 333-49563, No. 333-06631 on Form S-3, No. 333-112416 on Form S-4, No. 333-113842 and No. 333-113839 on Form S-8 of Union Bankshares Corporation and subsidiaries of our report dated February 18, 2005, relating to the consolidated balance sheets of Union Bankshares Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2005, 2004 and 2003, which report appears in the Union Bankshares Corporation and subsidiaries' 2005 Form 10-K.

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

Winchester, Virginia
March 3, 2006

Exhibit 31.1

CERTIFICATIONS

I, G. William Beale, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: March 10, 2006

/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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: March 10, 2006

/s/ D. Anthony Peay
D. Anthony Peay
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 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, 2005 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 10, 2006