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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

OR

☐ **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.)**

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

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

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of common stock outstanding as of August 1, 2008 was 13,503,852.

UNION BANKSHARES CORPORATION
FORM 10-Q
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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)	June 30, 2007 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 62,875**	$ 54,716	$ 51,474
Interest-bearing deposits in other banks	**1,054**	662	899
Money market investments	**223**	303	190
Other interest-bearing deposits	**2,598**	2,598	2,598
Federal funds sold	**90**	—	236
Total cash and cash equivalents	**66,840**	58,279	55,397
Securities available for sale, at fair value	**288,150**	282,699	270,095
Loans held for sale	**32,056**	25,248	25,159
Loans, net of unearned income	**1,823,706**	1,747,820	1,636,345
Less allowance for loan losses	**21,650**	19,336	18,353
Net loans	**1,802,056**	1,728,484	1,617,992
Bank premises and equipment, net	**77,220**	75,741	74,044
Other real estate owned	**781**	694	217
Core deposit intangibles, net	**10,577**	11,550	11,426
Goodwill	**56,474**	56,474	51,881
Other assets	**61,776**	62,228	60,703
Total assets	**$ 2,395,930**	$ 2,301,397	$ 2,166,914
LIABILITIES			
Noninterest-bearing demand deposits	**$ 294,594**	$ 281,405	$ 293,736
Interest-bearing deposits:			
NOW accounts	**218,747**	217,809	206,378
Money market accounts	**256,297**	156,576	148,527
Savings accounts	**102,420**	100,885	106,939
Time deposits of $100,000 and over	**433,409**	453,243	450,133
Other time deposits	**481,380**	449,660	442,423
Total interest-bearing deposits	**1,492,253**	1,378,173	1,354,400
Total deposits	**1,786,847**	1,659,578	1,648,136
Securities sold under agreements to repurchase	**79,980**	82,049	76,179
Other short-term borrowings	**86,750**	200,837	76,769
Trust preferred capital notes	**60,310**	60,310	60,310
Long-term borrowings	**149,500**	69,500	82,475
Other liabilities	**19,068**	17,041	19,140
Total liabilities	**2,182,455**	2,089,315	1,963,009
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, $1.33 par value, shares authorized 36,000,000; issued and outstanding, 13,503,852 shares, 13,438,334 shares, and 13,369,409 shares, respectively.	**17,962**	17,879	17,790
Surplus	**41,811**	40,758	39,215
Retained earnings	**153,630**	152,238	148,222
Accumulated other comprehensive income (loss)	**72**	1,207	(1,322)
Total stockholders' equity	**213,475**	212,082	203,905
Total liabilities and stockholders' equity	**$ 2,395,930**	$ 2,301,397	$ 2,166,914

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	**2007**	**2008**	**2007**
Interest and dividend income:				
Interest and fees on loans	**$29,725**	$31,642	**$60,989**	$61,492
Interest on Federal funds sold	**1**	122	**29**	385
Interest on deposits in other banks	**6**	12	**14**	27
Interest on money market investments	**—**	1	**1**	2
Interest on other interest-bearing deposits	**15**	35	**40**	69
Interest and dividends on securities:				
Taxable	**2,288**	2,173	**4,577**	4,505
Nontaxable	**1,273**	1,144	**2,528**	2,276
Total interest and dividend income	**33,308**	35,129	**68,178**	68,756
Interest expense:				
Interest on deposits	**10,676**	12,039	**22,411**	23,899
Interest on Federal funds purchased	**96**	262	**264**	568
Interest on short-term borrowings	**1,001**	1,211	**3,037**	1,967
Interest on long-term borrowings	**1,707**	2,396	**3,513**	4,941
Total interest expense	**13,480**	15,908	**29,225**	31,375
Net interest income	**19,828**	19,221	**38,953**	37,381
Provision for (recapture of) loan losses	**1,676**	190	**3,276**	(545)
Net interest income after provision for loan losses	**18,152**	19,031	**35,677**	37,926
Noninterest income:				
Service charges on deposit accounts	**2,329**	1,917	**4,449**	3,643
Other service charges, commissions and fees	**1,713**	1,557	**3,181**	3,001
Gains on securities transactions, net	**5**	207	**28**	508
Gains on sales of loans	**3,179**	2,132	**6,177**	4,476
Gains (losses) on sales of other real estate and bank premises, net	**(2)**	(6)	**135**	(9)
Other operating income	**432**	405	**1,034**	802
Total noninterest income	**7,656**	6,212	**15,004**	12,421
Noninterest expenses:				
Salaries and benefits	**11,279**	9,618	**22,339**	19,557
Occupancy expenses	**1,719**	1,422	**3,427**	2,813
Furniture and equipment expenses	**1,232**	1,116	**2,497**	2,297
Other operating expenses	**5,804**	5,510	**11,704**	10,958
Total noninterest expenses	**20,034**	17,666	**39,967**	35,625
Income before income taxes	**5,774**	7,577	**10,714**	14,722
Income tax expense	**1,441**	1,936	**2,729**	3,933
Net income	**$ 4,333**	$ 5,641	**$ 7,985**	$10,789
Earnings per share, basic	**$ 0.32**	$ 0.42	**$ 0.59**	$ 0.81
Earnings per share, diluted	**$ 0.32**	$ 0.42	**$ 0.59**	$ 0.80

See accompanying notes to condensed consolidated financial statements.

UNION BANKSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Dollars in thousands, except share amounts)
(Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total
Balance – December 31, 2006	**$17,716**	**$38,047**	**$142,168**	**$ 1,485**		**$199,416**
Comprehensive income:						
Net income			**10,789**		**$ 10,789**	**10,789**
Unrealized holding losses arising during the period (net of tax, $1,334)					**(2,477)**	
Reclassification adjustment for gains included in net income (net of tax, $178)					**(330)**	
Other comprehensive loss (net of tax, $1,512)				**(2,807)**	**(2,807)**	**(2,807)**
Total comprehensive income					**$ 7,982**	
Cash dividends ($.36 per share)			**(4,735)**			**(4,735)**
Issuance of common stock under Dividend Reinvestment Plan (21,726 shares)	**29**	**479**				**508**
Issuance of common stock under Incentive Stock Option Plan (33,324 shares)	**44**	**418**				**462**
Issuance of common stock for services rendered (470 shares)	**1**	**13**				**14**
Stock-based compensation expense		**258**				**258**
Balance – June 30, 2007	**$17,790**	**$39,215**	**$148,222**	**$ (1,322)**		**$203,905**
Balance – December 31, 2007	**$17,879**	**$40,758**	**$152,238**	**$ 1,207**		**$212,082**
Comprehensive income:						
Net income			**7,985**		**$ 7,985**	**7,985**
Unrealized holding losses arising during the period (net of tax, $601)					**(1,117)**	
Reclassification adjustment for gains included in net income (net of tax, $10)					**(18)**	
Other comprehensive loss (net of tax, $611)				**(1,135)**	**(1,135)**	**(1,135)**
Total comprehensive income					**$ 6,850**	
Cash dividends ($.37 per share)			**(4,989)**			**(4,989)**
Tax benefit from exercise of stock awards		**42**				**42**
Stock repurchased under Stock repurchase plan	**(20)**	**(234)**				**(254)**
Issuance of common stock under Dividend Reinvestment Plan (30,452 shares)	**41**	**501**				**542**
Issuance of common stock under Incentive Stock Option Plan (46,934 shares)	**62**	**502**				**564**
Cumulative-effect of a change in accounting principle			**(1,604)**			**(1,604)**
Stock-based compensation expense		**242**				**242**
Balance – June 30, 2008	**$17,962**	**$41,811**	**$153,630**	**$ 72**		**$213,475**

See accompanying notes to condensed consolidated financial statements.

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UNION BANKSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Dollars in thousands)
(Unaudited)

	2008	2007
Operating activities:		
Net income	$ 7,985	$ 10,789
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization of bank premises and equipment	2,679	2,170
Amortization, net	1,254	1,222
Provision for (recapture of) loan losses	3,276	(545)
Increase in loans held for sale, net	(6,808)	(5,075)
Gains on the sale of investment securities	(28)	(508)
(Gains) loss on sales of other real estate owned and premises, net	(135)	9
Stock-based compensation expense	242	258
Decrease (increase) in other assets	669	(3,571)
Increase in other liabilities	423	3,429
Net cash and cash equivalents provided by operating activities	9,557	8,178
Investing activities:		
Purchases of securities available for sale	(29,209)	(25,003)
Proceeds from sales of securities available for sale	881	535
Proceeds from maturities, calls and paydowns of securities available for sale	21,184	33,370
Net increase in loans	(76,848)	(87,150)
Purchases of bank premises and equipment, net	(4,022)	(12,762)
Net cash and cash equivalents used in investing activities	(88,014)	(91,010)
Financing activities:		
Net increase in noninterest-bearing deposits	13,189	1,474
Net increase (decrease) in interest-bearing deposits	114,080	(19,246)
Net increase (decrease) in short-term borrowings	(116,156)	90,251
Net increase (decrease) in long-term borrowings	80,000	(6,375)
Cash dividends paid	(4,989)	(4,735)
Tax benefit from the exercise of equity-based awards	42	—
Issuance of common stock	1,106	970
Stock repurchased under stock repurchase plan	(254)	—
Net cash and cash equivalents provided by financing activities	87,018	62,339
Increase (decrease) in cash and cash equivalents	8,561	(20,493)
Cash and cash equivalents at beginning of the period	58,279	75,890
Cash and cash equivalents at end of the period	$ 66,840	$ 55,397
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	$ 29,741	$ 31,471
Income taxes	3,233	3,731
Supplemental schedule of noncash investing and financing activities		
Unrealized gains (losses) on securities available for sale	$ (1,746)	$ 4,319
Transfer of loans to other real estate owned	250	—
Cumulative effect of a change in accounting principle	(1,604)	—

See accompanying notes to condensed consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2008

1. ACCOUNTING POLICIES

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

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and follow general practice within the banking industry. Accordingly, the unaudited condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2007 Annual Report on Form 10-K. If needed, certain previously reported amounts have been reclassified to conform to current period presentation.

2. MERGERS AND ACQUISITIONS

On May 28, 2008, the Company announced that its Bay Community Bank affiliate will be merged into its largest bank affiliate, Union Bank and Trust Company ("Union Bank"). The projected completion date of the merger is October 31, 2008.

Effective March 14, 2008, the Company completed the previously announced merger of its Prosperity Bank & Trust Company affiliate ("Prosperity") into Union Bank.

On September 7, 2007, the Company completed the previously announced acquisition of six Virginia branches of Provident Bank ("Acquired Bank Branches"), a subsidiary of Provident Bankshares Corporation. These six branches are located in Charlottesville, Middleburg, Warrenton (2) and Winchester (2). Deposits assumed in this branch acquisition totaled approximately $44 million. There were no loans included in the transaction. The Acquired Bank Branches were accounted for as a purchase which required the Company to allocate the total purchase price of the acquisition to the assets acquired and liabilities assumed, based on their respective fair values at the acquisition date, with any remaining acquisition costs being recorded as goodwill. Operating results for the Acquired Bank Branches have been included in the Company's consolidated results since September 7, 2007.

3. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard ("SFAS") *Share-Based Payment* ("SFAS No. 123R"), which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires the costs resulting from all share-based payments to employees be recognized in the financial statements.

The Company's 2003 Stock Incentive Plan provides for the granting of incentive stock options, non-statutory stock options, and nonvested stock awards to key employees of the Company. The stock

incentive plan makes available 525,000 shares which may be awarded to employees of the Company in the form of incentive stock options intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986 (“incentive stock options”), non-statutory stock options, and nonvested stock. Under the plan, the option price cannot be less than the fair market value of the stock on the grant date. The stock option’s maximum term is ten years from the date of grant and vests in equal annual installments of twenty percent over a five year vesting schedule. The Company issues new shares to satisfy share-based awards. As of June 30, 2008, approximately 301,915 shares were available for issuance under the Company’s 2003 Stock Incentive Plan.

For the three and six month periods ended June 30, 2008, the Company recognized stock-based compensation expense of approximately $109 thousand and $181 thousand, net of tax, or approximately $.01 per share, for both periods, in accordance with SFAS No. 123R.

Stock Options

The following table summarizes the stock option activity for the six months ended June 30, 2008:

	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, December 31, 2007	**277,363**	**$ 19.64**
Granted	**4,750**	**20.41**
Exercised	**(44,465)**	**13.10**
Forfeited	**(6,387)**	**22.13**
Options outstanding, June 30, 2008	**231,261**	**20.79**
Options exercisable, June 30, 2008	**190,102**	**19.33**

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table for the six months ended June 30, 2008:

	Six Months Ended June 30,	
	2008	2007
Dividend yield (1)	**2.29%**	**1.99%**
Expected life in years (2)	**7.8**	**7.5**
Expected volatility (3)	**29.89%**	**25.23%**
Risk-free interest rate (4)	**3.68%**	**4.68%**
Weighted average fair value per option granted	**$ 6.15**	**$ 8.07**

(1) Calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.
(2) Based on the average of the contractual life and vesting schedule for the respective option.
(3) Based on the monthly historical volatility of the Company’s stock price over the expected life of the options.
(4) Based upon the U.S. Treasury bill yield curve, for periods within the contractual life of the option, in effect at the time of grant.

The following table summarizes information concerning stock options issued to the Company's employees that are vested or are expected to vest and stock options exercisable as of June 30, 2008 (dollars in thousands, except share and per share amounts):

	Stock Options Vested or Expected to Vest	Exercisable
Stock options	**224,209**	**190,102**
Weighted average remaining contractual life in years	**5.49**	**5.03**
Weighted average exercise price on shares above water	**$ 20.57**	**$ 19.33**
Aggregate intrinsic value	**$ 221**	**$ 221**

The total intrinsic value for stock options exercised during the three and six months ended June 30, 2008 was zero and approximately $268 thousand, respectively. The fair value of stock options vested during the six months ended June 30, 2008 was approximately $227 thousand. Cash received from the exercise of stock options for the three and six months ended June 30, 2008 was approximately zero and $564 thousand, respectively. The tax benefit realized from disqualifying dispositions during the six months ended June 30, 2008 was zero.

Nonvested Stock

The 2003 plan permits the granting of nonvested stock, but is limited to one-third of the aggregate number of total awards granted. This equity component of compensation is divided between restricted (time-based) stock grants and performance-based stock grants. The restricted stock vests fifty percent on each of the third and fourth anniversaries of the date of the grant. The performance-based stock is subject to vesting on the fourth anniversary of the date of the grant based on the performance of the Company's stock price. The value of the nonvested stock awards was calculated by multiplying the fair market value of the Company's common stock on grant date by the number of shares awarded. Employees have the right to vote the shares and to receive cash or stock dividends (restricted stock), if any, except for the nonvested stock under the performance-based component (performance stock).

The following table summarizes the nonvested stock activity for the six months ended June 30, 2008:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Balance, December 31, 2007	**58,624**	**$ 27.84**
Granted	**8,356**	**19.83**
Vested	**(3,484)**	**23.97**
Forfeited	**(2,457)**	**27.16**
Balance, June 30, 2008	**61,039**	**26.99**

The estimated unamortized compensation expense, net of estimated forfeitures, related to nonvested stock and stock options issued and outstanding as of June 30, 2008 will be recognized in future periods is as follows (dollars in thousands):

	Stock Options	Restricted Stock	Total
For remaining six months of 2008	**$ 67**	**$ 239**	**$ 306**
For year ended December 31, 2009	**96**	**322**	**418**
For year ended December 31, 2010	**93**	**214**	**307**
For year ended December 31, 2011	**56**	**54**	**110**
For year ended December 31, 2012	**17**	**9**	**26**
For year ended December 31, 2013	**2**	**—**	**2**
Total	**$ 331**	**$ 838**	**$1,169**

4. ALLOWANCE FOR LOAN LOSSES

The following summarizes activity in the allowance for loan losses for the six months ended June 30, 2008 and 2007 (dollars in thousands):

	June 30, 2008	June 30, 2007
Beginning balance	**$19,336**	$19,148
Recoveries credited to allowance	**167**	214
Loans charged off	**(1,129)**	(464)
Provision for (recapture of) loan losses	**3,276**	(545)
Ending balance	**$21,650**	$18,353

5. 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 138,386 and 93,961 anti-dilutive awards as of June 30, 2008 and 2007, respectively.

The following is a reconcilement of the denominators of the basic and diluted EPS computations for the three and six months ended June 30, 2008 and 2007 (dollars and shares in thousands, except per share amounts):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the Three Months ended June 30, 2008			
Basic EPS	**$ 4,333**	**13,470**	**$ 0.32**
Effect of dilutive stock awards	**—**	**37**	**—**
Diluted EPS	**$ 4,333**	**13,507**	**$ 0.32**
For the Three Months ended June 30, 2007			
Basic EPS	$ 5,641	13,332	$ 0.42
Effect of dilutive stock awards	—	81	—
Diluted EPS	$ 5,641	13,413	$ 0.42
For the Six Months ended June 30, 2008			
Basic EPS	**$ 7,985**	**13,458**	**$ 0.59**
Effect of dilutive stock awards	**—**	**39**	**—**
Diluted EPS	**$ 7,985**	**13,497**	**$ 0.59**
For the Six Months ended June 30, 2007			
Basic EPS	$ 10,789	13,319	$ 0.81
Effect of dilutive stock awards	—	92	(0.01)
Diluted EPS	$ 10,789	13,411	$ 0.80

6. TRUST PREFERRED CAPITAL NOTES

On March 30, 2006, the Company formed Statutory Trust II, a wholly owned subsidiary, for the purpose of issuing redeemable capital securities in connection with the acquisition of Prosperity that was completed on April 1, 2006. A Trust Preferred Capital Note of $36.0 million was issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 1.40%) which adjusts and is payable quarterly. The interest rate for the current quarter was 4.18%. The redeemable capital securities may be called at par after five years on March 31, 2011 and each quarterly anniversary of such date until the securities mature in 30 years on March 31, 2036. The principal asset of the Statutory Trust II is $37.1 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital notes, of which $1.1 million is reflected as the Company's investment in Statutory Trust II reported as "Other assets" within the financial statements.

During the first quarter of 2004, the Company's Statutory Trust I, a wholly owned subsidiary, was formed for the purpose of issuing redeemable capital securities in connection with the acquisition of Guaranty Financial Corporation ("Guaranty"). A Trust Preferred Capital Note of $22.5 million was issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 2.75%) which adjusts and is payable quarterly. The interest rate for the current quarter was 5.56%. The redeemable capital 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 Statutory Trust I is $23.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital notes, of which $696 thousand is reflected as the Company's investment in Statutory Trust I reported as "Other assets" within the financial statements.

7. SEGMENT REPORTING DISCLOSURES

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 other banking services to retail and commercial customers through their 58 branch offices located in Virginia. The mortgage segment provides a variety of mortgage loan products principally in Virginia and Maryland. These loans are originated and sold primarily in the secondary market through purchase commitments from investors, which subject the Company to only *de minimis* risk.

Profit and loss is measured by net income after taxes including realized gains and losses on the Company's investment portfolio. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. 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 referral network for the banks, due largely to the minimal degree of overlapping geographic markets.

The community bank segment provides the mortgage segment with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest at the three month LIBOR rate plus 25 basis points. These transactions are eliminated in the consolidation process. A management fee for operations and administrative support services is charged to all subsidiaries and eliminated in the consolidated totals.

Information about reportable segments and reconciliation of such information to the consolidated financial statements for three and six months ended June 30, 2008 and 2007 is as follows (dollars in thousands):

	Community Banks	Mortgage	Eliminations	Consolidated
Three Months Ended June 30, 2008				
Net interest income	**$ 19,604**	**$ 224**	**$ —**	**$ 19,828**
Provision for loan losses	**1,676**	**—**	**—**	**1,676**
Net interest income after provision for loan losses	**17,928**	**224**	**—**	**18,152**
Noninterest income	**4,548**	**3,189**	**(81)**	**7,656**
Noninterest expenses	**16,852**	**3,263**	**(81)**	**20,034**
Income before income taxes	**5,624**	**150**	**—**	**5,774**
Income tax expense	**1,379**	**62**	**—**	**1,441**
Net income	**$ 4,245**	**$ 88**	**$ —**	**$ 4,333**
Total assets	**$2,392,340**	**$36,751**	**$ (33,161)**	**$2,395,930**
Three Months Ended June 30, 2007				
Net interest income	$ 19,120	$ 101	$ —	$ 19,221
Provision for loan losses	190	—	—	190
Net interest income after provision for loan losses	18,930	101	—	19,031
Noninterest income	4,152	2,127	(67)	6,212
Noninterest expenses	15,234	2,499	(67)	17,666
Income (loss) before income taxes	7,848	(271)	—	7,577
Income tax expense (benefit)	2,044	(108)	—	1,936
Net income (loss)	$ 5,804	$ (163)	$ —	$ 5,641
Total assets	$2,163,338	$28,490	$ (24,914)	$2,166,914
Six Months Ended June 30, 2008				
Net interest income	**$ 38,637**	**$ 316**	**$ —**	**$ 38,953**
Provision for loan losses	**3,276**	**—**	**—**	**3,276**
Net interest income after provision for loan losses	**35,361**	**316**	**—**	**35,677**
Noninterest income	**8,978**	**6,188**	**(162)**	**15,004**
Noninterest expenses	**33,736**	**6,393**	**(162)**	**39,967**
Income before income taxes	**10,603**	**111**	**—**	**10,714**
Income tax expense	**2,676**	**53**	**—**	**2,729**
Net income	**$ 7,927**	**$ 58**	**$ —**	**$ 7,985**
Total assets	**$2,392,340**	**$36,751**	**$ (33,161)**	**$2,395,930**
Six Months Ended June 30, 2007				
Net interest income	$ 37,257	$ 124	$ —	$ 37,381
Provision for (recapture of) loan losses	(545)	—	—	(545)
Net interest income after provision for (recapture of) loan losses	37,802	124	—	37,926
Noninterest income	8,101	4,457	(137)	12,421
Noninterest expenses	30,672	5,090	(137)	35,625
Income (loss) before income taxes	15,231	(509)	—	14,722
Income tax expense (benefit)	4,140	(207)	—	3,933
Net income (loss)	$ 11,091	$ (302)	$ —	$ 10,789
Total assets	$2,163,338	$28,490	$ (24,914)	$2,166,914

8. STOCK REPURCHASE

The Board of Directors has authorized management of the Company to buy up to 150,000 shares of its outstanding common stock in the open market at prices that management determines to be prudent. This authorization expires May 31, 2009. 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 and stock purchase plan, the 2003 Stock Incentive Plan, and other employee benefit plans. In March 2008, management repurchased 15,000 shares at a price of $16.87 per share. No shares were repurchased during the second quarter of 2008.

9. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141(R), "*Business Combinations*" ("SFAS 141(R)"). The standard will significantly change the financial accounting and reporting of business combination

transactions. SFAS 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs, including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The Company is evaluating the impact SFAS 141(R) may have on future business combinations on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No.160, "*Noncontrolling Interests in Consolidated Financial Statements*" ("SFAS 160"). SFAS 160 requires an entity to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133"* ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

10. GOODWILL AND INTANGIBLE ASSETS

The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS 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 annual testing for impairment of goodwill and intangible assets, there have been no impairment charges to date.

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 deposits related to the Acquired Bank Branches in September 2007, the Company recorded $1.1 million in core deposit intangible assets and $4.3 million in goodwill. The core deposit intangible assets recorded for the Prosperity acquisition are being amortized over an average of 9.1 years. The core deposit intangible assets recorded for the Acquired Bank Branches are being amortized over an average of 7.9 years. As part of the purchase price allocation for the acquisition of Prosperity in 2006, the Company recorded $5.5 million in core deposit intangible assets and $20.6 million in goodwill.

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Information concerning goodwill and intangible assets is presented in the following table (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
June 30, 2008			
Amortizable core deposit intangibles	**$ 20,215**	**$ 9,638**	**$ 10,577**
Unamortizable goodwill	**56,816**	**342**	**56,474**
December 31, 2007			
Amortizable core deposit intangibles	$ 20,215	$ 8,665	$ 11,550
Unamortizable goodwill	56,816	342	56,474
June 30, 2007			
Amortizable core deposit intangibles	$ 19,137	$ 7,711	$ 11,426
Unamortizable goodwill	52,223	342	51,881

11. COMMITMENTS AND CONTINGENCIES

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payments of fees. Because 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 June 30, 2008 and 2007, the Company had outstanding loan commitments approximating $672.2 million and $695.7 million, respectively.

Letters of credit written are conditional commitments issued by the Company to guarantee the performance of customers to third parties. 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 $29.0 million and $31.8 million at June 30, 2008 and 2007, respectively.

At June 30, 2008, Union Mortgage Group, Inc. ("Union Mortgage"), a wholly owned subsidiary of Union Bank, had rate lock commitments to originate mortgage loans amounting to $44.6 million and loans held for sale of $32.1 million. Union Mortgage has entered into corresponding commitments on a best-efforts basis to sell loans on a servicing released basis totaling approximately $76.7 million. These commitments to sell loans are designed to mitigate the mortgage company's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

12. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of investment securities as of June 30, 2008 and December 31, 2007 are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
June 30, 2008				
Obligations of states and political subdivisions	**$ 119,512**	**$ 1,643**	**$ (803)**	**$ 120,351**
Corporate and other bonds	**14,569**	**243**	**(257)**	**14,555**
Mortgage-backed securities	**136,106**	**655**	**(1,242)**	**135,519**
Federal Reserve Bank stock – restricted	**3,337**	**—**	**—**	**3,337**
Federal Home Loan Bank stock – restricted	**14,138**	**—**	**—**	**14,138**
Other securities	**253**	**—**	**(3)**	**250**
Total securities	**$ 287,915**	**$ 2,541**	**$ (2,305)**	**$ 288,150**
December 31, 2007				
Obligations of states and political subdivisions	$ 111,439	$ 1,840	$ (683)	$ 112,596
Corporate and other bonds	15,435	653	(92)	15,996
Mortgage-backed securities	135,962	930	(672)	136,220
Federal Reserve Bank stock – restricted	3,337	—	—	3,337
Federal Home Loan Bank stock – restricted	13,800	—	—	13,800
Other securities	743	7	—	750
Total securities	$ 280,716	$ 3,430	$ (1,447)	$ 282,699

The following table shows the gross unrealized losses and fair value (in thousands) of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired. These are aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position and are as follows:

	Less than 12 months		More than 12 months		Total	
As of June 30, 2008	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	**$ 38,008**	**$ (567)**	**$ 5,500**	**$ (236)**	**$ 43,508**	**$ (803)**
Mortgage-backed securities	**68,372**	**(1,107)**	**3,417**	**(135)**	**71,789**	**(1,242)**
Corporate and other bonds	**4,841**	**(159)**	**1,817**	**(101)**	**6,658**	**(260)**
	$ 111,221	**$ (1,833)**	**$ 10,734**	**$ (472)**	**$ 121,955**	**$ (2,305)**
As of December 31, 2007						
Obligations of states and political subdivisions	$ 26,227	$ (564)	$ 4,055	$ (119)	$ 30,282	$ (683)
Mortgage-backed securities	10,891	(16)	48,785	(656)	59,676	(672)
Corporate and other bonds	—	—	4,513	(92)	4,513	(92)
	$ 37,118	$ (580)	$ 57,353	$ (867)	$ 94,471	$ (1,447)

As of June 30, 2008, there were $10.7 million of individual securities that had been in a continuous loss position for more than 12 months. Additionally, these securities had an unrealized loss of $472 thousand and consisted primarily of municipal obligations and mortgage-backed securities. Management has evaluated the investment portfolio by security and determined the declines in fair value were primarily attributable to changes in market interest rates, not in estimated cash flows or credit quality. Management has the positive ability and intent to hold these securities to maturity or until value is recovered. Therefore, no other-than-temporary impairment was recorded at the end of the reporting period.

13. FAIR VALUE MEASUREMENTS

SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three Levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Loans held for sale

Loans held for sale are required to be measured at lower of cost or fair value. Under SFAS 157, market value is to represent fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value.

Impaired loans

SFAS 157 applies to loans measured for impairment using the practical expedients permitted by SFAS 114, *"Accounting by Creditors for Impairment of a Loan"*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Intangibles and Goodwill

Goodwill and intangible assets require at least an annual impairment review and more frequently if certain impairment indicators are evident. Based on the annual testing for impairment of goodwill and intangible assets, there have been no impairment charges to date.

Other Real Estate Owned

Certain assets such as other real estate owned are measured at the lower of fair value or cost less cost to sell. The Company believes that the fair value component in its valuation follows the provisions of SFAS 157.

14. CUMULATIVE-EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the first quarter of 2008, Emerging Issues Task Force 06-4 "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" became effective. This statement requires the Company to recognize a liability (offset as a reduction to capital) and related compensation costs for endorsement split-dollar life insurance arrangements that provide benefits to employees during post-retirement periods. The Company recorded a reduction to retained earnings and corresponding increase to liabilities of $1.6 million. This reduction to retained earnings has been reflected in the Company's Condensed Consolidated Statements of Changes in Stockholders' Equity.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheets of Union Bankshares Corporation and subsidiaries as of June 30, 2008 and 2007, and the related condensed consolidated statements of income for the three and six month periods ended June 30, 2008 and 2007 and the related condensed consolidated statements of changes in stockholders' equity and cash flows for the six month periods ended June 30, 2008 and 2007. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Union Bankshares Corporation and subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Winchester, Virginia
August 11, 2008

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management’s discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Union Bankshares and its subsidiaries (the “Company”). This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report, as well as the Company’s Annual Report on Form 10-K and management’s discussion and analysis for the year ended December 31, 2007. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Results of operations for the three month and six month periods ended June 30, 2008 and 2007 are not necessarily indicative of results that may be attained for any other period. Amounts are rounded for presentation purposes, while some of the percentages presented are computed based on unrounded amounts.

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 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 accounting principles generally accepted in the United States of America (“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 and mergers 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 “Summary of Significant Accounting Policies” in the “Notes to the Consolidated Financial Statements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

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* ("SFAS No. 5"), which requires that losses be accrued when occurrence is probable and can be reasonably estimated and (ii) SFAS No. 114, *Accounting by Creditors for Impairment of a Loan* ("SFAS No. 114"), as amended, 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. 118"). 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 historical loss factors applied to the total outstanding loan balance of each loan category. Additionally, environmental factors based on national and local economic activity, as well as portfolio specific attributes, are considered in the allowance for loan losses. Specific reserves are determined on a loan-by-loan basis based on management's evaluation of 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.

Mergers and Acquisitions

The Company's mergers and acquisition strategy focuses on high growth areas with strong market demographics and targets organizations that have a comparable corporate culture, strong performance and good asset quality, among other factors.

The Company accounts for acquisitions under the purchase method of accounting and accordingly is required to record the assets acquired, including identified intangible assets and liabilities assumed at their fair value, which often involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques, which are inherently subjective. The amortization of identified intangible assets is based upon the estimated economic benefits to be received, which is also subjective. These estimates also include the establishment of various accruals and allowances based on planned facility dispositions and employee severance considerations, among other acquisition-related items. In addition, purchase acquisitions typically result in goodwill, which is subject to at least annual impairment testing, or more frequently if certain indicators are in evidence, based on the fair value of net assets acquired compared to the carrying value of goodwill.

The Company and the acquired entity also incur merger-related costs during an acquisition. The Company capitalizes direct costs of the acquisition, such as investment banker and attorneys' fees and includes them as part of the purchase price. Other merger-related internal costs associated with acquisitions are expensed as incurred. Some examples of these merger-related costs include, but are not limited to, systems conversions, integration planning consultants and advertising fees. These merger-related costs are reflected in "Other operating expenses" within the Condensed Consolidated Statement Statements of Income classified within the noninterest expense line. The acquired entity records merger-related costs that result from a plan to exit an activity, involuntarily terminate or relocate employees, and are recognized as liabilities assumed as of the consummation date of the acquisition.

BUSINESS OVERVIEW

Union Bankshares Corporation is one of the largest community banking organizations based in Virginia, providing full service banking to the Northern, Central, Rappahannock, Tidewater and Northern Neck regions of Virginia through its bank subsidiaries, Union Bank and Trust Company (38 locations in the counties of Albemarle, Caroline, Chesterfield, Fairfax, Fluvanna, Hanover, Henrico, King George, King William, Nelson, Spotsylvania, Stafford, Westmoreland and the cities of Fredericksburg and Charlottesville); Northern Neck State Bank (9 locations in the counties of Richmond, Westmoreland, Essex, Northumberland and Lancaster); Rappahannock National Bank (7 locations in Washington, Front Royal, Middleburg, Warrenton, and Winchester) and Bay Community Bank (4 locations in Williamsburg, Newport News and Grafton). Union Bank and Trust Company also operates a loan production office in Manassas. Union Investment Services, Inc. provides full brokerage services; Union Mortgage Group, Inc. provides a full line of mortgage products; and Union Insurance Group, LLC offers various lines of insurance products. Bay Community Bank also owns a non-controlling interest in Johnson Mortgage Company, LLC.

In May 2008, the Company announced that its affiliate Bay Community Bank will merge into its largest bank affiliate, Union Bank and Trust Company ("Union Bank"). The projected completion date of the merger is October 31, 2008.

Effective March 14, 2008, the Company completed it previously announced merger of its Prosperity Bank & Trust Company affiliate ("Prosperity") into Union Bank.

In May 2007, the Company completed construction of a new 70,000 square foot operations center in Caroline County, Virginia at a cost of approximately $13 million. The facility is located just west of

Interstate 95 near the intersection U.S. Route 1 and State Route 207 and is approximately twelve miles west of the Company's corporate offices in Bowling Green, Virginia. The new facility will accommodate the Company's anticipated growth and provides improved access to the Greater Richmond and Fredericksburg workforce. The Company sold its former operations center during the third quarter of 2007.

Additional information is available on the Company's website at www.ubsh.com. The shares of the Company are traded on the NASDAQ Global Select Market under the symbol "UBSH".

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended June 30, 2008, increased by $681 thousand, or 18.6%, to $4.3 million from the most recent quarter ended March 31, 2008. Earnings per share, on a diluted basis, increased $.05 to $.32 from $.27, representing an increase of 18.5%. Return on average assets and return on average equity were 0.74% and 8.10%, respectively. These improvements were largely attributable to lower funding costs, increases in noninterest income and nominal growth in noninterest expenses.

For the three months ended June 30, 2008, net income was $4.3 million, down 23.2% from $5.6 million for the same quarter in 2007. Earnings per share, on a diluted basis, decreased $.10, or 23.8%, to $.32 from $.42 for the same quarter a year ago. Return on average equity for the quarter ended June 30, 2008 was 8.10%, while return on average assets for the same period was 0.74%, compared to 11.07% and 1.06%, respectively, for the prior year's same quarter.

This year to year decline was largely the result of increased provisions for loan losses, the costs associated with the purchase of six bank branches, effective September 7, 2007, the opening of one *de novo* branch and nonrecurring expenses related to merging affiliate banks. These increases were partially offset by increased profitability in the mortgage segment and growth in service charge income on deposit accounts.

For the six months ended June 30, 2008, net income was $8.0 million, down $2.8 million or 26.0% from $10.8 million compared to the same period a year ago. This decline represents a decrease in earnings per share, on a diluted basis, of $.21, or 26.3%, from $.80 to $.59. Return on average equity for the six months ended June 30, 2008 was 7.47%, while return on average assets was 0.69%, compared to 10.73% and 1.03%, respectively, for the same period in 2007. The decrease was partially related to increased provisions for loan losses, noninterest expenses associated with the purchase of six bank branches and the opening of one *de novo* branch, partially offset by increased profitability in the mortgage segment and growth in service charge income on deposit accounts.

As a supplement to GAAP, the Company also uses certain alternate financial measures to review its operating performance. Diluted earnings per share on a cash basis for the quarter ended June 30, 2008 were $.35, as compared to $.44 for the same quarter a year ago and $.29 for the quarter ended December 31, 2007. Additionally, cash basis return on average tangible equity for the quarter ended June 30, 2008 was 12.64%, as compared to 16.91% in the prior year's second quarter and 10.93% for the quarter ended December 31, 2007.

Net Interest Income

The targeted Federal funds rate was lowered to 2.00% on April 30, 2008 by the Federal Open Market Committee ("FOMC") of the Federal Reserve Board of Governors and remained unchanged at the following meeting on June 25th. This marked the first time since September 2007 that the targeted Federal funds rate was not lowered at an FOMC meeting. The previous declines in the targeted

Federal funds rate resulted in the immediate repricing of the Company's loans tied to prime, which represent approximately one-third of the loan portfolio, and a resulting reduction in yields on earning assets.

On a linked quarter basis, net interest income increased $703 thousand, or 3.7%, to $19.8 million. The tax-equivalent net interest margin improved 7 basis points from 3.85% to 3.92% over the most recent quarter. This improvement was partially attributable to a faster decline in the cost of interest-bearing liabilities as compared to the decline in yields on interest-earning assets as well as increases in demand deposit accounts. Interest-earning asset yields declined 41 basis points to 6.48% and the cost of interest-bearing liabilities declined 54 basis points to 2.96%. Additionally, total average earning-asset volumes of $33.6 million were funded by interest-bearing deposits and demand deposits as opposed to wholesale borrowings.

For the three months ended June 30, 2008, net interest income, on a tax-equivalent basis, increased $691 thousand, or 3.5%, to $20.6 million compared to the same period last year. This increase in net interest income was achieved despite a decline in the net interest margin of 28 basis points, from 4.20% to 3.92%. This net interest margin decline was partially attributable to faster declines in yields on earning-assets as compared to costs on interest-bearing liabilities. Yields on earning-assets declined 106 basis points and the cost of interest-bearing liabilities declined 97 basis points. The increase in net interest income was primarily driven by increased loan volume and lower cost of borrowings and certificates of deposit greater than $100 thousand. Of the increase in funding sources, average money market volumes increased $53.5 million, or 34.7%, as did interest-bearing checking account volume, up $19.9 million, or 9.6%, partially offset by lower demand deposit volumes.

For the six months ended June 30, 2008, net interest income, on a tax-equivalent basis, increased by $1.7 million, or 4.5%, to $40.6 million compared to the same period last year. This increase in net interest income was achieved despite a decline in the net interest margin of 25 basis points, from 4.14% to 3.89%. This net interest margin decline was partially attributable to lower yields on earning-assets as compared to costs of interest-bearing liabilities. Yields on earning-assets declined 81 basis points and the cost of interest-bearing liabilities declined 70 basis points. The increase in net interest income was principally due to lower cost of borrowings and certificates of deposit greater than $100 thousand.

A variety of investment and funding activity occurred during the first and second quarters of 2007 and is stated herein for comparative purposes. For the six months ended June 30, 2007, approximately $8.0 million ($6.2 million during the first quarter of 2007) of investment securities were called by the issuers resulting in gains of $508 thousand ($301 thousand during the first quarter of 2007). The proceeds from these calls plus additional funds were used to pay off approximately $15.0 million of higher cost (6.3%) Federal Home Loan Bank advances. Penalties of approximately $513 thousand ($316 thousand during the first quarter of 2007) associated with the early payoff of these advances have been reflected as an interest expense adjustment in the net interest margin for the six months ended June 30, 2007. Absent this interest expense adjustment, net interest margin would have been 4.20%, instead of 4.14%, for the six months ending June 30, 2007.

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

	For the Three Months Ended June 30,								
	2008			2007			2006		
	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
	(Dollars in thousands)								
Assets:									
Securities:									
Taxable	**$ 177,859**	**$ 2,289**	**5.18%**	$ 169,359	$ 2,174	5.15%	$ 196,286	$ 2,544	5.20%
Tax-exempt	**109,375**	**1,959**	**7.20%**	97,521	1,760	7.24%	88,539	1,614	7.31%
Total securities	**287,234**	**4,248**	**5.95%**	266,880	3,934	5.91%	284,825	4,158	5.85%
Loans, net (2) (3)	**1,794,443**	**29,408**	**6.59%**	1,612,164	31,401	7.81%	1,493,093	28,012	7.53%
Loans held for sale	**31,021**	**449**	**5.82%**	22,332	359	6.45%	29,513	440	5.98%
Federal funds sold	**240**	**1**	**2.16%**	1,802	122	5.49%	14,266	285	5.01%
Money market investments	**152**	**—**	**0.01%**	146	1	1.72%	115	—	1.57%
Interest-bearing deposits in other banks	**951**	**5**	**2.29%**	901	12	5.21%	1,044	12	4.45%
Other interest-bearing deposits	**2,598**	**16**	**2.42%**	2,598	35	5.39%	2,598	32	4.91%
Total earning assets	**2,116,639**	**34,127**	**6.48%**	1,906,823	35,864	7.54%	1,825,454	32,939	7.24%
Allowance for loan losses	**(20,746)**			(18,306)			(18,538)		
Total non-earning assets	**249,805**			242,636			220,365		
Total assets	**$2,345,698**			$2,131,153			$2,027,281		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 228,009**	**362**	**0.64%**	$ 208,068	334	0.64%	$ 211,017	201	0.38%
Money market savings	**207,603**	**1,149**	**2.23%**	154,105	885	2.30%	180,201	996	2.22%
Regular savings	**103,047**	**140**	**0.54%**	104,743	200	0.76%	124,880	289	0.93%
Certificates of deposit:									
$100,000 and over	**439,298**	**4,348**	**3.98%**	448,728	5,535	4.95%	371,493	4,071	4.40%
Under $100,000	**483,611**	**4,677**	**3.89%**	451,845	5,086	4.51%	396,729	3,763	3.80%
Total interest-bearing deposits	**1,461,568**	**10,676**	**2.94%**	1,367,489	12,040	3.53%	1,284,320	9,320	2.91%
Other borrowings	**372,073**	**2,804**	**3.03%**	256,380	3,868	6.05%	232,639	3,057	5.27%
Total interest-bearing liabilities	**1,833,641**	**13,480**	**2.96%**	1,623,869	15,908	3.93%	1,516,959	12,377	3.27%
Noninterest-bearing liabilities:									
Demand deposits	**277,298**			285,414			305,654		
Other liabilities	**19,536**			17,499			12,656		
Total liabilities	**2,130,475**			1,926,782			1,835,269		
Stockholders' equity	**215,223**			204,371			192,012		
Total liabilities and stockholders' equity	**$2,345,698**			$2,131,153			$2,027,281		
Net interest income		**$20,647**			$19,956			$20,562	
Interest rate spread (4)			**3.52%**			3.61%			3.97%
Interest expense as a percent of average earning assets			**2.56%**			3.35%			2.72%
Net interest margin			**3.92%**			4.20%			4.52%

(1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
(2) Nonaccrual loans are included in average loans outstanding.
(3) Foregone interest on previously charged off credits of $76 thousand has been excluded for 2006.
(4) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.

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

	For the Six Months Ended June 30,								
	2008			2007			2006		
	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
	(Dollars in thousands)								
Assets:									
Securities:									
Taxable	**$ 177,298**	**$ 4,577**	**5.19%**	$ 175,324	$ 4,505	5.18%	$ 181,954	$ 4,718	5.23%
Tax-exempt	**108,196**	**3,890**	**7.23%**	96,529	3,502	7.32%	83,246	3,064	7.42%
Total securities	**285,494**	**8,467**	**5.96%**	271,853	8,007	5.94%	265,200	7,782	5.92%
Loans, net (2) (3)	**1,781,636**	**60,520**	**6.83%**	1,589,154	61,061	7.75%	1,441,622	52,764	7.38%
Loans held for sale	**27,265**	**726**	**5.35%**	21,989	660	6.05%	26,649	856	6.48%
Federal funds sold	**1,592**	**29**	**3.66%**	2,801	385	5.47%	8,106	318	4.88%
Money market investments	**194**	**1**	**0.63%**	205	2	1.97%	103	1	2.46%
Interest-bearing deposits in other banks	**1,017**	**14**	**2.68%**	1,018	27	5.27%	854	18	4.34%
Other interest-bearing deposits	**2,598**	**40**	**3.12%**	2,598	69	5.36%	2,598	60	4.65%
Total earning assets	**2,099,796**	**69,797**	**6.68%**	1,889,618	70,211	7.49%	1,745,132	61,799	7.14%
Allowance for loan losses	**(20,180)**			(18,704)			(17,936)		
Total non-earning assets	**249,033**			237,918			196,811		
Total assets	**$2,328,649**			$2,108,832			$1,924,007		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 223,131**	**736**	**0.66%**	$ 207,137	$ 652	0.63%	$ 203,147	382	0.38%
Money market savings	**187,817**	**2,075**	**2.22%**	158,008	1,802	2.30%	180,418	2,006	2.24%
Regular savings	**102,353**	**308**	**0.60%**	105,022	426	0.82%	120,267	549	0.92%
Certificates of deposit:									
$100,000 and over	**444,711**	**9,420**	**4.26%**	447,017	10,942	4.94%	356,284	7,534	4.26%
Under $100,000	**481,870**	**9,872**	**4.12%**	452,264	10,078	4.49%	386,247	7,062	3.69%
Total interest-bearing deposits	**1,439,882**	**22,411**	**3.13%**	1,369,448	23,900	3.52%	1,246,363	17,533	2.84%
Other borrowings	**381,279**	**6,814**	**3.59%**	239,017	7,476	6.31%	204,037	5,086	5.03%
Total interest-bearing liabilities	**1,821,161**	**29,225**	**3.23%**	1,608,465	31,376	3.93%	1,450,400	22,619	3.14%
Noninterest-bearing liabilities:									
Demand deposits	**272,070**			280,430			273,480		
Other liabilities	**20,582**			17,185			13,038		
Total liabilities	**2,113,813**			1,906,080			1,736,918		
Stockholders' equity	**214,836**			202,752			187,089		
Total liabilities and stockholders' equity	**$2,328,649**			$2,108,832			$1,924,007		
Net interest income		**$40,572**			$38,835			$39,180	
Interest rate spread (4)			**3.45%**			3.56%			4.00%
Interest expense as a percent of average earning assets			**2.80%**			3.35%			2.61%
Net interest margin			**3.89%**			4.14%			4.53%

(1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
(2) Nonaccrual loans are included in average loans outstanding.
(3) Foregone interest on previously charged off credits of $196 thousand has been excluded for 2006.
(4) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.

Provision for Loan Losses

For the quarter ended June 30, 2008, the provision for loan losses increased $1.5 million from June 30, 2007. On a linked quarter basis, the provision for loan losses increased $76 thousand as compared to the first quarter of 2008. The provision for loan losses increased $3.8 million for the six months ending June 30, 2008. During the first quarter of 2007, the Company recaptured $750 thousand in provision for loan losses due to the reduction in the estimated loss exposure on a non-performing loan to a single credit relationship. Absent this recapture, the increase in the provision for loan losses was $3.1 million. The increases in the provision for loan losses and the current levels in the allowance for loan losses reflect continued loan growth, net-charge offs, delinquency trends and uncertainty with regard to general economic and other credit risk factors that the Company considers in assessing the adequacy of the allowance for loan losses.

Noninterest Income

Noninterest income for the three months ended June 30, 2008 increased $1.4 million, or 23.2%, from $6.2 million to $7.7 million compared to last year’s same quarter. This increase reflected higher mortgage segment income from the sale of loans of approximately $1.1 million and increased revenue from service charges on deposit accounts (primarily overdraft and returned check charges of $412 thousand), from the same quarter a year ago.

On a linked quarter basis, noninterest income increased $308 thousand, or 4.2%, to $7.7 million from $7.3 million for the quarter ended March 31, 2008. These results included $209 thousand related to higher service charges on deposit accounts and fees (brokerage fees, debit card and ATM fees). During the first quarter of 2008, the Commonwealth of Virginia, exercising its eminent domain rights, acquired Company owned real estate for a public easement, which resulted in a gain of $127 thousand. The initial public offering of Visa, Inc. common stock during March 2008 resulted in the mandatory redemption of certain classes of common stock to financial institution members of Visa U.S.A.; thus the Company recorded a gain of $198 thousand relating to this redemption of its member banks’ Visa, Inc. common stock. Absent these first quarter transactions and gains on mortgage loan sales, noninterest income increased approximately $444 thousand, or 10.8%, from the quarter ended March 31, 2008.

For the six months ended June 30, 2008, noninterest income increased $2.6 million, or 20.8%, to $15.0 million from $12.4 million for the same period in 2007. This increase included higher gains from the sale of mortgage loans of approximately $1.7 million and increased revenue of $806 thousand from service charges on deposit accounts, from the same period a year ago. During the first six months of 2008, the Company recorded a gain of $127 thousand for a public domain easement and a gain of $198 thousand related to the redemption of Visa common stock as described above. During the same period in 2007, the Company recorded a gain of $508 thousand on the sale of trust preferred securities. Absent these gain transactions, noninterest income increased $2.8 million, or 23.2%, compared to the same period in 2007.

Additionally, the noninterest income associated with the purchase of six bank branches, effective September 7, 2007, and the opening of one *de novo* bank branch did not exist at June 30, 2007 for comparative purposes. During the first six months of 2008, these branches contributed $196 thousand toward the increase in consolidated service charges on deposit accounts. Absent the noninterest income associated with the purchase of six bank branches, the opening of one *de novo* bank branch, mortgage segment income, current and prior period gains, noninterest income increased approximately $841 thousand, or 11.3%.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2008 increased $2.4 million, or 13.4%, to $20.0 million over last year’s same period. This increase primarily related to the acquisition of six bank branches, the opening of one *de novo* bank branch and mortgage segment operations. The

acquisition of six bank branches occurred during the third quarter of 2007 and is not in the comparative results as of June 30, 2007. Salaries and benefits increased $1.7 million for the three months ended June 30, 2008 as compared to the same period a year ago. Of this increase, $707 thousand was at the mortgage segment and related to commissions on increased loan production and $358 thousand related to employees at the acquired bank branches and the *de novo* branch. The remaining increase of $596 thousand related to normal compensation increases and benefits partially offset by lower profit sharing expenses. Occupancy expenses increased $297 thousand of which $156 thousand related to the six branches and the *de novo* branch. Furniture and equipment expenses increased $116 thousand of which $74 thousand related to the six branches and the *de novo* branch. Other operating expenses increased $294 thousand of which $90 thousand related to the six branches and *de novo* branch. Absent the six branches, the *de novo* branch and mortgage segment operations the increase in noninterest expense increased approximately $926 thousand, or 5%, over the same quarter a year ago.

On a linked quarter basis, noninterest expense increased by $101 thousand, or 0.5%, to $20.0 million for the three months ended June 30, 2008. Increases in salaries and benefits of $219 thousand, or 2.0%, were primarily attributable to increased mortgage segment commissions as well as normal compensation increases. Increased costs in media and print production expenses of $113 thousand related to the Company’s advertising campaigns (i.e., 3.00% money market campaign) during the second quarter of 2008. Also during the second quarter, the Company recorded a $185 thousand increase in its Federal Deposit Insurance Corporation (“FDIC”) insurance assessment due to credits related to prior periods and an overall increase in insurance assessments. Absent merger related expenses and mortgage segment operations, noninterest expenses increased $169 thousand, or 1%, over the prior quarter.

For the six months ended June 30, 2008, noninterest expense increased by $4.3 million, or 12.2 %, to $40.0 million compared to the six months ended June 30, 2007. Increases in salaries and benefits of $2.8 million, or 14.2%, were primarily attributable to increased mortgage segment commissions of $1.1 million as well as additional personnel in acquired and *de novo* bank branches and normal compensation increases. Occupancy expenses increased $614 thousand, or 21.8%, and were principally attributable to increased facilities costs associated with the Company’s new operations center and the acquired and *de novo* bank branches. Some of these increased costs included depreciation, rental expenses and to a lesser extent, utility costs. Operating expenses increased $746 thousand, or 6.8%, and principally related to ongoing infrastructure enhancements to support the Company’s continued growth, advertising campaigns and higher FDIC insurance costs as described above. Infrastructure enhancements included such things as Voice-over Internet Protocol and the associated hardware and software to support this technology. Of this increase, approximately $239 thousand related to conversion costs incurred as part of merging affiliate banks. Prosperity Bank & Trust Company was merged into Union Bank and Trust Company during the first quarter of 2008. Bay Community Bank will be merged into Union Bank and Trust Company during the fourth quarter of 2008. Furniture and equipment expenses increased $200 thousand, or 8.7%, and were attributable to the related depreciation of the purchased branches, one *de novo* bank branch and the new operations center.

The noninterest expense associated with the purchase of six bank branches and the opening of one *de novo* bank branch did not exist at the time of June 30, 2007 reporting for comparative purposes. During the first six months of 2008, these branches contributed $736 thousand toward the increase in salaries and benefits, $312 thousand in occupancy expenses, $207 thousand in other operating expenses and $153 thousand in furniture and equipment. Without the contribution of noninterest expenses associated with the purchase of six bank branches, the opening of one *de novo* bank branch and merger related costs noninterest expense increased $2.7 million, or 7.6%.

Income Taxes

The provision for income taxes is based upon the results of operations, adjusted for the effect of certain tax-exempt income and non-deductible expenses. In addition, certain items of income and expense are reported in different periods for financial reporting and tax return purposes. The tax effects of these temporary differences are recognized currently in the deferred income tax provision or benefit. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the applicable enacted marginal tax rate.

The Company must also evaluate the likelihood that deferred tax assets will be recovered from future taxable income. If any such assets are not likely to be recovered, a valuation allowance must be recognized. The Company has determined that a valuation allowance is not required for deferred tax assets as of June 30, 2008. The assessment of the carrying value of deferred tax assets is based on certain assumptions, changes in which could have a material impact on the Company's financial statements.

The effective tax rates for the three and six months ended June 30, 2008 was 25.0% and 25.5%, compared to 25.6% and 26.7%, respectively, for the same period in 2007.

SEGMENT INFORMATION

Community Banking Segment

For the three months ended June 30, 2008, net income for the community banking segment decreased $1.6 million, or 26.9%, from $5.8 million, for the same quarter last year. This decline was largely attributable to increased provisions for loan losses, costs related to the purchase of six bank branches, the opening of one *de novo* bank branch as well as costs associated with merging affiliate banks. Noninterest income increased $396 thousand, or 9.5%, in the second quarter of 2008 from the same period a year earlier primarily due to increased revenue from service charges on deposit accounts and other fees (overdraft and returned check charges, brokerage commissions and debit card income) of $568 thousand. Noninterest expense increased $1.6 million, or 10.6%, and primarily related to the acquisition of six bank branches, the opening of one *de novo* bank branch as compared to the same period a year ago.

On a linked quarter basis, community bank segment net income increased $563 thousand, or 15.3%, for the period ended June 30, 2008. The increase was largely attributable to improved net interest margin and higher service charges and account fees, partially offset by first quarter gains of $127 thousand for a public domain easement and a gain of $198 thousand related to the redemption of Visa common stock. Also during the first quarter, the Company recorded $220 thousand related to bank branch merger costs. Absent these prior period gains noninterest income increased $444 thousand, or 10.8%, from the most recent quarter. Noninterest expense increased $169 thousand, or 1%, absent first quarter merger costs.

For the six months ended June 30, 2008, net income for the community banking segment decreased $3.2 million, or 28.5%, from $11.1 million the same period a year ago. This decline was largely attributable to increased provisions for loan losses, costs related to the purchase of six bank branches, the opening of one *de novo* bank branch as well as costs associated with merging affiliate banks. Noninterest income increased $877 thousand, or 10.8%, from the same period a year earlier primarily due to increased revenue from service charges on deposit accounts and other fees (overdraft and returned check charges, brokerage commissions and debit card income) of $986 thousand. During the first six months of 2008, the Company recorded gains of $127 thousand for a public domain easement and a gain of $198 thousand related to the redemption of Visa Inc. common stock. During the first six months of 2007, the Company recorded gains on sales of called investment securities totaling $508 thousand. Absent these transactions, noninterest income increased $1.1 million, or 14.0%, from the same period a year ago. Noninterest expense increased $3.1 million, or 10.0%, from the same period

a year ago. During the first six months of 2008, the Company incurred costs related to the purchase of six bank branches, the opening of one *de novo* bank branch as well as costs associated with merging affiliate banks. Absent these costs, noninterest expense increased $1.4 million, or 4.6%, from the same period in 2007.

Mortgage Segment

For the three months ended June 30, 2008, the mortgage segment reported net income of $88 thousand, a $251 thousand increase from $163 thousand net loss for the same quarter in 2007. Originations increased 32.8% from the same period last year, resulting in an increase in loan revenue of $1.1 million due to strong purchase loan growth within core market areas. Total noninterest expenses increased $765 thousand. Of this increase, $707 thousand related to salaries and benefits, a function of increased commission expense as a result of higher loan originations. Other operating expenses increased $14 thousand principally as a result of the addition of new branch offices since the same period last year.

On a linked quarter basis, mortgage segment net income improved by $118 thousand from a net loss of $30 thousand in the first quarter of 2008 to net income of $88 thousand. Revenue from the sale of loans increased $190 thousand, or 6.3%, while originations rose 16.4%. Salaries and benefits increased $187 thousand related to the increase in originations. Operating expenses and furniture and equipment expenses both decreased $50 thousand and $14 thousand, respectively, from the prior quarter. The decline in operating expenses related primarily to cost savings measures implemented during the prior quarter. Occupancy expenses increased $12 thousand due to higher maintenance costs partially offset by credits received in the previous quarter.

For the six months ended June 30, 2008, mortgage segment net income increased by $360 thousand from a net loss of $302 thousand to net income of $58 thousand. Revenue from the sale of loans increased $1.7 million, or 38%, while originations rose 22.5% as loan profit margins improved due to consumer demand for more profitable loan products. Salaries and benefits increased $1.1 million and was principally due to expenses related to increased loan originations. Operating and occupancy costs increased $75 thousand and $73 thousand, respectively, while furniture and equipment costs increased $28 thousand. These costs were largely driven by origination growth and additions to the branch office network.

BALANCE SHEET

Balance Sheet Overview

At June 30, 2008, total assets were approximately $2.4 billion compared to $2.2 billion and $2.3 billion at June 30, 2007 and December 31, 2007, respectively. Net loans increased $184.1 million, or 11.4%, from June 30, 2007, and increased $73.6 million, or 4.3% from December 31, 2007. The year over year increase in loan growth was primarily within the owner-occupied commercial real estate portfolio. Total cash and cash equivalents increased $11.4 million to $66.8 million at June 30, 2008 from $55.4 million a year ago, and increased $8.6 million from $58.3 million at December 31, 2007. Deposits increased $138.7 million, or 8.4%, and increased $127.3 million, or 7.7%, from June 30, 2007 and December 31, 2007, respectively, primarily due to increases in money market accounts and the issuance of approximately $40 million in brokered certificates of deposit in the first quarter of 2008. Total borrowings (including repurchase agreements) decreased by $36.2 million to $376.5 million from December 31, 2007, but increased $80.8 million from June 30, 2007. The Company's equity to assets ratio was 8.91% at June 30, 2008. The Company's current strategic plan includes a targeted equity to asset ratio between 8% and 9%.

While not immune from the effects of weakening economic conditions, the Company remains focused on asset quality and on maintaining adequate loan loss reserves, liquidity and capital in this challenging time. Management believes its risk management in underwriting and lending is sufficiently strong to weather successfully this stressed period of economic uncertainty.

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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. Management monitors liquidity levels on a daily basis. 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, a line of credit with the Federal Home Loan Bank of Atlanta ("FHLB") and a corporate line of credit with a large correspondent bank. Management considers the Company's overall liquidity to be sufficient to satisfy its depositors' requirements and to meet its customers' credit needs.

As of June 30, 2008, cash, interest-bearing deposits in other banks, money market investments, Federal funds sold, securities available for sale, loans available for sale and loans that mature or reprice in one year totaled $1.6 billion, or 73.4%, of total earning assets. As of June 30, 2008, approximately $1.2 billion, or 65.2%, of total loans, are scheduled to mature or reprice within the next year. In addition to deposits, the Company utilizes Federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, to fund the growth in its loan portfolio, securities purchases, and periodically, wholesale leverage transactions.

During the first quarter of 2008, the Company issued $40 million of brokered certificates of deposits with an average cost of 3.90%. These deposits remained outstanding as of June 30, 2008.

Loan Portfolio

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

	June 30, 2008	% of Total Loans	December 31, 2007	% of Total Loans	June 30, 2007	% of Total Loans
Mortgage loans on real estate:						
Residential 1-4 family	**$ 285,272**	**15.6%**	$ 281,847	16.1%	$ 265,278	16.2%
Commercial	**520,807**	**28.6%**	500,118	28.6%	480,453	29.4%
Construction	**413,284**	**22.7%**	396,928	22.7%	372,111	22.7%
Second mortgages	**37,324**	**2.0%**	37,875	2.2%	38,944	2.4%
Equity lines of credit	**153,367**	**8.4%**	128,897	7.4%	119,681	7.3%
Multifamily	**35,561**	**1.9%**	32,970	1.9%	34,757	2.1%
Agriculture	**22,933**	**1.3%**	18,958	1.1%	15,745	1.0%
Total real estate loans	**1,468,548**	**80.5%**	1,397,593	80.0%	1,326,969	81.1%
Commercial Loans	**140,526**	**7.7%**	136,317	7.8%	122,421	7.5%
Consumer installment loans						
Personal	**161,084**	**8.8%**	173,650	9.9%	154,358	9.4%
Credit cards	**14,041**	**0.8%**	13,108	0.7%	11,115	0.7%
Total consumer installment loans	**175,125**	**9.6%**	186,758	10.6%	165,473	10.1%
All other loans	**39,507**	**2.2%**	27,152	1.6%	21,482	1.3%
Gross loans	**$1,823,706**	**100.0%**	$1,747,820	100.0%	$1,636,345	100.0%

As reflected in the loan table, at June 30, 2008, the largest component of the Company's loan portfolio consisted of real estate loans, concentrated in residential 1-4 family, commercial and construction. The risks attributable to these concentrations are mitigated by the Company's credit underwriting and monitoring process, including oversight by a centralized credit administration function and credit risk and policy management committee, as well as seasoned bankers focusing their lending to borrowers with proven track records in markets with which the Company is familiar.

Approximately 30% of the Company's loan portfolio is comprised of amortizing commercial real estate loans of which approximately 50% is owner-occupied real estate. In addition, 23% of the loan portfolio is concentrated in real estate construction loans including raw land, land development, builder lots (spec and pre-sold) and residential and commercial construction loans. These loans are originated and underwritten by the Company's lending staff and are generally secured by real estate located within the bank's various trade areas, principally Fredericksburg, Richmond and Charlottesville. There is not a significant concentration of real estate loans in the Company's northern Virginia trade area. Softening in residential real estate has impacted the housing absorption rate and pricing. The prolonging of this current real estate slump will have a greater negative impact on these portfolios.

Asset Quality

The Company's asset quality remains strong. The allowance for loan losses represents management's estimate of the amount adequate to provide for potential losses inherent in the loan portfolio. The Company's management has established an allowance for loan losses which it believes is adequate for the risk of loss inherent in the loan portfolio. Among other factors, management considers the Company's historical loss experience, the size and composition of the loan portfolio, the value and adequacy of collateral and guarantors, non-performing credits and current and anticipated economic conditions. There are additional risks of future loan losses, which cannot be precisely quantified nor attributed to particular loans or classes of loans. Because those risks include general economic trends, as well as conditions affecting individual borrowers, the allowance for loan losses is an estimate. The allowance is also subject to regulatory examinations and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and size of the allowance in comparison to peer companies identified by regulatory agencies.

The Company maintains a list of loans that have potential weaknesses which may need special attention. This nonperforming loan list is used to monitor such loans and is used in the determination of the adequacy of the Company's allowance for loan losses. At June 30, 2008, nonperforming assets totaled $12.9 million, including a single credit relationship totaling $7.1 million. The Company entered into a workout agreement with the borrower in the aforementioned single credit relationship during March 2004. Under the terms of the agreement, the Company extended further credit secured by additional property with significant equity. During the first quarter of 2007, such equity was extracted from this relationship, reducing nonperforming assets totals on this relationship from $10.6 million as of December 31, 2006 to $7.9 million, and resulting in the recapture of $750 thousand in specific reserves. In the second quarter of 2007, approximately $400 thousand of this relationship returned to accrual status, further reducing the nonperforming balance to $7.5 million as of the end of June 30, 2007. This balance has been further reduced, due to payments from the borrower, to $7.1 million at June 30, 2008. Despite the lengthy nature of this workout, the Company continues to work with the borrower toward a resolution of the affiliated loans and anticipates this workout will result in further reductions of the Company's overall exposure to the borrower. The loans to this relationship continue to be secured by real estate (two assisted living facilities).

Despite increasing industry concerns over credit issues, the Company's asset quality remains strong. Net charge-offs were $478 thousand, or 0.11% of loans, for the quarter ended June 30, 2008, compared to net charge-offs of $88 thousand in the same quarter last year and $484 thousand for the quarter ended March 31, 2008. As of June 30, 2008, total past due loans were $11.7 million, or 0.64%, of total gross loans representing an increase of 0.20% from June 30, 2007. At June 30, 2008, nonperforming assets totaled $12.9 million, including a single credit relationship totaling $7.1 million. Excluding the aforementioned single credit relationship, total nonperforming assets increased $4.5 million since June 30, 2007. Of this increase, $2.1 million occurred during the second quarter ended June 30, 2008, due primarily to one commercial relationship operating in a construction-related industry.

Nationally, industry concerns over asset quality have increased due in large part to issues related to subprime mortgage lending, declining real estate activity and general economic concerns. While the Company has experienced reduced residential real estate activity, the markets in which the Company operates remain relatively stable and there has been no significant deterioration in the quality of the Company's loan portfolio. The Company's loan portfolio does not include exposure to subprime mortgage loans. Residential loan demand has moderated somewhat, but the Company is still experiencing continued loan demand, particularly in commercial real estate. New loan opportunities in the commercial real estate sector are being approached deliberately. Management will continue to monitor delinquencies, risk rating changes, charge-offs, market trends and other indicators of risk in the Company's portfolio, particularly those tied to residential real estate, and adjust the allowance for loan losses accordingly.

The following table sets forth selected asset quality data and ratios (dollars in thousands) for the quarter ending:

	June 30, 2008	December 31, 2007	June 30, 2007
Nonaccrual loans	**$ 12,135**	$ 9,436	$ 8,232
Foreclosed properties	**304**	217	217
Real estate investment	**476**	476	—
Total nonperforming assets	**$ 12,915**	$ 10,129	$ 8,449
Balances			
Allowance for loan losses	**$ 21,650**	$ 19,336	$ 18,353
Average loans, net of unearned income	**1,781,636**	1,713,402	1,612,164
Loans, net of unearned income	**1,823,706**	1,747,820	1,636,345
Ratios			
Allowance for loan losses to loans	**1.19%**	1.11%	1.12%
Allowance for loan losses to nonperforming assets	**167.63%**	190.90%	217.22%
Nonperforming assets to loans & other real estate	**0.71%**	0.58%	0.52%
Net charge-offs to average loans	**0.11%**	0.09%	0.02%

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, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, have 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 total risk-based capital ratio of 11.48% and a Tier 1 risk-based capital ratio of 10.38% as of June 30, 2008, which allowed the Company to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the capital guidelines adopted by the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation for minimum capital standards. The Company's current strategic plan includes a targeted equity to asset ratio between 8% and 9%. As of June 30, 2008, the ratio was 8.91%.

While the bank's capital levels are considered "well-capitalized" by regulatory definition, a prolonged period of earnings at current levels and dividend payouts could negatively impact capital ratios. The Company has a capital planning and monitoring process in place as it strives to maintain its historical strong capital levels and remain "well-capitalized".

In connection with its acquisitions of Prosperity and Guaranty, the Company issued trust preferred capital notes to fund the cash portion of those acquisitions, collectively totaling $58.5 million. The total of the trust preferred capital notes currently qualify for Tier 1 capital of the Company for regulatory purposes.

During the first quarter of 2008, Emerging Issues Task Force 06-4 "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" became effective. This statement requires the Company to recognize a liability (offset as a reduction to capital) and related compensation costs for endorsement split-dollar life insurance arrangements that provide benefits to employees during postretirement periods. The Company recorded a reduction to retained earnings and corresponding increase to liabilities of $1.6 million. This reduction to retained earnings has been reflected in the Company's Condensed Consolidated Statements of Changes in Stockholders' Equity.

The following summarizes the Company's regulatory capital and related ratios (dollars in thousands):

	June 30, 2008	December 31, 2007	June 30, 2007
Tier 1 capital	**$ 204,852**	$ 201,351	$ 200,420
Tier 2 capital	**21,650**	19,336	18,353
Total risk-based capital	**226,502**	220,687	218,773
Risk-weighted assets	**1,972,993**	1,890,569	1,782,098
Capital ratios:			
Tier 1 risk-based capital ratio	**10.38%**	10.65%	11.25%
Total risk-based capital ratio	**11.48%**	11.67%	12.28%
Leverage ratio (Tier 1 capital to average adjusted assets)	**8.98%**	9.20%	9.69%
Stockholders' equity to assets	**8.91%**	9.22%	9.41%
Tangible equity to tangible assets	**6.51%**	6.70%	6.84%

NON-GAAP MEASURES

In reporting the results as of June 30, 2008, 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. For the three and six months ended June 30, 2008, cash basis operating earnings per share were $0.35 and $0.64 per share as compared to $0.44 and $0.85 per share for the same period in 2007. Annualized cash basis returns on average tangible assets for the three and six months ended June 30, 2008 were 0.82% and 0.77%, respectively, compared to 1.15% and 1.12%, respectively, for the same period in 2007. Annualized cash basis returns on average tangible equity for the three and six months ended June 30, 2008 were 12.64% and 11.76%, respectively, compared to 16.91% and 16.41%, respectively, for the same period in 2007.

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 is presented in the following table (dollars in thousands, except share and per share amounts):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net income	**$ 4,333**	$ 5,641	**$ 7,985**	$ 10,789
Plus: core deposit intangible amortization, net of tax	**317**	297	**632**	595
Cash basis operating earnings	**4,650**	5,938	**8,617**	11,384
Average assets	**2,345,698**	2,131,153	**2,328,649**	2,108,832
Less: average goodwill	**56,474**	51,881	**56,474**	50,990
Less: average core deposit intangibles	**10,812**	11,646	**11,051**	11,876
Average tangible assets	**2,278,412**	2,067,626	**2,261,124**	2,045,966
Average equity	**215,223**	204,371	**214,836**	202,752
Less: average goodwill	**56,474**	51,881	**56,474**	50,990
Less: average core deposit intangibles	**10,812**	11,646	**11,051**	11,876
Average tangible equity	**147,937**	140,844	**147,311**	139,886
Weighted average shares outstanding, diluted	**13,506,929**	13,412,933	**13,496,874**	13,411,830
Cash basis earnings per share, diluted	**$ 0.35**	$ 0.44	**$ 0.64**	$ 0.85
Cash basis return on average tangible assets	**0.82%**	1.15%	**0.77%**	1.12%
Cash basis return on average tangible equity	**12.64%**	16.91%	**11.76%**	16.41%

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

EARNINGS SIMULATION ANALYSIS

Management uses simulation analysis to measure the sensitivity of net 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 analyses, 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 for the balances ending June 30, 2008:

	Change In Net Interest Income	
	%	$
Change in Yield Curve:		
+200 basis points	**1.61%**	**1,414**
+50 basis points	**0.45%**	**397**
Most likely rate scenario	**0.00%**	**—**
-50 basis points	**-0.48%**	**(417)**
-200 basis points	**-1.91%**	**(1,673)**

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 instantaneous 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 for the balances ending June 30, 2008:

	Change In Economic Value Of Equity	
	%	$
Change in Yield Curve:		
+200 basis points	**-1.88%**	**(6,155)**
+50 basis points	**-0.01%**	**(29)**
Most likely rate scenario	**0.00%**	**—**
-50 basis points	**-0.49%**	**(1,613)**
-200 basis points	**-3.07%**	**(10,048)**

ITEM 4 – 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 the Securities and

Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the 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 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 quarterly report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective at the reasonable assurance level. There was no change in the internal control over financial reporting that occurred during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

In the ordinary course of its operations, the Company is a party 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 1A – RISK FACTORS

As of June 30, 2008, there were no material changes to the risk factors previously disclosed on the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities – None
(b) Use of Proceeds – Not Applicable
(c) Issuer Purchases of Securities – None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on April 15, 2008, at which time stockholders were asked to consider two proposals, as follows:

1. to elect three (3) directors to serve as Class III directors for three-year terms, and

The vote tabulation was as follows:

Election of three Class III directors to serve for a term of three years:

Director	Votes For	Votes Withheld
G. William Beale	10,375,198	98,573
Patrick J. McCann	10,245,380	228,391
Hullihen W. Moore	10,330,189	143,582

2. to elect one (1) director to serve as a Class II director until the 2010 Annual Meeting.

The vote tabulation was as follows:

Election of one Class II director to serve until the 2010 Annual Meeting:

Director	Votes For	Votes Withheld
Daniel I. Hansen	10,388,663	85,108

The following directors' terms of office continued after the 2008 annual meeting:

Douglas E. Caton
Ronald L. Hicks
R. Hunter Morin
W. Tayloe Murphy, Jr.
Ronald L. Tillett
A. D. Whittaker

ITEM 6 – EXHIBITS

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

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

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SIGNATURES

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

Union Bankshares Corporation
(Registrant)

Date: August 11, 2008

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

Date: August 11, 2008

By: /s/ D. Anthony Peay
D. Anthony Peay, Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, G. William Beale, certify that:

1. I have reviewed this report on Form 10-Q 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: August 11, 2008

/s/ G. William Beale

G. William Beale, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, D. Anthony Peay, certify that:

1. I have reviewed this report on Form 10-Q 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: August 11, 2008

/s/ D. Anthony Peay

D. Anthony Peay, Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Union Bankshares Corporation (the "Company") on Form 10-Q for the period ending June 30, 2008 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, President and Chief Executive Officer

/s/ D. Anthony Peay

D. Anthony Peay, Executive Vice President and Chief Financial Officer

Date: August 11, 2008

A signed original of this written statement required by Section 906 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.