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

FORM 10-K

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

For the fiscal year ended December 31, 2007

☐ **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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $1.33 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes ☐ No ☒

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

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Act).

Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2007 was approximately $287,736,081.

The number of shares of common stock outstanding as of February 1, 2008 was 13,478,624.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be used in conjunction with the registrant's 2008 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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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.

PART I

ITEM 1. – BUSINESS.

GENERAL

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

Community Banks

Union Bank and Trust Company	Bowling Green, Virginia
Northern Neck State Bank	Warsaw, Virginia
Rappahannock National Bank	Washington, Virginia
Bay Community Bank	Newport News, Virginia
Prosperity Bank & Trust Company	Fairfax County, Virginia

Financial Services Affiliates

Union Mortgage Group, Inc.	Annandale, Virginia
Union Investment Services, Inc.	Ashland, Virginia
Union Insurance Group, LLC	Bowling Green, Virginia

History

The Company was formed in connection with the July 1993 merger of Northern Neck Bankshares Corporation and Union Bancorp, Inc. In connection with the merger, Union Bank and Trust Company (“Union Bank”) and Northern Neck State Bank became wholly owned bank subsidiaries of the Company. Although the Company was formed in 1993, the Community Banks are among the oldest in Virginia. Union Bank and Rappahannock National Bank began business in 1902 and Northern Neck State Bank dates back to 1907. On September 1, 1996, King George State Bank and on July 1, 1998, Rappahannock National Bank became wholly-owned subsidiaries of the Company. On February 22, 1999, Bay Community Bank (formerly Bank of Williamsburg) began business as a newly organized bank. In June 1999, King George State Bank was merged into Union Bank and ceased to be a subsidiary bank. The Company acquired Guaranty Financial Corporation and its wholly owned subsidiary, Guaranty Bank (“Guaranty”), on May 1, 2004, and operated Guaranty as a separate subsidiary until September 13, 2004, when the operations of Guaranty were merged with Union Bank, the

Company's largest subsidiary. The Company acquired Prosperity Bank & Trust Company ("Prosperity") on April 1, 2006 and operates it as an independent bank subsidiary. In May 2007, the Company completed construction of a new 70,000 square foot operations center in Caroline County to accommodate the Company's anticipated growth. In November 2007, the Company announced that its Prosperity affiliate would be merged into its largest bank affiliate, Union Bank. It is anticipated that the merger will be completed on March 14, 2008.

Product Offerings and Market Distribution

The Company 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 58 locations of its bank subsidiaries. Union Bank currently has 35 locations in the counties of Albemarle, Caroline, Chesterfield, Fluvanna, Hanover, Henrico, King George, King William, Nelson, Spotsylvania, Stafford, Westmoreland and the Cities of Charlottesville and Fredericksburg; Northern Neck State Bank has nine locations in the counties of Essex, Lancaster, Northumberland, Richmond and Westmoreland; Rappahannock National Bank has seven locations in Washington, Warrenton, Middleburg, Winchester and Front Royal; Bay Community Bank has four locations in Williamsburg, Newport News and Grafton; and Prosperity has three locations in Springfield and Burke. Additionally, Union Bank operates a loan production office in Manassas.

Each of the Community Banks is a full service retail commercial bank offering consumers and businesses a wide range of banking and related financial services, including checking, savings, certificates of deposit and other depository services, as well as loans for commercial, industrial, residential mortgage and consumer purposes. Also, the Community Banks issue credit cards and deliver automated teller machine ("ATM") services through the use of reciprocally shared ATMs in the major ATM networks as well as remote ATMs for the convenience of their customers and other consumers. Furthermore, each of the Community Banks offers internet banking services and online bill payment for all of its customers, whether consumer or commercial.

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

Union Investment Services, Inc. has provided securities, brokerage and investment advisory services since its formation in February 1993. It has five offices within the Community Banks' trade areas and is a full service investment company handling all aspects of wealth management including stocks, bonds, annuities, mutual funds and financial planning.

On February 11, 1999, the Company acquired CMK Corporation t/a Union Mortgage, a mortgage loan brokerage company headquartered in Springfield, Virginia, by merger of CMK Corporation into Union Mortgage, later to become a wholly owned subsidiary of Union Bank. Union Mortgage has fourteen offices in the following locations: Virginia (ten), Maryland (three) and South Carolina (one). Union Mortgage is also licensed to do business in selected states throughout the Mid-Atlantic and Southeast, as well as Washington, D.C. It provides a variety of mortgage products to customers in those areas. The mortgage loans originated by Union Mortgage are generally sold in the secondary market through purchase agreements with institutional investors.

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

SEGMENTS

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

EXPANSION AND STRATEGIC ACQUISITIONS

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

In September 2007, the Company announced it had completed the acquisition of the deposits and facilities of six bank branches ("Acquired Bank Branches") in Virginia from Provident Bank. The branches acquired are located in the communities of Charlottesville, Middleburg, Warrenton (two) and Winchester (two). They became part of two of the Company's banking subsidiaries, Union Bank (Charlottesville branch) and Rappahannock National Bank (remaining five branches). The six bank branches acquired deposits were approximately $43.3 million. The employees in these branches were offered continued employment by the Company after the close of the transaction.

In addition to the six bank branch acquisition, the Company grew through de novo expansion, opening four new branches throughout Virginia in the last two years:

- *Harrison Crossing*, Union Bank branch located in Spotsylvania County (December 2007)
- *Twin Hickory*, Union Bank branch located in Henrico County (December 2006)
- *Front Royal*, Rappahannock National Bank branch located in Warren County (December 2006)
- *Grafton*, Bay Community Bank branch located in York County (March 2006)

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 provide improved access to the Greater Richmond and Fredericksburg workforce. The Company sold its former operations center in the third quarter of 2007.

EMPLOYEES

As of December 31, 2007, the Company had approximately 690 full-time equivalent employees, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. Of this total, 104 were mortgage segment personnel. None of the Company’s employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers its employee relations to be excellent.

COMPETITION

The financial services industry remains highly competitive and is constantly evolving. The Company experiences strong competition in all aspects of its business. In its market areas, the Company competes with large national and regional financial institutions, credit unions and other independent community banks, as well as consumer finance companies, mortgage companies, loan production offices, mutual funds and life insurance companies. Competition has increasingly come from out-of-state banks through their acquisitions of Virginia-based banks. Competition for deposits and loans is affected by various factors including interest rates offered, the number and location of branches and types of products offered, as well as the reputation of the institution. In addition, credit unions have been allowed to increasingly expand their membership definitions and to offer more attractive loan and deposit pricing due to their favorable tax status. The Company’s non-bank financial services affiliates also operate in highly competitive environments.

The Company is headquartered in Bowling Green, Virginia and is one of the largest independent bank holding companies in Virginia. The Company believes its community bank framework and philosophy provide a competitive advantage, particularly with regard to larger national and regional institutions, allowing the Company to compete effectively in the markets it serves. The Company’s Community Banks generally have strong and growing market shares within the markets they serve. The Company’s deposit market share in Virginia was 1.31% and 1.27% as of June 30, 2007 and 2006, respectively.

SUPERVISION AND REGULATION

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

Bank Holding Companies

As a bank holding company registered under the Bank Holding Company Act of 1956 (the “BHCA”), the Company is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Federal Reserve has jurisdiction under the BHCA to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. The BHCA generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

Since September 1995, the BHCA has permitted bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including nationwide and state imposed concentration limits. Banks are also able to branch across state lines, provided certain conditions are met, including that applicable state law must expressly permit such interstate branching. Virginia has adopted legislation that permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based. The Company currently has no plans to branch outside of the Commonwealth of Virginia.

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

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

The Company is registered under the bank holding company laws of Virginia. Accordingly, the Company and the Community Banks, other than Rappahannock National Bank, which is regulated and supervised by the Office of the Comptroller of the Currency ("OCC") are subject to regulation and supervision by the State Corporation Commission of Virginia (the "SCC") and the Federal Reserve.

Capital Requirements

The Federal Reserve, the OCC and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Under the risk-based capital requirements of these federal bank regulatory agencies, the Company and each of the Community Banks are required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%. At least half of the total capital is required to be "Tier 1 capital", which consists principally of common and certain qualifying preferred shareholders' equity (including Trust Preferred Securities), less certain intangibles and other adjustments. The remainder ("Tier 2 capital") consists of a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments) and a limited amount of the general loan loss allowance. The Tier 1 and total capital to risk-weighted asset ratios of the Company as of December 31, 2007 were 10.65% and 11.67%, respectively, exceeding the minimum requirements.

In addition, each of the federal regulatory agencies has established a minimum leverage capital ratio (Tier 1 capital to average adjusted assets) ("Tier 1 leverage ratio"). These guidelines provide for a minimum Tier 1 leverage ratio of 4% for banks and bank holding companies that meet certain specified criteria, including that they have the highest regulatory examination rating and are not contemplating significant growth or expansion. The Tier 1 leverage ratio of the Company as of December 31, 2007, was 9.20%, which is above the minimum requirements. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Limits on Dividends and Other Payments

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

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

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

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

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

The Community Banks

The Community Banks are supervised and regularly examined by the Federal Reserve and the SCC, except for Rappahannock National Bank, which is examined by the OCC. The various laws and regulations administered by the regulatory agencies affect corporate practices, such as the payment of dividends, incurrence of debt and acquisition of financial institutions and other companies, and affect business practices, such as the payment of interest on deposits, the charging of interest on loans, types of business conducted and location of offices.

The Community Banks are also subject to the requirements of the Community Reinvestment Act (the "CRA"). The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of the local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution's efforts in meeting community credit needs currently are evaluated as part of the examination process pursuant to up to ten assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility. Many of the banks' competitors, such as credit unions, are not subject to the requirements of CRA.

Deposit accounts with the Community Banks are insured by the FDIC, and therefore the banks are subject to insurance assessments imposed by the FDIC. On February 15, 2006, federal legislation to reform federal deposit insurance was enacted. This new legislation required, among other things, that the FDIC adopt regulations increasing the maximum amount of federal deposit insurance coverage per separately insured individual retirement savings account depositor to $250 thousand (with a cost of living adjustment to become effective in five years). The legislation also gave the FDIC greater discretion to identify the relative risks all institutions present to the deposit insurance fund and set risk-based premiums.

On November 2, 2006, the FDIC adopted final regulations establishing a risk-based assessment system that is intended to more closely tie each bank's deposit insurance assessments to the risk it poses to the deposit insurance fund. Under the new risk-based assessment system, which became effective in the beginning of 2007, the FDIC will evaluate each bank's risk based on three primary factors: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if the bank has one. The new rates for most banks will vary between five and seven cents for every $100 of domestic deposits. In 2006, under prior regulations, the Company paid only the base assessment rate for "well capitalized" institutions which amounted to $195 thousand in deposit insurance premiums. For 2007, the Company continued to pay the base rate for "well capitalized" institutions but the total assessments increased to $834 thousand as result of the final regulations. This total was partially offset by existing credits of $585 thousand.

Other Safety and Soundness Regulations

The federal banking agencies have broad powers under current federal law to make prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." All such terms are defined under uniform regulations defining such capital levels issued by each of the federal banking agencies. Each of the Community Banks each meets the definition of being "well capitalized" as of December 31, 2007.

The Gramm-Leach-Bliley Act

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

USA Patriot Act of 2001

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

Check 21

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

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

- requiring recrediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

Effect of Governmental Monetary Policies

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

Proposed Legislation and Regulatory Action

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

Filings with the SEC

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

ITEM 1A. – RISK FACTORS

General economic conditions, either national or within the Company's local markets, could materially impact the Company's financial condition and performance.

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

Changes in interest rates could adversely affect the Company's income and cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in accounting standards could impact reported earnings.

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

ITEM 1B. – UNRESOLVED STAFF COMMENTS.

The Company does not have any unresolved staff comments to report for the year ended December 31, 2007.

ITEM 2. – PROPERTIES.

The Company, through its subsidiaries, owns or leases buildings that are used in the normal course of business. The corporate headquarters is located at 211 North Main Street, Bowling Green, Virginia, in a building owned by one of its subsidiaries. The Company's subsidiaries own or lease various other offices in the counties and cities in which they operate. At December 31, 2007, the Company's subsidiary banks operated 58 branches throughout Virginia. Some of the Company's non-banking subsidiaries include Union Mortgage and Union Investment Services, Inc. All of the offices for Union Mortgage are leased. The vast majority of the offices for Union Investment Services, Inc. are also used for branch banking operations. In May 2007, the Company completed construction of a new 70,000 square foot operations center in Caroline County, Virginia. The Company sold its former operations center in the third quarter of 2007. See the Note 1 "Summary of Significant Accounting Policies" and Note 5 "Bank Premises and Equipment" in the "Notes to the Consolidated Financial Statements" of this Form 10-K for information with respect to the amounts at which bank premises and equipment are carried and commitments under long-term leases.

ITEM 3. – LEGAL PROCEEDINGS.

In the ordinary course of its operations, the Company and its subsidiaries are parties to various legal proceedings. Based on the information presently available, and after consultation with legal counsel, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business or the financial condition or results of operations of the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2007.

PART II

ITEM 5. – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The following performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the performance graph by reference therein.

Five-Year Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on the Company's common stock during the five years ended December 31, 2007, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100.00 was invested on December 31, 2002, in the common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. The Company's total cumulative return was 30.89% over the five year period ending December 31, 2007 compared to 19.35% and 98.6% for the NASDAQ Bank Stocks and NASDAQ composite, respectively:

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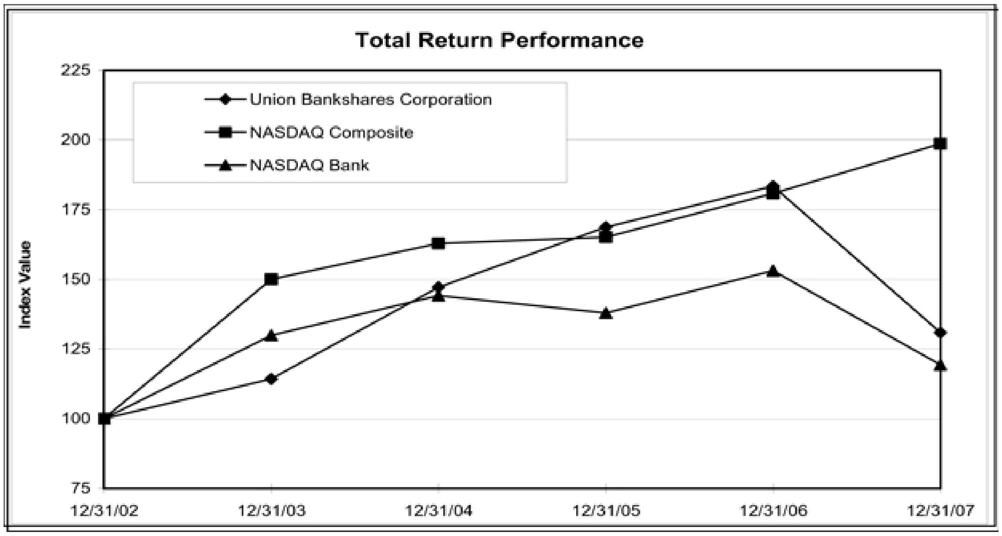

	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
Union Bankshares Corporation	100.00	114.28	147.17	168.75	183.49	130.89
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
NASDAQ Bank	100.00	129.93	144.21	137.97	153.15	119.35

Information on Common Stock, Market Prices and Dividends

There were 13,438,334 shares of the Company's common stock outstanding at the close of business on December 31, 2007, which were held by 2,434 shareholders of record. The closing price of the Company's stock on December 31, 2007 was $21.14 per share compared to $30.59 on December 31, 2006.

On September 7, 2006, the Company's Board of Directors declared a three-for-two stock split to shareholders of record as of the close of business on October 2, 2006. Accordingly, share and per share amounts for all periods presented have been retroactively adjusted to reflect the effect of the three-for-two split.

The following table summarizes the high and low closing sales prices and dividends declared for quarterly periods during the years ended December 31, 2007 and 2006.

	Market Values				**Dividends Declared**	
	2007		**2006**		**2007**	**2006**
	High	**Low**	**High**	**Low**		
First Quarter	**$30.00**	**$24.05**	$32.06	$28.89	**$0.175**	$0.147
Second Quarter	**27.01**	**22.88**	29.30	25.64	**0.180**	0.153
Third Quarter	**24.93**	**19.40**	30.40	26.20	**0.185**	0.160
Fourth Quarter	**24.35**	**18.04**	32.10	27.85	**0.185**	0.170
					$0.725	$0.630

Regulatory restrictions on the ability of the Community Banks to transfer funds to the Company at December 31, 2007, are set forth in Note 17 "Parent Company Financial Information" contained in the "Notes to the Consolidated Financial Statements", of this Form 10-K. A discussion of certain limitations on the ability of the Community Banks to pay dividends to the Company and the ability of the Company to pay dividends on its common stock, is set forth in Part I. Business, of this Form 10-K under the headings "Supervision and Regulation - Limits on Dividends and Other Payments" and "Supervision and Regulation - The Community Banks."

In 2006, the Company began paying its dividend on a quarterly basis instead of semi-annually. It is anticipated the dividends will continue to be paid near the end of February, May, August and November. In making its decision on the payment of dividends on the Company's common stock, the Board of Directors considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns and other factors.

Stock Repurchase Program

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 and the Board of Directors determine to be prudent. This authorization expires May 31, 2008. 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 Company's dividend reinvestment plan, incentive stock plan and other employee benefit plans. No shares have been purchased under this authorization to date.

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ITEM 6. – SELECTED FINANCIAL DATA.

The following table sets forth selected financial data for the Company over the past five years ended December 31, (in thousands, except per share amounts):

	2007	2006	2005	2004	2003
Results of Operations					
Interest and dividend income	$ 140,996	$ 129,156	$ 102,317	$ 80,544	$ 67,017
Interest expense	65,251	52,441	32,967	25,652	23,905
Net interest income	75,745	76,715	69,350	54,892	43,112
Provision for loan losses	1,060	1,450	1,172	2,154	2,307
Net interest income after provision for loan losses	74,685	75,265	68,178	52,738	40,805
Noninterest income	25,105	28,245	25,510	23,302	22,840
Noninterest expenses	73,550	67,567	58,275	51,221	40,725
Income before income taxes	26,240	35,943	35,413	24,819	22,920
Income tax expense	6,484	9,951	10,591	6,894	6,256
Net income	$ 19,756	$ 25,992	$ 24,822	$ 17,925	$ 16,664
Financial Condition					
Assets	$ 2,301,397	$ 2,092,891	$ 1,824,958	$ 1,672,210	$ 1,234,732
Loans, net of unearned income	1,747,820	1,549,445	1,362,254	1,264,841	878,267
Deposits	1,659,578	1,665,908	1,456,515	1,314,317	999,771
Stockholders' equity	212,082	199,416	179,358	162,758	118,501
Ratios					
Return on average assets	0.91%	1.30%	1.43%	1.19%	1.42%
Return on average equity	9.61%	13.64%	14.49%	12.18%	14.88%
Cash basis return on average assets (1)	1.00%	1.40%	1.51%	1.26%	1.45%
Cash basis return on average equity (1)	14.88%	20.31%	19.57%	15.78%	16.08%
Efficiency ratio (2)	72.93%	64.37%	61.43%	65.51%	61.75%
Equity to assets	9.22%	9.53%	9.82%	9.73%	9.60%
Asset Quality					
Allowance for loan losses	$ 19,336	$ 19,148	$ 17,116	$ 16,384	$ 11,519
Allowance for loan losses / total outstanding loans	1.11%	1.24%	1.26%	1.30%	1.31%
Per Share Data					
Earnings per share, basic	$ 1.48	$ 1.97	$ 1.89	$ 1.42	$ 1.47
Earnings per share, diluted	1.47	1.94	1.87	1.41	1.46
Cash basis earnings per share, diluted (1)	1.56	2.03	1.93	1.46	1.48
Cash dividends paid	0.73	0.63	0.52	0.45	0.40
Market value per share	21.14	30.59	28.73	25.62	20.33
Book value per share	15.82	14.99	13.59	12.41	10.36
Price to earnings ratio, diluted	14.38	15.77	15.34	18.21	14.06
Price to book value ratio	1.34	2.04	2.11	2.07	1.96
Dividend payout ratio	49.32%	31.98%	27.21%	31.92%	27.40%
Weighted average shares outstanding, basic	13,341,741	13,233,101	13,142,999	12,604,187	11,404,308
Weighted average shares outstanding, diluted	13,422,139	13,361,773	13,275,074	12,723,213	11,513,156

(1) Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation", section "Non GAAP Measures" for a reconciliation.
(2) The efficiency ratio is calculated by dividing noninterest expense over the sum of net interest income plus noninterest income.

ITEM 7. – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The following discussion and analysis provides information about the major components of the results of operations and financial condition, liquidity and capital resources of the Company and its subsidiaries. This discussion and analysis should be read in conjunction with the "Consolidated Financial Statements" and the "Notes to the Consolidated Financial Statements" presented in Item 8 "Financial Statements and Supplementary Data" of this Form 10-K. In addition, share and per share amounts for all periods presented have been retroactively adjusted to reflect the effect of the three-for-two stock split in October 2006.

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, merger and acquisitions and goodwill and intangibles. 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".

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 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 included within the Consolidated Statement 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.

On September 2007, the Company acquired the deposits and facilities of six bank branches in Virginia. The costs associated with the acquisition were principally related to system conversion costs.

The Company's merger-related costs for the years ended December 31, 2007, 2006 and 2005 were approximately $211 thousand, $263 thousand, and $17 thousand, respectively. Prior to the mergers, the acquired entities, Prosperity and Guaranty, recorded merger-related costs of approximately $807 thousand and $1.3 million and principally related to employee severance and investment banker fees.

Goodwill and Intangible Assets

SFAS No. 141, *Business Combinations*, requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. For purchase acquisitions, the Company is required to record assets acquired, including identifiable intangible assets, and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Effective January 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Asset* (“SFAS 142”), which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives, but require at least an annual impairment review and more frequently if certain impairment indicators are in evidence. Additionally, the Company adopted SFAS No. 147, *Acquisitions of Certain Financial Institutions*, on January 1, 2002 and determined that core deposit intangibles will continue to be amortized over their estimated useful lives.

Goodwill totaled $56.5 million and $50.0 million at the years ended December 31, 2007 and 2006, respectively. Based on the testing of goodwill for impairment, there were no impairment charges for 2007, 2006 or 2005. Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 5 to 15 years. Core deposit intangibles, net of amortization, amounted to $11.6 million and $12.3 million at the years ended December 31, 2007 and 2006, respectively. Amortization expense of core deposit intangibles for the years ended December 31, 2007, 2006 and 2005 totaled $1.9 million, $1.7 million and $1.2 million, respectively.

RESULTS OF OPERATIONS

Net Income

For the year ended December 31, 2007 compared to the year ended December 31, 2006, net income decreased $6.2 million, or 24.0%, from $26.0 million to $19.8 million, which represented a decrease in earnings per share, on a diluted basis, of $.47, or 24.2%, from $1.94 to $1.47. Return on average equity for the year ended December 31, 2007 was 9.61% and return on average assets was 0.91%, compared to 13.64% and 1.30%, respectively, for the same period in 2006.

This decline was largely due to funding pressure and declines in yields on earning assets which reduced the Company’s net interest income. This reduction was partially offset by strong earning asset growth. The purchase of six bank branches, effective September 7, 2007, the operations of three bank branches, two of which were opened at the end of 2006, and costs associated with the Company’s new operations center contributed to the lower results when compared to the same period a year ago. Lastly, continued slowing in the mortgage banking sector also contributed to the net decline in income.

Net Interest Income

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

For the year ended December 31, 2007, net interest income, on a tax-equivalent basis, declined $208 thousand, or 0.3%, to $78.8 million compared to a year ago. Net interest margin declined, on a tax-equivalent basis, from 4.37% in 2006 to 4.06% for 2007. The 31 basis point margin decline was driven by increases in certificates of deposit and FHLB advances partially offset by lower savings and money market levels. Total cost of interest-bearing liabilities increased 46 basis points, to 3.93%, compared to earning asset yield increases of only 14 basis points, to 7.42%. Strong loan growth (principally within the commercial and construction loan portfolios, with an emphasis in owner occupied commercial real estate) of $147.5 million, or 10.0%, over a year ago helped to mitigate the effect of high cost interest bearing liabilities outpacing the yields on earning assets.

Decreases in the target Fed Funds rate totaling 100 basis points (50 basis points on September 18, 2007, 25 basis points on October 31, 2007 and 25 basis points on December 11, 2007) resulted in the immediate repricing of the Company’s loans tied to the prime rate – representing approximately 33% of the loan portfolio.

The liability side of the balance sheet also showed some immediate repricing, as overnight borrowing rates adjusted downward. Competition for deposits, however, has caused the Company’s deposit rates to be less responsive to Fed Funds rate decreases and is further compressing the net interest margin.

For the year ended December 31, 2007, approximately $8.0 million ($6.2 million during the first quarter and $1.8 million during the second quarter) of investment securities were called by the issuers, resulting in gains of $508 thousand ($301 thousand during the first quarter and $207 thousand during the second quarter). The proceeds from these calls, plus additional funds, were used to pay off approximately $15.0 million of higher cost (6.3%) FHLB advances. Penalties of approximately $513 thousand ($316 thousand during the first quarter and $197 thousand during the second quarter) associated with the early payoff of these advances have been reflected as an interest expense adjustment in the net interest margin for the twelve months ended December 31, 2007. Absent this interest expense adjustment, net interest margin would have been 4.08%, instead of 4.06%, for the year ended December 31, 2007.

The following table shows interest income on earning assets and related average yields, as well as interest expense on interest-bearing liabilities and related average rates paid for the years ended December 31, (dollars in thousands):

	2007			2006			2005		
	Average Balance	Interest Income / Expense	Yield / Rate	Average Balance	Interest Income / Expense	Yield / Rate	Average Balance	Interest Income / Expense	Yield / Rate
Assets:									
Securities:									
Taxable	**$ 173,942**	**$ 8,945**	**5.14%**	$ 188,461	$ 9,883	5.24%	$ 154,954	$ 7,791	5.03%
Tax-exempt	**100,944**	**7,272**	**7.20%**	89,407	$ 6,546	7.32%	74,936	5,677	7.58%
Total securities	**274,886**	**16,217**	**5.90%**	277,868	$ 16,429	5.91%	229,890	13,468	5.86%
Loans, net (2) (3)	**1,637,573**	**125,628**	**7.67%**	1,489,794	$111,771	7.50%	1,315,695	88,089	6.70%
Loans held for sale	**21,991**	**1,346**	**6.12%**	25,129	$ 1,572	6.26%	38,975	2,367	6.07%
Federal funds sold	**2,852**	**614**	**5.53%**	8,837	$ 1,438	5.35%	11,143	349	3.13%
Money market investments	**217**	**4**	**1.94%**	151	$ 3	2.24%	73	2	2.79%
Interest-bearing deposits in other banks	**1,116**	**57**	**5.12%**	1,104	$ 57	5.13%	1,665	49	2.92%
Other interest-bearing deposits	**2,596**	**135**	**5.18%**	2,598	$ 129	4.96%	2,598	81	3.13%
Total earning assets	**1,941,231**	**144,001**	**7.42%**	1,805,481	$131,399	7.28%	1,600,039	104,405	6.53%
Allowance for loan losses	**(18,666)**			(18,468)			(16,687)		
Total non-earning assets	**244,558**			211,055			154,653		
Total assets	**$2,167,123**			$1,998,068			$1,738,005		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 206,748**	**1,316**	**0.64%**	$ 204,023	$ 911	0.45%	$ 198,969	704	0.35%
Money market savings	**158,461**	**3,708**	**2.34%**	175,163	$ 3,945	2.25%	187,673	3,174	1.69%
Regular savings	**104,507**	**820**	**0.78%**	116,569	$ 1,061	0.91%	119,309	998	0.84%
Certificates of deposit:									
$100,000 and over	**446,662**	**22,024**	**4.93%**	387,023	$ 17,603	4.55%	259,185	9,427	3.64%
Under $100,000	**451,224**	**20,366**	**4.51%**	405,930	$ 16,210	3.99%	365,758	11,605	3.17%
Total interest-bearing deposits	**1,367,602**	**48,234**	**3.53%**	1,288,708	$ 39,730	3.08%	1,130,894	25,908	2.29%
Other borrowings	**291,742**	**17,017**	**5.83%**	220,632	$ 12,711	5.85%	175,309	7,059	4.03%
Total interest-bearing liabilities	**1,659,344**	**65,251**	**3.93%**	1,509,340	$ 52,441	3.47%	1,306,203	32,967	2.52%
Noninterest-bearing liabilities:									
Demand deposits	**283,877**			284,094			245,587		
Other liabilities	**18,377**			14,074			14,994		
Total liabilities	**1,961,598**			1,807,508			1,566,784		
Stockholders' equity	**205,525**			190,560			171,221		
Total liabilities and stockholders' equity	**$2,167,123**			$1,998,068			$1,738,005		
Net interest income		**$ 78,750**			$ 78,958			$ 71,438	
Interest rate spread (1)			**3.49%**			3.81%			4.01%
Interest expense as a percent of average earning assets			**3.36%**			2.90%			2.06%
Net interest margin			**4.06%**			4.37%			4.46%

(1) *Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.*
(2) *Foregone interest on previously charged off credits of $0 thousand, $464 thousand and $311 thousand has been excluded for 2007, 2006 and 2005, respectively.*
(3) *Nonaccrual loans are included in average loans outstanding.*

The Volume Rate Analysis table presents changes in interest income and interest expense, and distinguishes between the changes related to increases or decreases in average outstanding balances of interest-earning assets and interest-bearing liabilities (volume), and the changes related to increases or decreases in average interest rates on such assets and liabilities (rate). Changes attributable to both volume and rate have been allocated proportionately. Results, on a taxable equivalent basis, are as follows in this Volume Rate Analysis table for the years ended December 31, (dollars in thousands):

	2007 vs. 2006 Increase (Decrease) Due to Change in:			2006 vs. 2005 Increase (Decrease) Due to Change in:		
	Volume	Rate	Total	Volume	Rate	Total
Earning Assets:						
Securities:						
Taxable	**$ (751)**	**$ (187)**	**$ (938)**	$ 1,744	$ 348	$ 2,092
Tax-exempt	**833**	**(107)**	**726**	1,065	(196)	869
Total securities	**82**	**(294)**	**(212)**	2,809	152	2,961
Loans, net	**11,283**	**2,574**	**13,857**	12,398	11,284	23,682
Loans held for sale	**(191)**	**(35)**	**(226)**	(864)	69	(795)
Federal funds sold	**(815)**	**(9)**	**(824)**	400	689	1,089
Money market investments	**1**	**—**	**1**	1	—	1
Interest-bearing deposits in other banks	**—**	**—**	**—**	(20)	28	8
Other interest-bearing deposits	**—**	**6**	**6**	1	47	48
Total earning assets	**$ 10,360**	**$ 2,242**	**$ 12,602**	$ 14,725	$ 12,269	$ 26,994
Interest Bearing Liabilities:						
Interest-bearing deposits:						
Checking	**$ 13**	**$ 392**	**$ 405**	$ 19	$ 188	$ 207
Money market savings	**(388)**	**151**	**(237)**	(223)	994	771
Regular savings	**(101)**	**(140)**	**(241)**	(22)	85	63
Certificates of deposit:						
$100,000 and over	**2,865**	**1,556**	**4,421**	5,426	2,750	8,176
Under $100,000	**1,917**	**2,239**	**4,156**	1,372	3,233	4,605
Total interest-bearing deposits	**4,306**	**4,198**	**8,504**	6,572	7,250	13,822
Other borrowings	**3,858**	**448**	**4,306**	2,028	3,624	5,652
Total interest-bearing liabilities	**8,164**	**4,646**	**12,810**	8,600	10,874	19,474
Change in net interest income	**$ 2,196**	**$ (2,404)**	**$ (208)**	$ 6,125	$ 1,395	$ 7,520

Interest Sensitivity

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

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

At December 31, 2007 and 2006, the Company was in an asset sensitive position. As described in the table below, management's simulation model indicates net interest income will increase as rates increase. An asset sensitive company generally will be impacted favorably by increasing interest rates while a liability sensitive company's net interest margin and net interest income generally will be impacted favorably by declining interest rates. Although the static gap report indicates $221.1 million and $193.1 million at December 31, 2007 and 2006, respectively, more liabilities than assets re-pricing within one year, computer simulation modeling shows the Company's net interest income tends to increase when interest rates rise and fall when interest rates decline. The explanation for this is that interest rate changes affect bank products differently. For example, if the prime rate changes by 1.00% (100 basis points or bps), the change on certificates of deposit may only be 0.75% (75 bps), while other interest bearing deposit accounts may only change 0.10% (10 bps). Also, despite their fixed terms, loan products are often refinanced as rates decline, but rarely refinanced as rates rise. Assets and liabilities re-price throughout the year resulting in changes in the earning asset rate, the cost of funds rate, and the net interest margin.

Earnings Simulation Analysis

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

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

The Company uses its simulation model to estimate earnings in rate environments where rates ramp up or down around a "most likely" rate scenario, based on implied forward rates. The analysis assesses the impact on net interest income over a 12 month time horizon by applying 12 month rate ramps, with interest rates rising gradually versus an immediate increase or "shock" in rates, of 50 basis points up to 200 basis points. The following table represents the interest rate sensitivity on net interest income for the Company across the rate paths modeled for the year ended December 31, 2007 (dollars in thousands):

	Change In Net Interest Income	
	%	$
Change in Yield Curve:		
+200 basis points	**1.01%**	**841**
+50 basis points	**0.26%**	**216**
Most likely rate scenario	**0.00%**	—
-50 basis points	**-0.28%**	**(237)**
-200 basis points	**-1.30%**	**(1,088)**

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 (dollars in thousands):

	Change In Economic Value Of Equity	
	%	$
Change in Yield Curve:		
+200 basis points	**-0.99%**	**(3,778)**
+50 basis points	**0.64%**	**2,445**
Most likely rate scenario	**0.00%**	**—**
-50 basis points	**-0.51%**	**(1,933)**
-200 basis points	**-2.85%**	**(10,861)**

Noninterest Income

For the year ended December 31, 2007 compared to the same period in 2006, noninterest income decreased $3.1 million, or 11.1%, from $28.2 million to $25.1 million. The decrease was principally driven by lower gains on sales within the mortgage segment of $2.5 million. Deposit accounts and other service charge income increased $755 thousand, or 5.7%, compared to last year. The prior year gains from the sale of real estate of approximately $837 thousand, insurance proceeds and BOLI commissions of approximately $617 thousand did not recur in 2007 thereby contributing to lower noninterest income.

For the year ended December 31, 2006 compared to the same period in 2005, noninterest income increased $2.7 million, or 10.7%, from $25.5 million to $28.2 million. This increase was driven by increases in other service charges and commissions and fees (brokerage commissions, ATM charges, and debit card income) of $2.0 million, BOLI income of $507 thousand, insurance proceeds of $328 thousand and SBIC income of $150 thousand, coupled with increased gains on sales of real estate and securities of $837 thousand and $662 thousand, respectively. These increases were partially offset by reduced gains on loan sales within the mortgage segment of $1.7 million. Prosperity noninterest income was $396 thousand since acquisition.

Noninterest Expense

For the year ended December 31, 2007 compared to the same period in 2006, noninterest expense increased $6.0 million, or 8.9%, from $67.6 million to $73.6 million. These figures include the acquisition of Prosperity on April 1, 2006; therefore, results of operations include twelve months of Prosperity activity for 2007 and only nine months for 2006. Excluding this year’s first quarter of noninterest expense related to Prosperity of $1.0 million, total noninterest expense increased $5.0 million, or 7.4%, when compared to the prior year.

The following increases exclude the first quarter 2007 noninterest expenses of Prosperity. Other operating expenses increased $3.1 million, or 15.0%, and principally related to telecommunications enhancements of approximately $1.2 million, the acquisition of six bank branches of approximately $428 thousand, bank franchise taxes of approximately $248 thousand and three additional bank branches of approximately $119 thousand. The telecommunications enhancements include the Company’s internet banking delivery channel (e.g., increased bandwidth), and improvements in data security and business continuity. Salary and benefits increased $741 thousand, or 2.0%, which was attributable to normal compensation adjustments, increased retail staff related to branch growth, equity based compensation and group insurance costs. This increase of $741 thousand was partially offset by lower commissions from the mortgage segment, as well as lower profit sharing expenses. Occupancy expense increased $967 thousand, or 19.3%, and was principally related to the Company’s fixed asset expansion that included new bank branches and operations center. These costs included depreciation, property insurance and, to a lesser extent, utility costs. Furniture and equipment expense increased $257 thousand, or 5.7%.

For the year ended December 31, 2007, total acquisition charges of approximately $211 thousand were charged to expense and currently are reflected in the caption “Other operating expenses” in the Company’s Consolidated Statements of Income. These costs primarily related to system conversion costs.

For the year ended December 31, 2006 compared to the same period in 2005, noninterest expenses increased $9.3 million, or 15.9%, from $58.3 million to $67.6 million. Salaries and benefits increased $4.1 million, or 12.2%, principally driven by additional employees, both new and acquired, normal compensation adjustments, profit sharing, and equity compensation expenses, partially offset by lower mortgage commissions paid and reduced incentive compensation expenses. Prosperity's noninterest expenses were $3.2 million since acquisition.

Other operating expense was $20.4 million, up $3.8 million from $16.6 million in 2005. Of the $3.8 million increase in operating expenses, $1.5 million relates to Prosperity since acquisition and includes conversion costs of approximately $263 thousand. The remaining $2.3 million resulted from communication costs, data processing fees, professional fees, marketing expenses, ATM processing fees, amortization of core deposit premiums and merger-related costs. These increases were partially offset by lower incurred losses relating to fraud compared to the fourth quarter of 2005. Additionally, occupancy expenses increased $858 thousand, while furniture and equipment expenses increased $576 thousand, mainly due to the expansion of the Company's footprint.

SEGMENT INFORMATION

Community Bank Segment

For the year ended December 31, 2007 compared to the same period in 2006, net income for the community banking segment decreased 20.5%, or approximately $5.3 million, from $25.9 million to $20.6 million. Net interest income declined $993 thousand, or 1.3%, as funding costs increased at a greater pace than yields on earning assets. During the first half of 2007 funds from called securities were used to payoff higher rate FHLB advances to enhance the net interest margin in future periods. Approximately $513 thousand in penalties associated with the early payoff of FHLB advances have been reflected as an interest expense adjustment. Net interest income after the provision for loan losses decreased $603 thousand, or 0.8%, from a year ago. Reflected in this net decrease are specific loan loss reserves of $750 thousand that were recaptured during the first quarter of 2007. See Asset Quality section below for additional information regarding this loan loss provision recapture.

Noninterest income for the year ended December 31, 2007 decreased $654 thousand or 3.8%. Excluding the gains from called investment securities of $508 thousand, the gain recorded from the sale of the former operations center of $324 thousand in 2007 and prior year gains from the sale of real estate of $856 thousand, investment securities of $276 thousand and SBIC income of $150 thousand, the increase in noninterest income was $646 thousand, or 4.2%, over the prior year.

Mortgage Segment

For the year ended December 30, 2007, the mortgage segment reported a net loss of $803 thousand, a decline of $941 thousand from net income of $138 thousand for the year ended December 31, 2006. This was principally due to a 23.3% decline in loan originations, from $484.7 million to $371.9 million, for the years ended December 31, 2006 and 2007, respectively. In addition, the mortgage segment reported loan related losses of $267 thousand during the twelve months ended December 31, 2007, and $103 thousand on repurchased loans. The housing market for both new construction and existing sales continued to slump during the year, providing fewer origination opportunities than during 2006. Reduced mortgage loan demand combined with less liquidity in the secondary market and more stringent underwriting requirements have slowed both purchase and refinance production.

BALANCE SHEET

Balance Sheet Overview

As of December 31, 2007, total assets were $2.3 billion compared to $2.1 billion at December 31, 2006. Net loans increased $198.2 million, or 13.0%, from December 31, 2006. Loan growth was concentrated in the commercial real estate and construction loan portfolios, primarily in owner occupied commercial real estate, from a year ago. Total cash and cash equivalents declined $17.6 million, primarily related to lower Fed Funds sold, to $58.3 million at December 31, 2007 from $75.9 million a year ago. Deposits decreased $6.3 million, or 0.4%, from December 31, 2006 principally due to lower demand deposits, money market, and savings account balances, partially offset by higher certificates of deposit. Total borrowings also increased by $181.5 million to $270 million from December 31, 2006. The Company's equity to assets ratio remains strong at 9.22% at December 31, 2007.

The following table presents the Company's contractual obligations and scheduled payment amounts due at the various intervals over the next five years and beyond as of December 31, 2007 (dollar in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt	$ 129,810	$ 5,000	$ 47,500	$ 12,000	$ 65,310
Operating leases	10,575	1,998	3,221	2,135	3,221
Other short-term borrowings	200,837	200,837	—	—	—
Repurchase agreements	82,049	82,049	—	—	—
Total contractual obligations	$ 423,271	$ 289,884	$ 50,721	$ 14,135	$ 68,531

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

Loan Portfolio

As of December 31, 2007 compared to December 31, 2006, loans, net of unearned income increased $198.3 million, or 12.8%, to $1.7 billion from $1.5 billion. At December 31, 2007, loans secured by real estate continue to represent the Company's largest category, comprising 80.0% of the total loan portfolio. At December 31, 2007, residential 1-4 family loans, not including home equity lines, comprised 16.1% of total loans and increased $18.0 million, or 6.9% compared to the prior year. At December 31, 2007, mortgage loans secured by commercial real estate comprised 28.6% of the total loans, and increased $51.4 million, or 11.5% compared to the prior year. At December 31, 2007, real estate construction loans accounted for 22.7% of total loans. The Company also experienced increases in home equity lines of credit, up $16.8 million, or 15%.

Commercial business loan balances remained unchanged from the prior year. Commercial business loans comprised 7.8% of total loans at the end of 2007, down from 8.8% at the end of 2006. The Company's consumer loan portfolio consists principally of installment loans. Such loans to individuals for household, family and other personal expenditures totaled 10.7% of total loans at December 31, 2007, up from 10.6% in 2006. Loans to the agricultural industry increased to 1.1% of total loans at December 31, 2007, up from 0.8% in 2006.

The following table presents the composition of the Company's loans, net of unearned income and as a percentage of the Company's total gross loans as of December 31, (dollars in thousands):

	2007		2006		2005		2004		2003	
Mortgage loans on real estate:										
Residential 1-4 family	**$ 281,847**	**16.1%**	$ 263,770	17.0%	$ 271,721	19.9%	$ 270,341	21.4%	$211,162	24.0%
Commercial	**500,118**	**28.6%**	448,691	29.0%	394,094	28.9%	368,816	29.2%	239,804	27.3%
Construction	**396,928**	**22.7%**	324,606	20.9%	273,262	20.1%	221,190	17.5%	105,417	12.0%
Second mortgages	**37,875**	**2.2%**	35,584	2.3%	24,088	1.8%	18,017	1.4%	16,288	1.9%
Equity lines of credit	**128,897**	**7.4%**	112,079	7.2%	96,490	7.1%	90,042	7.1%	48,034	5.5%
Multifamily	**32,970**	**1.9%**	29,263	1.9%	14,648	1.1%	18,287	1.4%	11,075	1.3%
Agriculture	**18,958**	**1.1%**	12,903	0.8%	11,145	0.8%	5,530	0.4%	6,745	0.8%
Total real estate loans	1,397,593	80.0%	1,226,896	79.2%	1,085,448	79.7%	992,223	78.4%	638,525	72.7%
Commercial Loans	**136,317**	**7.8%**	136,617	8.8%	127,048	9.3%	135,907	10.7%	112,760	12.8%
Consumer installment loans										
Personal	**173,650**	**9.9%**	153,865	9.9%	126,174	9.3%	113,841	9.0%	110,285	12.6%
Credit cards	**13,108**	**0.7%**	9,963	0.6%	9,388	0.7%	8,655	0.7%	7,004	0.8%
Total consumer installment loans	186,758	10.6%	163,828	10.6%	135,562	10.0%	122,496	9.7%	117,289	13.4%
All other loans	**27,152**	**1.6%**	22,104	1.4%	14,196	1.0%	14,219	1.1%	9,719	1.1%
Gross loans	**1,747,820**	**100.0%**	1,549,445	100.0%	1,362,254	100.0%	1,264,845	100.0%	878,293	100.0%
Less unearned income on loans	**—**		—		—		4		26	
Loans, net of unearned income	**$1,747,820**		$1,549,445		$1,362,254		$1,264,841		$878,267	

The following table presents the remaining maturities and type of rate (variable or fixed) on commercial and real estate constructions loans as of December 31, 2007 (dollars in thousands):

			Variable Rate			Fixed Rate		
	Total Maturities	Less than 1 year	Total	1-5 years	More than 5 years	Total	1-5 years	More than 5 years
Real Estate Construction	$396,928	$354,244	$18,323	$18,242	$ 81	$24,361	$20,441	$ 3,920
Commercial	$136,317	$ 77,039	$ 3,316	$ 2,989	$ 327	$55,962	$47,459	$ 8,503

The Company is focused on providing community-based financial services and discourages the origination of portfolio loans outside of its principal trade area. The Company maintains a policy not to originate or purchase loans to foreign entities or loans classified by regulators as highly leveraged transactions. To manage the growth of the real estate loans in the loan portfolio, facilitate asset/liability management and generate additional fee income, the Company sells a portion of conforming first mortgage residential real estate loans to the secondary market as they are originated. Union Mortgage serves as a mortgage brokerage operation, selling the majority of its loan production in the secondary market or selling loans to the Community Banks that meet the banks' current asset/liability management needs. This venture has provided the Community Banks' customers with enhanced mortgage products and the Company with improved efficiencies through the consolidation of this function.

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, that cannot be precisely quantified or 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.

For the year ended December 31, 2007, the allowance for loan losses was $19.3 million or 1.11% of total loans as compared to $19.1 million, or 1.24% in 2006. For the year ended December 31, 2007 compared to the same period in 2006, provision for loan losses decreased $390 thousand from $1.4 million to $1.1 million. This decline was primarily attributable to the recapture of $750 thousand in specific reserves on a single credit relationship mentioned below. Gross loans grew $198.4 million, or 12.8% and compares to the allowance for loan loss growth rate of 24.8%, absent the specific reserve recapture, when compared to December 31, 2006. The increase in the allowance for loan losses was primarily due to continued loan growth, net charge-offs and increased uncertainty with regard to general economic and other credit risk factors. Net charge-offs were $872 thousand for the year ended December 31, 2007, compared to net charge-offs of $203 thousand in the same periods for 2006. For the years ended December 31, 2006 and 2005, the Company collected $464 thousand and $311 thousand of foregone interest, respectively, which was excluded from the net interest margin calculation.

The following table rolls forward the allowance for loan losses over the past five years ended December 31 (dollars in thousands):

	2007	2006	2005	2004	2003
Balance, beginning of year	**$19,148**	$17,116	$16,384	$11,519	$ 9,179
Allowance from acquired bank	—	785	—	2,040	—
Loans charged-off:					
Commercial	**207**	22	25	167	77
Real estate	—	—	6	5	1
Consumer	**1,005**	600	809	1,002	877
Total loans charged-off	**1,212**	622	840	1,174	955
Recoveries:					
Commercial	**30**	102	43	1,388	684
Real estate	—	—	—	42	—
Consumer	**310**	317	357	415	304
Total recoveries	**340**	419	400	1,845	988
Net charge-offs (recoveries)	**872**	203	440	(671)	(33)
Provision for loan losses	**1,060**	1,450	1,172	2,154	2,307
Balance, end of year	**$19,336**	$19,148	$17,116	$16,384	$11,519
Allowance for loan losses to loans	**1.11%**	1.24%	1.26%	1.30%	1.31%
Net charge-offs (recoveries) to average loans	**0.05%**	0.01%	0.03%	-0.06%	0.00%

The following table shows an allocation among loan categories based upon analysis of the loan portfolio's composition, historical loan loss experience, and other factors, as well as, the ratio of the related outstanding loan balances to total loans as of December 31 (dollars in thousands).

	2007		2006		2005		2004		2003	
	$	% (1)	$	% (1)	$	% (1)	$	% (1)	$	% (1)
Commercial, financial and agriculture	**$ 4,567**	**8.0%**	$ 4,523	8.9%	$ 4,320	9.3%	$ 4,971	10.8%	$ 4,500	12.9%
Real estate construction	**$10,740**	**22.7%**	10,635	20.9%	9,229	20.1%	7,998	17.5%	4,176	12.0%
Real estate mortgage	**$ 611**	**57.3%**	605	58.2%	541	59.7%	518	61.0%	493	60.7%
Consumer & other	**$ 3,418**	**12.0%**	3,385	11.9%	3,026	10.9%	2,897	10.7%	2,350	14.4%
Total	**$19,336**	**100.0%**	$19,148	100.0%	$17,116	100.0%	$16,384	100.0%	$11,519	100.0%

(1) The percent represents the loan balance divided by total loans

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, to $7.3 million at December 31, 2007. Despite the lengthy nature of this workout, the Company continues to have dialogue with the borrower toward a resolution of the affiliated loans and anticipates that 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).

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 stable and there has been no significant deterioration in the quality of the Company's loan portfolio. Residential loan demand has moderated somewhat but the Company is still experiencing continued loan demand, particularly in owner-occupied commercial real estate. 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 presents a five-year comparison of nonperforming assets as of December 31, (dollars in thousands):

	2007	2006	2005	2004	2003
Nonaccrual loans	**$ 9,436**	$10,873	$11,255	$11,169	$ 9,174
Foreclosed properties	**217**	—	—	14	444
Real estate investment	**476**	—	—	—	—
Total nonperforming assets	**$10,129**	$10,873	$11,255	$11,183	$ 9,618
Loans past due 90 days and accruing interest	**$ 905**	$ 208	$ 150	$ 822	$ 957
Nonperforming assets to loans, foreclosed properities & real estate investments	**0.58%**	0.70%	0.83%	0.88%	1.09%
Allowance for loan losses to nonaccrual loans	**204.92%**	176.11%	152.07%	146.69%	125.56%

Securities Available for Sale

At December 31, 2007, the Company had securities available for sale, at fair value in the amount of $282.7 million, or 12.3% of total assets, as compared to $282.8 million, or 13.5% of total assets as of December 31, 2006. The Company seeks to diversify its portfolio to minimize risk and to maintain a large amount of securities issued by states and political subdivisions due to the tax benefits. It also focuses on purchasing mortgage-backed securities because of the reinvestment opportunities from the cash flows and the higher yield offered from these securities. All of the Company's mortgage-backed securities are greater than or equivalent to investment grade. The investment portfolio has a high percentage of municipals and mortgage-backed securities; therefore a higher taxable equivalent yield exists on the portfolio compared to its peers. The Company does not engage in structured derivative or hedging activities. The following table sets forth a summary of the securities available for sale, at fair value as of December 31, (dollar in thousands):

	2007	2006	2005
U.S. government and agency securities	**$ —**	$ 9,829	$ 1,935
Obligations of states and political subdivisions	**112,596**	104,222	86,218
Corporate and other bonds	**15,996**	27,202	40,779
Mortgage-backed securities	**136,220**	130,610	106,706
Federal Reserve Bank stock	**3,337**	3,097	2,213
Federal Home Loan Bank stock	**13,800**	7,554	7,392
Other securities	**750**	310	774
Total securities available for sale, at fair value	**$ 282,699**	$ 282,824	$ 246,017

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The following table summarizes the contractual maturity of securities available for sale, at fair value and their weighted average yields as of December 31, 2007 (dollar in thousands):

	1 Year or Less	1 - 5 Years	5 - 10 Years	Over 10 Years and Equity Securities	Total
Mortgage backed securities:					
Amortized cost	$ —	$ 20,653	$ 33,161	$ 82,148	$135,962
Fair value	—	20,521	33,325	82,374	136,220
Weighted average yield (1)	—	4.50%	4.87%	5.12%	4.96%
Obligations of states and political subdivisions:					
Amortized cost	$ 2,254	$ 10,956	$ 44,238	$ 53,991	$111,439
Fair value	2,261	11,130	45,313	53,892	112,596
Weighted average yield (1)	5.00%	4.97%	4.84%	4.38%	4.63%
Other securities:					
Amortized cost	$ —	$ —	$ 500	$ 32,815	$ 33,315
Fair value	—	—	503	33,380	33,883
Weighted average yield (1)	—	—	6.00%	5.75%	5.75%
Total securities available for sale:					
Amortized cost	$ 2,254	$ 31,609	$ 77,899	$ 168,954	$280,716
Fair value	2,261	31,651	79,141	169,646	282,699
Weighted average yield (1)	5.00%	4.66%	4.86%	5.01%	4.93%

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

Deposits

As of December 31, 2007, total deposits were $1.7 billion, unchanged from December 31, 2006. Included in the 2007 balances are approximately $43.3 million in deposits acquired through the purchase of six branches, of which $34.7 million were interest-bearing liabilities. Absent the acquisition, deposits declined principally within the demand deposit and money market categories. This decline was principally attributable to lower economic activity and customer liquidity in the markets in which we compete. Total deposits consist of noninterest-bearing demand deposits of $281.4 million, or 17.0%, and interest-bearing deposits of $1.4 billion or 83.0%.

As of December 31, 2007 compared to December 31, 2006, average interest-bearing deposits increased $78.9 million, or 6.1%, to $1.4 billion from $1.3 billion. Average money market and savings accounts decreased $16.7 million and $12.1 million, respectively, while time deposits of $100,000 and over and other time deposit accounts increased $59.6 million and $45.3 million, respectively. This composition swing was principally driven by consumer demand for higher yielding products amid strong competition for low cost deposit funding. The average noninterest-bearing demand deposits remained flat at approximately $284 million in both 2007 and 2006. The 2007 deposit balances benefited from the acquisition of approximately $8.6 million in noninterest-bearing deposits. The Company had no brokered deposits as of December 31, 2007.

The average deposits and rates paid for the past three years and maturities of certificates of deposit of $100,000 and over as of December 31, 2007 are as follows (dollars in thousands):

	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest-bearing demand deposits	**$ 283,877**		$ 284,094		$ 245,587	
Interest-bearing deposits:						
NOW accounts	**206,748**	**0.64%**	204,023	0.45%	198,969	0.35%
Money market accounts	**158,461**	**2.34%**	175,163	2.25%	187,673	1.69%
Savings accounts	**104,507**	**0.78%**	116,569	0.91%	119,309	0.84%
Time deposits of $100,000 and over	**446,662**	**4.93%**	387,023	4.55%	259,185	3.64%
Other time deposits	**451,224**	**4.51%**	405,930	3.99%	365,758	3.17%
Total interest-bearing	**1,367,602**	**3.53%**	1,288,708	3.08%	1,130,894	2.29%
Total average deposits	**$1,651,478**		$1,572,802		$1,376,481	

	Within 3 Months	3 -6 Months	6 -12 Months	Over 12 Months	Total	Percent Of Total Deposits
Maturities of time deposits of $100,000 and over	$ 240,145	$ 78,484	$ 114,557	$20,057	$ 453,243	27.31%

Capital Resources

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

The Federal Reserve, along with the OCC and the FDIC, has adopted capital guidelines to supplement the existing definitions of capital for regulatory purposes and to establish minimum capital standards. Specifically, the guidelines categorize assets and off-balance sheet items into four risk-weighted categories. The minimum ratio of qualifying total assets is 8.0%, of which 4.0% must be Tier 1 capital, consisting of common equity, retained earnings and a limited amount of perpetual preferred stock, less certain intangible items. The Company had a ratio of total capital to risk-weighted assets of 11.67% and 12.78% on December 31, 2007 and 2006, respectively. The Company's ratio of Tier 1 capital to risk-weighted assets was 10.65% and 11.63% at December 31, 2007 and 2006, respectively, allowing the Company to meet the definition of "well-capitalized" for regulatory purposes. Both of these ratios exceeded the fully phased-in capital requirements in 2007 and 2006. The Company's current strategic plan includes a targeted equity to asset ratio between 8% and 9%. As of December 31, 2007, that ratio was 9.22%.

In connection with the latest bank acquisitions, Prosperity and Guaranty, the Company has 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. The Acquired Bank Branches were financed through normal operations.

The following summarizes the Company's regulatory capital and related ratios over the past three years ended December 31, (dollars in thousands):

	2007	2006	2005
Tier 1 capital:			
Common stock	**$ 17,879**	$ 17,716	$ 17,595
Surplus	**40,758**	38,047	35,426
Retained earnings	**152,238**	142,168	124,531
Total equity	**210,875**	197,931	177,552
Plus: qualifying trust preferred capital notes	**58,500**	58,500	22,500
Less: core deposit intangibles/goodwill	**68,024**	62,390	39,801
Total Tier 1 capital	**201,351**	194,041	160,251
Tier 2 capital:			
Allowance for loan losses	**19,336**	19,148	17,116
Total Tier 2 capital	**19,336**	19,148	17,116
Total risk-based capital	**$ 220,687**	$ 213,189	$ 177,367
Risk-weighted assets	**$1,890,569**	$1,668,699	$1,460,607
Capital ratios:			
Tier 1 risk-based capital ratio	**10.65%**	11.63%	10.97%
Total risk-based capital ratio	**11.67%**	12.78%	12.14%
Leverage ratio (Tier 1 capital to average adjusted assets)	**9.20%**	9.57%	9.09%
Equity to total assets	**9.22%**	9.53%	9.82%

Commitments and off-balance sheet obligations

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contractual amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments. For more information pertaining to these commitments, reference Note 11 “Financial Instruments with Off-Balance Sheet Risk” in the “Notes to the Consolidated Financial Statements”.

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

At December 31, 2007, Union Mortgage had rate lock commitments to originate mortgage loans amounting to $29.9 million and loans held for sale of $25.2 million. Union Mortgage has entered into corresponding mandatory commitments on a best-efforts basis to sell loans on a servicing released basis totaling approximately $55.1 million. These commitments to sell loans are designed to eliminate the mortgage company’s exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

The following table represents the Company’s other commitments with balance sheet or off-balance sheet risk as of December 31, 2007 (dollars in thousands):

	Amount
Commitments with off-balance sheet risk:	
Commitments to extend credit [1]	$704,603
Standby letters of credit	30,822
Commitments to purchase securities	—
Mortgage loan rate lock commitments	29,943
Total commitments with off-balance sheet risk	765,368
Commitments with balance sheet risk:	
Loans held for sale	25,248
Total commitments with balance sheet risk	25,248
Total other commitments	**$790,616**

(1) Includes unfunded overdraft protection.

Liquidity

Liquidity represents an institution’s ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, money market investments, Federal Funds sold, securities available for sale, loans held for sale and loans maturing or re-pricing within one year. Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary through Federal Funds lines with several correspondent banks, a line of credit with the 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.

At December 31, 2007, cash and cash equivalents and securities classified as available for sale comprised 14.8% of total assets, compared to 17.1% at December 31, 2006. Asset liquidity is also provided by managing loan and securities maturities and cash flows.

Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary. The Community Banks maintain Federal Funds lines with several regional banks totaling $49.3 million as of December 31, 2007. There was approximately $41.8 million outstanding under these lines as of

December 31, 2007. The Company had outstanding borrowings pursuant to securities sold under agreements to repurchase transactions with a maturity of one day of $82.0 million as of December 31, 2007. Lastly, the Company had a collateral dependent line of credit with the FHLB for $607.7 million as of December 31, 2007. There was approximately $228.5 million outstanding under this line at December 31, 2007.

NON GAAP MEASURES

SFAS No. 141, *Business Combinations* ("SFAS No. 141"), requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Prior to the issuance of SFAS No. 141, the Company accounted for most of its acquisition activity using the pooling method of accounting. The acquisitions of Acquired Bank Branches, Prosperity and Guaranty are the three business combinations accounted for using the purchase method of accounting. At December 31, 2007, core deposit intangible assets and goodwill totaled $11.6 million and $56.5, respectively, compared to $12.3 million and $50.0 million, respectively, in 2006.

In reporting the results of 2007 and 2006, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization. Cash basis operating earnings per share was $1.56 for the year ended December 31, 2007 compared to $2.03 in 2006. Cash basis return on average tangible equity and assets for the year ended December 31, 2007 was 14.88% and 1.00%, respectively, compared to 20.31% and 1.40%, respectively, in 2006.

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. The following table reconciles these non-GAAP measures from their respective GAAP basis measures for the years ended December 31, (dollars in thousands):

	2007	2006
Net income	**$ 19,756**	$ 25,992
Plus: core deposit intangible amortization, net of tax	**1,214**	1,090
Cash basis operating earnings	**20,970**	27,082
Average assets	**2,167,123**	1,998,068
Less: average goodwill	**52,807**	45,360
Less: average core deposit intangibles	**11,835**	11,863
Average tangible assets	**2,102,481**	1,940,845
Average equity	**205,525**	190,560
Less: average goodwill	**52,807**	45,360
Less: average core deposit intangibles	**11,835**	11,863
Average tangible equity	**$ 140,883**	$ 133,337
Weighted average shares outstanding, diluted	**13,422,139**	13,361,773
Cash basis earnings per share, diluted	**$ 1.56**	$ 2.03
Cash basis return on average tangible assets	**1.00%**	1.40%
Cash basis return on average tangible equity	**14.88%**	20.31%

QUARTERLY RESULTS

The following table presents the Company's quarterly performance for the years ended December 31, 2007 and 2006 (dollars in thousands, except per share amounts):

	Quarter				
	First	Second	Third	Fourth	Total
For the Year 2007					
Interest and dividend income	**$ 33,627**	**$ 35,129**	**$ 36,251**	**$ 35,989**	**$ 140,996**
Interest expense	**15,467**	**15,908**	**16,903**	**16,973**	**65,251**
Net interest income	**18,160**	**19,221**	**19,348**	**19,016**	**75,745**
Provision for loan losses	**(735)**	**190**	**432**	**1,173**	**1,060**
Net interest income after provision for loan losses	**18,895**	**19,031**	**18,916**	**17,843**	**74,685**
Noninterest income	**6,209**	**6,212**	**6,282**	**6,402**	**25,105**
Noninterest expenses	**17,959**	**17,666**	**17,978**	**19,947**	**73,550**
Income before income taxes	**7,145**	**7,577**	**7,220**	**4,298**	**26,240**
Income tax expense	**1,997**	**1,936**	**1,863**	**688**	**6,484**
Net income	**$ 5,148**	**$ 5,641**	**$ 5,357**	**$ 3,610**	**$ 19,756**
Earnings per share, basic	**$ 0.39**	**$ 0.42**	**$ 0.40**	**$ 0.27**	**$ 1.48**
Earnings per share, diluted	**$ 0.38**	**$ 0.42**	**$ 0.40**	**$ 0.27**	**$ 1.47**
For the Year 2006					
Interest and dividend income	$ 28,290	$ 32,347	$ 34,169	$ 34,350	**$ 129,156**
Interest expense	10,242	12,378	14,404	15,417	**52,441**
Net interest income	18,048	19,969	19,765	18,933	**76,715**
Provision for loan losses	538	273	485	154	**1,450**
Net interest income after provision for loan losses	17,510	19,696	19,280	18,779	**75,265**
Noninterest income	6,975	6,907	7,019	7,344	**28,245**
Noninterest expenses	15,620	17,209	17,441	17,297	**67,567**
Income before income taxes	8,865	9,394	8,858	8,826	**35,943**
Income tax expense	2,557	2,681	2,330	2,383	**9,951**
Net income	$ 6,308	$ 6,713	$ 6,528	$ 6,443	**$ 25,992**
Earnings per share, basic	$ 0.48	$ 0.51	$ 0.49	$ 0.49	**$ 1.97**
Earnings per share, diluted	$ 0.47	$ 0.50	$ 0.49	$ 0.48	**$ 1.94**

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

This information is incorporated herein by reference from Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

ITEM 8. – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Yount, Hyde & Barbour, P.C.
Certified Public Accountants
and Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Union Bankshares Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited Union Bankshares Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Union Bankshares Corporation and subsidiaries' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Union Bankshares Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Union Bankshares Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
February 28, 2008

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Dollars in thousands, except share amounts)

	2007	2006
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 54,716**	$ 55,511
Interest-bearing deposits in other banks	**662**	950
Money market investments	**303**	322
Other interest-bearing deposits	**2,598**	2,598
Federal funds sold	**—**	16,509
Total cash and cash equivalents	**58,279**	75,890
Securities available for sale, at fair value	**282,699**	282,824
Loans held for sale	**25,248**	20,084
Loans, net of unearned income	**1,747,820**	1,549,445
Less allowance for loan losses	**19,336**	19,148
Net loans	**1,728,484**	1,530,297
Bank premises and equipment, net	**75,741**	63,461
Other real estate owned	**694**	—
Core deposit intangibles, net	**11,550**	12,341
Goodwill	**56,474**	50,049
Other assets	**62,228**	57,945
Total assets	**$ 2,301,397**	$ 2,092,891
LIABILITIES		
Noninterest-bearing demand deposits	**$ 281,405**	$ 292,262
Interest-bearing deposits:		
NOW accounts	**217,809**	212,328
Money market accounts	**156,576**	165,202
Savings accounts	**100,885**	107,163
Time deposits of $100,000 and over	**453,243**	442,953
Other time deposits	**449,660**	446,000
Total interest-bearing deposits	**1,378,173**	1,373,646
Total deposits	**1,659,578**	1,665,908
Securities sold under agreements to repurchase	**82,049**	62,696
Other short-term borrowings	**200,837**	—
Trust preferred capital notes	**60,310**	60,310
Long-term borrowings	**69,500**	88,850
Other liabilities	**17,041**	15,711
Total liabilities	**2,089,315**	1,893,475
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, $1.33 par value, shares authorized 36,000,000; issued and outstanding, 13,438,334 shares at December 31, 2007 and 13,303,520 shares at December 31, 2006	**17,879**	17,716
Surplus	**40,758**	38,047
Retained earnings	**152,238**	142,168
Accumulated other comprehensive income	**1,207**	1,485
Total stockholders' equity	**212,082**	199,416
Total liabilities and stockholders' equity	**$ 2,301,397**	$ 2,092,891

See accompanying notes to consolidated financial statements.

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Dollars in thousands, except per share amounts)

	2007	2006	2005
Interest and dividend income:			
Interest and fees on loans	**$ 126,514**	$ 113,392	$ 90,355
Interest on Federal funds sold	**614**	1,438	349
Interest on deposits in other banks	**57**	57	49
Interest on money market investments	**4**	3	2
Interest on other interest-bearing deposits	**135**	129	81
Interest and dividends on securities:			
Taxable	**8,945**	9,883	7,791
Nontaxable	**4,727**	4,254	3,690
Total interest and dividend income	**140,996**	129,156	102,317
Interest expense:			
Interest on deposits	**48,234**	39,729	25,908
Interest on Federal funds purchased	**1,224**	1,256	171
Interest on short-term borrowings	**6,618**	4,168	1,842
Interest on long-term borrowings	**9,175**	7,288	5,046
Total interest expense	**65,251**	52,441	32,967
Net interest income	**75,745**	76,715	69,350
Provision for loan losses	**1,060**	1,450	1,172
Net interest income after provision for loan losses	**74,685**	75,265	68,178
Noninterest income:			
Service charges on deposit accounts	**7,793**	7,186	6,790
Other service charges, commissions and fees	**6,157**	6,009	4,360
Gains on securities transactions, net	**586**	688	26
Gains on sales of loans	**8,817**	11,277	12,973
Gains on sales of other real estate owned and bank premises, net	**187**	870	33
Other operating income	**1,565**	2,215	1,328
Total noninterest income	**25,105**	28,245	25,510
Noninterest expenses:			
Salaries and benefits	**38,765**	37,635	33,556
Occupancy expenses	**6,085**	5,006	4,148
Furniture and equipment expenses	**4,816**	4,503	3,927
Other operating expenses	**23,884**	20,423	16,644
Total noninterest expenses	**73,550**	67,567	58,275
Income before income taxes	**26,240**	35,943	35,413
Income tax expense	**6,484**	9,951	10,591
Net income	**$ 19,756**	$ 25,992	$ 24,822
Earnings per share, basic	**$ 1.48**	$ 1.97	$ 1.89
Earnings per share, diluted	**$ 1.47**	$ 1.94	$ 1.87

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Dollars in thousands, except share amounts)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total
Balance—December 31, 2004	$17,488	$33,716	$106,460	$ 5,094		$162,758
Comprehensive income:						
Net income			24,822		$ 24,822	24,822
Unrealized holding losses arising during the period (net of tax, $1,762)					(3,271)	
Reclassification adjustment for gains included in net income (net of tax, $9)					(17)	
Other comprehensive loss (net of tax, $1,771)				(3,288)	(3,288)	(3,288)
Total comprehensive income					$ 21,534	
Cash dividends—2005 ($.52 per share)			(6,751)			(6,751)
Tax benefit from exercise of stock awards		169				169
Accelerated vesting of stock options		64				64
Award of performance stock grants		48				48
Unearned compensation on nonvested stock, net of amortization		(157)				(157)
Issuance of common stock under Dividend Reinvestment Plan (29,391 shares)	40	683				723
Issuance of common stock under Incentive Stock Option Plan (28,833 shares)	38	330				368
Issuance of common stock for services rendered (13,505 shares)	18	392				410
Issuance of nonvested stock under Incentive Stock Option Plan (7,995 shares)	11	181				192
Balance—December 31, 2005	17,595	35,426	124,531	1,806		179,358
Comprehensive income:						
Net income			25,992		$ 25,992	25,992
Unrealized holding gains arising during the period (net of tax, $68)					126	
Reclassification adjustment for gains included in net income (net of tax, $241)					(447)	
Other comprehensive loss (net of tax, $173)				(321)	(321)	(321)
Total comprehensive income					$ 25,671	
Cash dividends—2006 ($.63 per share)			(8,345)			(8,345)
Tax benefit from exercise of stock awards		182				182
Cash paid for fractional shares (206 shares)			(10)			(10)
Issuance of common stock under Dividend Reinvestment Plan (33,194 shares)	44	874				918
Issuance of common stock under Incentive Stock Option Plan (47,466 shares)	63	653				716
Issuance of common stock for services rendered (18,302 shares)	24	540				564
SFAS No. 123R implementation adjustment	(10)	10				—
Stock-based compensation expense		362				362
Balance—December 31, 2006	17,716	38,047	142,168	1,485		199,416
Comprehensive income:						
Net income			19,756		$ 19,756	19,756
Unrealized holding gains arising during the period (net of tax, $55)					103	
Reclassification adjustment for gains included in net income (net of tax, $205)					(381)	
Other comprehensive loss (net of tax, $150)				(278)	(278)	(278)
Total comprehensive income					$ 19,478	
Cash dividends—2007 ($.73 per share)			(9,686)			(9,686)
Tax benefit from exercise of stock awards		22				22
Issuance of common stock under Dividend Reinvestment Plan (47,769 shares)	64	994				1,058
Issuance of common stock under Incentive Stock Option Plan (46,743 shares)	62	582				644
Issuance of common stock for services rendered (27,933 shares)	37	568				605
Stock-based compensation expense		545				545
Balance—December 31, 2007	$17,879	$40,758	$152,238	$ 1,207		$212,082

See accompanying notes to consolidated financial statements.

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Dollars in thousands)

	2007	2006	2005
Operating activities:			
Net income	$ 19,756	$ 25,992	$ 24,822
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization of bank premises and equipment	4,690	3,904	3,396
Amortization, net	2,455	2,397	1,556
Provision for loan losses	1,060	1,450	1,172
Gains on the sale of investment securities	(586)	(688)	(26)
Origination of loans held for sale	(371,873)	(484,696)	(556,774)
Proceeds from sales of loans held for sale	366,709	492,680	571,374
Gains on sales of other real estate owned and premises, net	(187)	(870)	(33)
Stock-based compensation expenses	545	362	147
Issuance of common stock grants for services	605	564	410
Increase in other assets	(7,480)	(5,975)	(16,946)
Increase (decrease) in other liabilities	1,330	(807)	3,331
Net cash and cash equivalents provided by operating activities	17,024	34,313	32,429
Investing activities:			
Purchases of securities available for sale	(55,080)	(51,296)	(56,417)
Proceeds from sales of securities available for sale	100	1,005	—
Proceeds from maturities, calls and paydowns of securities available for sale	55,289	47,614	38,545
Net increase in loans	(199,247)	(110,867)	(97,853)
Net increase in bank premises and equipment	(14,573)	(21,085)	(7,797)
Proceeds from sales of other real estate owned	—	499	61
Cash paid in bank acquisition	—	(35,955)	—
Cash acquired in bank and branch acquisitions	35,636	17,148	—
Net cash and cash equivalents used in investing activities	(177,875)	(152,937)	(123,461)
Financing activities:			
Net increase (decrease) in noninterest-bearing deposits	(19,443)	(18,254)	28,030
Net increase (decrease) in interest-bearing deposits	(30,195)	116,205	114,168
Net increase (decrease) in short-term borrowings	220,190	(45,400)	33,890
Net increase (decrease) in long-term borrowings	(19,350)	41,850	(43,271)
Proceeds from trust preferred capital notes	—	37,114	—
Cash dividends paid	(9,686)	(8,345)	(6,751)
Tax benefit from exercise of stock-based awards	22	182	169
Cash paid for fractional shares	—	(10)	—
Issuance of common stock	1,702	1,634	1,091
Net cash and cash equivalents provided by financing activities	143,240	124,976	127,326
Increase (decrease) in cash and cash equivalents	(17,611)	6,352	36,294
Cash and cash equivalents at beginning of the period	75,890	69,538	33,244
Cash and cash equivalents at end of the period	$ 58,279	$ 75,890	$ 69,538
Supplemental Disclosure of Cash Flow Information			
Cash payments for:			
Interest	$ 65,103	$ 51,312	$ 25,221
Income taxes	7,909	9,935	12,178
Supplemental schedule of noncash investing and financing activities			
Unrealized loss on securities available for sale	$ (378)	$ (417)	$ (5,059)
Transactions related to bank and branch acquisitions			
Increase in assets and liabilities:			
Loans	$ —	$ 75,742	$ —
Securities	—	34,003	—
Other Assets	7,672	26,229	—
Noninterest bearing deposits	8,586	52,431	—
Interest bearing deposits	34,722	59,011	—
Borrowings	—	4,668	—
Other Liabilities	—	1,057	—

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and practices of Union Bankshares Corporation and subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America and follow general practice within the banking industry. Major policies and practices are described below. In addition, share and per share amounts for all periods presented in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the effect of the three-for-two stock split in October 2006.

(A) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, which is a bank holding company that owns all of the outstanding common stock of its banking subsidiaries, Union Bank and Trust Company (“Union Bank”), Northern Neck State Bank, Rappahannock National Bank, Bay Community Bank (formerly Bank of Williamsburg), Prosperity Bank & Trust Company (“Prosperity”) and of Union Investment Services Inc. Union Mortgage Group, Inc. (“Union Mortgage”) (formerly Mortgage Capital Investors, Inc.) is a wholly owned subsidiary of Union Bank. Bay Community Bank has a non-controlling interest in Johnson Mortgage Company, LLC, which is accounted for under the equity method of accounting. The Company’s Statutory Trust I and II, wholly owned subsidiaries of the Company, were formed for the purpose of issuing redeemable Capital Securities in connection with the Company’s acquisitions of Guaranty Financial Corporation in May 2004 and its wholly owned subsidiary, Guaranty Bank (“Guaranty”) and Prosperity in April 2006. Statement of Financial Accounting Standard (“SFAS”) Interpretation No. 46R *Consolidation of Variable Interest—an interpretation of ARB No. 51* (“FIN 46R”) precludes the Company from consolidating Statutory Trust I & II. The subordinated debts payable to the trusts are reported as liabilities of the Company. All significant inter-company balances and transactions have been eliminated. The accompanying consolidated financial statements for prior periods reflect certain reclassifications in order to conform to the current presentation.

(B) Investment Securities

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. The Company has no securities in this category.

Securities classified as available for sale are those debt and equity securities that management intends to hold for an indefinite period of time, including securities used as part of the Company's asset/liability strategy, and that may be sold in response to changes in interest rates, liquidity needs or other similar factors or called by the issuer under the terms of the debt. Securities available for sale are reported at fair value, with unrealized gains or losses, net of deferred taxes, included in accumulated other comprehensive income in stockholders' equity.

Securities classified as held for trading are those debt and equity securities that are bought and held principally for the purpose of selling them in the near term and reported at fair value, with unrealized gains and losses included in earnings. The Company has no securities in this category.

Purchased premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company has recognized no other-than-temporary losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(C) Loans Held For Sale

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

(D) Loans

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

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

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

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

(E) Allowance For Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management believes the collectibility of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for various qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. At December 31, 2007 and 2006, there were no amounts considered unallocated as part of the allowance for loan losses.

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

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

(F) Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using either the straight-line or accelerated method based on the type of asset involved. The Company's policy is to capitalize additions and improvements and to depreciate the cost thereof over their estimated useful lives ranging from 3 to 40 years. Maintenance, repairs and renewals are expensed as they are incurred.

(G) Goodwill and Intangible Assets

SFAS No. 141, *Business Combinations*, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. For purchase acquisitions, the Company is required to record assets acquired, including identifiable intangible assets, and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Effective January 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* ("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. The Company adopted SFAS 147, *Acquisitions of Certain Financial Institutions*, on January 1, 2002 and determined that core deposit intangibles will continue to be amortized over the estimated useful life.

(H) Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. The Company did not have any of these for the period ending December 31, 2007.

(I) Other Real Estate Owned

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

(J) Consolidated Statements of Cash Flows

For purposes of reporting cash flows, the Company defines cash and cash equivalents as cash due from banks, interest-bearing deposits in other banks, money market investments, other interest-bearing deposits, and Federal Funds sold.

(K) Earnings Per Share

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

(L) Comprehensive Income (Loss)

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

(M) Use of Estimates

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

(N) Advertising Costs

The Company follows a policy of charging the cost of advertising to expense as incurred. Total advertising costs included in other operating expenses for 2007, 2006 and 2005 were $1.2 million, $1.3 million, and $1.3 million, respectively.

(O) Off Balance Sheet Credit Related Financial Instruments

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

(P) Rate Lock Commitments

The Company enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 120 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity.

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

(Q) Variable Interest Entities

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46,*Consolidation of Variable Interest Entities—an interpretation of ARB No. 51* ("FIN 46"), which states that if a business enterprise is the primary beneficiary of a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate the entity. FIN 46 also requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. Due to the significant implementation concerns, the FASB revised FIN 46 ("FIN46R"). Management has evaluated the Company's investment in variable interest entities and potential variable interest entities or transactions, particularly in trust preferred securities structures, because these entities constitute the Company's primary exposure.

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

(R) Asset Prepayment Rates

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

(S) Concentrations of Credit Risk

Most of the Company's activities are with customers located in portions of Central and Tidewater Virginia. Securities Available for Sale and Loans also represent concentrations of credit risk and are discussed in Notes 2 and 3, respectively.

(T) Stock Compensation Plan

Effective January 1, 2006, the Company adopted SFAS 123R (Revised 2004),*Share-Based Payment* ("SFAS 123R"), which replaces SFAS 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and supersedes

APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB Opinion 25"). SFAS 123R requires the costs resulting from all share-based payments to employees be recognized in the financial statements. Stock-based compensation is estimated at the date of grant, using the Black-Scholes option valuation model for determining fair value. The model employs the following assumptions:

- Dividend yield—calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant;
- Expected life (term of the option)—based on the average of the contractual life and vesting schedule for the respective option;
- Expected volatility—based on the monthly historical volatility of the Company's stock price over the expected life of the options;
- Risk-free interest rate—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.

Under APB Opinion 25, compensation expense was generally not recognized if the exercise price of the option equaled or exceeded the market price of the stock on the date of grant. For the year ended December 31, 2007, the Company recognized stock-based compensation expense of approximately $400 thousand, net of tax, or approximately $.03 per share, in accordance with SFAS 123R.

The Company has elected to adopt the modified prospective method which requires compensation expense to be recorded for the unvested portion of previously issued awards that remained outstanding as of January 1, 2006. In addition, compensation expense is recorded for any awards issued, modified, or settled after the effective date of this standard and prior periods are not restated. For awards granted prior to the effective date, the unvested portion of the awards are recognized in periods subsequent to the adoption based on the grant date fair value determined for pro forma disclosure purposes under SFAS 123R.

SFAS 123R requires the Company to estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also will impact the amount of estimated unamortized compensation expense to be recognized in future periods.

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 and its subsidiaries. The Company's 2003 Stock Incentive Plan replaced the 1993 Stock Incentive Plan, and became effective on July 1, 2003, after shareholders approved the plan at the annual meeting of shareholders held in 2003. The Stock Incentive Plan makes available 525,000 shares (adjusted for the stock split), which may be awarded to employees of the Company and its subsidiaries 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 December 31, 2007, approximately 309,984 shares were available for issuance under the Company's 2003 Stock Incentive Plan.

For more information and tables refer to Note 10 "Employee Benefits" within the "Notes to the Consolidated Financial Statements".

(U) Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007, with early adoption available in certain circumstances. The Company does not expect the implementation of SFAS 159 to have a material impact on its consolidated financial statements.

In December 2007, the 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 principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity’s first year that begins after December 15, 2008. The Company does not expect the implementation of SFAS 141(R) to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51* (“SFAS 160”). The Standard will significantly change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity’s first fiscal year that begins after December 15, 2008, with early adoption not permitted. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In September 2006, the Emerging Issues Task Force (“EITF”) issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This consensus concludes that for a split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with SFAS 106 (if, in substance, a postretirement benefit plan exists) or APB Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007, with early application permitted. The Company is evaluating the effect that EITF 06-4 will have on its consolidated financial statements when implemented.

In November 2006, the EITF issued *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* (“EITF 06-10”). In this Issue, a consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with early application permitted. The Company does not expect the implementation of EITF 06-10 to have a material impact on its consolidated financial statements.

In November 2007, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (“SAB 109”). SAB 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect the implementation of SAB 109 to have a material impact on its consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110,*Use of a Simplified Method in Developing Expected Term of Share Options*("SAB 110"). SAB 110 expresses the current view of the staff that it will accept a company's election to use the simplified method discussed in SAB 107 for estimating the expected term of "plain vanilla" share options regardless of whether the company has sufficient information to make more refined estimates. The staff noted that it understands that detailed information about employee exercise patterns may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The Company does not expect the implementation of SAB 110 to have a material impact on its consolidated financial statements.

(V) Business Combinations

On September 7, 2007, the Company completed the acquisition of the deposits and facilities of six bank branches ("Acquired Bank Branches") in Virginia. The branches are located in the communities of Charlottesville, Middleburg, Warrenton (two) and Winchester (two). They became part of two of the Company's banking subsidiaries, Union Bank (Charlottesville branch) and Rappahannock National Bank (remaining five branches). The six bank branches had total deposits of approximately $43.3 million. This acquisition was financed through normal operations. As part of the purchase price allocation for the acquisition of the Acquired Bank Branches, the Company recorded approximately $1.1 million in core deposit intangible assets and $4.3 million in goodwill. The core deposit intangible assets recorded in the Acquired Bank Branches are being amortized over an average 8.1 years based on an independent core deposit study.

On April 1, 2006, the Company completed the acquisition of Prosperity in an all cash transaction valued at approximately $36 million. Prosperity, with nearly $130 million in assets, operates three offices in Springfield and Burke, Virginia, located in Fairfax County, a suburb of Washington, D.C. Prosperity operates as an independent bank subsidiary of the Company. The acquisition was financed with proceeds from the issuance of trust preferred capital notes. As part of the purchase price allocation for the acquisition of Prosperity, the Company recorded approximately $5.5 million in core deposit intangible assets and $20.6 million in goodwill. The core deposit intangible assets recorded in the Prosperity acquisition are being amortized over an average of 9.1 years based on an independent core deposit study.

On May 1, 2004, the Company completed its acquisition of Guaranty headquartered in Charlottesville, Virginia. This acquisition was accounted for using the purchase method of accounting. The total consideration paid to Guaranty stockholders in connection with the acquisition was approximately $54.9 million with approximately $23.2 million in cash and 1.5 million shares of the Company's common stock. The Company operated Guaranty as a separate subsidiary until September 13, 2004, when the operations of Guaranty were merged with and into the Company's largest subsidiary, Union Bank. Guaranty transactions have been included in Union Bank's financial results since May 1, 2004. Acquired assets on May 1, 2004 totaled $248 million, including $165 million in loans and $184 million in deposits. As part of the purchase price allocation for the acquisition of Guaranty, the Company recorded approximately $5.8 million in core deposit intangible assets and $30.1 million in goodwill, in 2004. The core deposit intangible assets recorded in the Guaranty acquisition are being amortized over an average of 8.7 years based on an independent core deposit study.

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 included within the Consolidated Statement of Income classified within the noninterest expense line. The acquired entity records merger-related costs which 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.

The Company's merger-related costs for the years ended December 31, 2007, 2006 and 2005 were approximately $211 thousand, $263 thousand, and $17 thousand, respectively. Prior to the mergers, the acquired entities, Prosperity and Guaranty, recorded merger-related costs of approximately $849 thousand and $1.3 million principally related to employee severance and investment banker fees.

2. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated fair value of securities available for sale at December 31, 2007 and 2006 are summarized as follows (dollars in thousands):

		Gross Unrealized		
	Amortized Cost	Gains	(Losses)	Estimated Fair Value
As of 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**
	$ 280,716	**$ 3,430**	**$ (1,447)**	**$ 282,699**
As of December 31, 2006				
U.S. government and agency securities	$ 9,973	$ —	$ (144)	$ 9,829
Obligations of states and political subdivisions	101,621	2,778	(177)	104,222
Corporate and other bonds	25,750	1,620	(168)	27,202
Mortgage-backed securities	132,189	337	(1,916)	130,610
Federal Reserve Bank stock—restricted	3,097	—	—	3,097
Federal Home Loan Bank stock—restricted	7,554	—	—	7,554
Other securities	279	31	—	310
	$ 280,463	$ 4,766	$ (2,405)	$ 282,824

The following table presents the amortized cost and estimated fair value of securities available for sale as of December 31, 2007, by contractual maturity (dollars in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,254	$ 2,261
Due after one year through five years	31,609	31,651
Due after five years through ten years	77,899	79,141
Due after ten years	151,074	151,759
	262,836	264,812
Federal Reserve Bank stock—restricted	3,337	3,337
Federal Home Loan Bank stock—restricted	13,800	13,800
Other securities	743	750
Total securities available for sale	**$ 280,716**	**$ 282,699**

Securities with an amortized cost of $128.4 million and $111.0 million as of December 31, 2007 and 2006 were pledged to secure public deposits, repurchase agreements and for other purposes.

Sales, call, maturities and paydowns of securities available for sale produced the following results for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands):

	2007	2006	2005
Proceeds from sales	**$ 100**	$ 1,005	$ —
Proceeds from calls, maturities and paydowns	**55,289**	47,614	38,545
Total proceeds	**$ 55,389**	$ 48,619	$ 38,545
Gross realized gains	**$ 587**	$ 688	$ 26
Gross realized losses	**(1)**	—	—
Net realized gains	**$ 586**	$ 688	$ 26

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

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the Company through readily saleable financial instruments. The portfolio includes fixed rate bonds, whose prices move inversely with rates. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The Company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes, to see if adjustments are needed. The primary cause of temporary impairments is the decline in the prices of the bonds as rates have risen. At December 31, 2007, there were $57.4 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 $867 thousand and primarily consisted of mortgage-backed securities. Since the declines in fair value were attributable to changes in market interest rates, not in estimated cash flows or credit quality, no other-than-temporary impairment was recorded at December 31, 2007.

The following tables present the gross unrealized losses and fair values at December 31, 2007 and 2006, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (dollars in thousands):

	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
As of December 31, 2007						
U.S. government and agency securities	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
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 December 31, 2006						
U.S. government and agency securities	$ 8,370	$ (118)	$ 1,459	$ (26)	$ 9,829	$ (144)
Obligations of states and political subdivisions	4,013	(66)	4,687	(111)	8,700	(177)
Mortgage-backed securities	31,927	(415)	71,718	(1,501)	103,645	(1,916)
Corporate and other bonds	523	(9)	6,897	(159)	7,420	(168)
	$ 44,833	$ (608)	$ 84,761	$ (1,797)	$ 129,594	$ (2,405)

3. LOANS

Loans are stated at their face amount, net of unearned income, and consist of the following at December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Mortgage loans on real estate:		
Residential 1-4 family	**$ 281,847**	$ 263,770
Commercial	**500,118**	448,691
Construction	**396,928**	324,606
Second mortgages	**37,875**	35,584
Equity lines of credit	**128,897**	112,079
Multifamily	**32,970**	29,263
Agriculture	**18,958**	12,903
Total real estate loans	**1,397,593**	1,226,896
Commercial Loans	**136,317**	136,617
Consumer installment loans		
Personal	**173,650**	153,865
Credit cards	**13,108**	9,963
Total consumer installment loans	**186,758**	163,828
All other loans	**27,152**	22,104
Gross loans	**$ 1,747,820**	$ 1,549,445

At December 31, 2007 and 2006, the recorded investment in loans, which have been identified as impaired loans, in accordance with SFAS No. 114*Accounting by Creditors for Impairment of a Loan* ("SFAS 114"), totaled $9.4 million and $10.9 million, respectively. The valuation allowance related to impaired loans at December 31, 2007 and 2006 was $500 thousand and $1.3 million, respectively. For the years ended December 31, 2007, 2006 and 2005, the average investment in impaired loans was $8.9 million, $11.3 million and $11.4 million, respectively. Had these loans performed in accordance with their original terms, interest income of approximately $422 thousand and $752 thousand would have been recorded in 2007 and 2006, respectively. There was no interest income recorded on impaired loans in 2007 and 2006. There were no non-accrual loans excluded from impaired loan disclosure at December 31, 2007 and 2006. Loans past due 90 days or more and accruing interest totaled $905 thousand and $208 thousand at December 31, 2007 and 2006, respectively.

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4. ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005 is summarized below (dollars in thousands):

	2007	2006	2005
Balance, beginning of year	$19,148	$17,116	$16,384
Allowance of acquired banks	—	785	—
Recoveries credited to allowance	340	419	400
Loans charged off	(1,212)	(622)	(840)
Provision charged to operations	1,060	1,450	1,172
Balance, end of year	$19,336	$19,148	$17,116

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2007 and 2006 are as follows (dollars in thousands):

	2007	2006
Land	$ 16,238	$15,032
Land improvements and buildings	52,372	36,182
Leasehold improvements	1,962	1,637
Furniture and equipment	26,722	23,620
Construction in progress	6,724	12,770
Total	104,018	89,241
Less accumulated depreciation and amortization	28,277	25,780
Bank premises and equipment, net	$ 75,741	$63,461

Depreciation expense for 2007, 2006 and 2005 was $4.7 million, $3.9 million, and $3.4 million, respectively. Future minimum rental payments required under non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year as of December 31, 2007 are as follows (dollars in thousands):

2008	$ 1,998
2009	1,742
2010	1,479
2011	1,185
2012	950
Thereafter	3,221
Total of future payments	$10,575

The leases contain options to extend for periods up to 20 years. Rental expense for years ended December 31, 2007, 2006 and 2005 totaled $2.0 million, $1.7 million, and $1.5 million, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2001, the Company adopted SFAS No. 142, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives but require at least an annual impairment review and more frequently if certain impairment indicators are in evidence. Based on the testing for impairment of goodwill and intangible assets, there were no impairment charges for 2007, 2006 or 2005. 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 Acquired Bank Branches, the Company recorded approximately $1.1 million in core deposit intangible assets and $4.3 million in goodwill in 2007. The core deposit intangible assets recorded in the Acquired Bank Branch acquisition are being amortized over an average of 8.1 years.

As part of the purchase price allocation for the acquisition of Prosperity, the Company recorded approximately $5.5 million in core deposit intangible assets and $20.6 million in goodwill in 2006. The core deposit intangible assets recorded in the Prosperity acquisition are being amortized over an average of 9.1 years.

As part of the purchase price allocation for the acquisition of Guaranty, the Company recorded approximately $5.8 million in core deposit intangible assets and $30.1 million in goodwill in 2004. The core deposit intangible assets recorded in the Guaranty acquisition are being amortized over an average of 8.7 years.

Information concerning goodwill and intangible assets for years ended December 31, 2007 and 2006 is presented in the following table (dollars in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
December 31, 2007			
Amortizable core deposit intangibles	**$20,215**	**$ 8,665**	**$11,550**
Unamortizable goodwill	**56,816**	**342**	**56,474**
December 31, 2006			
Amortizable core deposit intangibles	$19,137	$ 6,796	$12,341
Unamortizable goodwill	50,391	342	50,049

Amortization expense of core deposit intangibles for the years ended December 31, 2007, 2006 and 2005 totaled $1.9 million, $1.7 million, and $1.2 million, respectively. As of December 31, 2007, the estimated amortization expense of core deposit intangibles are as follows (dollars in thousands):

2008	**$ 1,937**
2009	**1,924**
2010	**1,924**
2011	**1,874**
2012	**1,687**
Thereafter	**2,204**
Total estimated amortization expense	**$11,550**

7. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more as of December 31, 2007 and 2006 was $453.2 million and $442.9 million, respectively. As of December 31, 2007, the scheduled maturities of time deposits are as follows (dollars in thousands):

2008	**$ 830,695**
2009	**42,729**
2010	**12,062**
2011	**6,104**
2012	**10,868**
Thereafter	**445**
Total scheduled maturities of time deposits	**$ 902,903**

8. BORROWINGS

Short-term borrowings consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. Other short-term borrowings may include Federal Funds purchased, which are unsecured overnight borrowings from other financial institutions, and advances from the Federal Home Loan Bank of Atlanta ("FHLB"), which are secured by mortgage-related assets. The carrying value of the loans pledged as collateral for FHLB advances total $636.8 million as of December 31, 2007. Short-term borrowings consist of the following as of December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Securities sold under agreements to repurchase	**$ 82,049**	$ 62,696
Federal Funds purchased	**41,837**	—
Federal Home Loan Bank Advances	**159,000**	—
Total short-term borrowings	**$282,886**	$ 62,696
Maximum month-end outstanding balance	**$282,886**	$157,586
Average outstanding balance during the year	**178,603**	124,609
Average interest rate during the year	**4.39%**	4.35%
Average interest rate at end of year	**4.21%**	4.51%

At December 31, 2007, the Company's fixed-rate long-term debt totals $20.0 million and matures on various dates through 2010 at interest rates that range from 5.51% to 6.32%. At December 31, 2006, the Company's fixed-rate long-term debt totaled $35.0 million and matures on various dates through 2010.

As of December 31, 2007, the contractual maturities of long-term debt are as follows (dollars in thousands):

	Fixed Rate	Adjustable Rate	Total
2008	$ 5,000	$ —	**$ 5,000**
2009	5,000	32,500	**37,500**
2010	10,000	—	**10,000**
2011	—	12,000	**12,000**
2012	—	—	**—**
Thereafter	—	65,310	**65,310**
Total long-term debt	$ 20,000	$109,810	**$129,810**

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 at December 31, 2007 was 6.10%. The redeemable 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, while $1.1 million is reflected as the Company's investment in Statutory Trust II reported as "Other assets" within the consolidated balance sheet.

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. 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 at December 31, 2007 was 7.45%. The 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, while $696 thousand is reflected as the Company's investment in Statutory Trust I reported as "Other assets" within the consolidated balance sheet.

The obligations of the Company with respect to the issuance of the capital securities constitute a full and unconditional guarantee by the Company of the trust's obligations with respect to the capital securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities and require a deferral of common dividends.

The subsidiary banks maintain Federal Funds lines with several correspondent banks totaling $49.3 million and $56.7 million for the years ended December 31, 2007 and 2006, respectively. Additionally, the Company had a line of credit with the FHLB that totaled $607.7 million and $576.1 million for the years ended December 31, 2007 and 2006, respectively.

9. INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004.

The Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 with no impact on the financial statements.

Net deferred tax assets and liabilities consist of the following components as of December 31, 2007 and 2006 (dollars in thousands):

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	2007	2006
Deferred tax assets:		
Allowance for loan losses	**$6,768**	$6,702
Benefit plans	**853**	762
Nonaccrual loans	**697**	782
Conversion expenses	**14**	55
Other	**555**	152
Total deferred tax assets	**8,887**	8,453
Deferred tax liabilities:		
Depreciation	**1,889**	2,037
Purchase accounting intangibles	**2,798**	1,571
Other	**399**	806
Securities available for sale	**667**	800
Total deferred tax liabilities	**5,753**	5,214
Net deferred tax asset	**$3,134**	$3,239

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

The provision for income taxes charged to operations for the years ended December 31, 2007, 2006 and 2005 consists of the following (dollars in thousands):

	2007	2006	2005
Current tax expense	**$6,246**	$10,779	$11,671
Deferred tax expense (benefit)	**238**	(828)	(1,080)
Income tax expense	**$6,484**	$ 9,951	$10,591

The income tax expense differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2007, 2006 and 2005, due to the following (dollars in thousands):

	2007	2006	2005
Computed "expected" tax expense	**$ 9,184**	$12,580	$12,394
(Decrease) in taxes resulting from:			
Tax-exempt interest income, net	**(1,698)**	(1,565)	(1,432)
Other, net	**(1,002)**	(1,064)	(371)
Income tax expense	**$ 6,484**	$ 9,951	$10,591

The effective tax rates were 24.7%, 27.7%, and 29.9% for years ended December 31, 2007, 2006, and 2005, respectively. Tax credits totaled $172 thousand, $201 thousand, and $106 thousand, for the years ended December 31, 2007, 2006 and 2005, respectively.

10. EMPLOYEE BENEFITS

The Company has a 401(k) Plan that allows employees to make pre-tax contributions for retirement. The 401(k) Plan provides for matching contributions by the Company for employee contributions up to 3% of each employee's compensation. The Company also has an Employee Stock Ownership Plan ("ESOP"). The Company makes discretionary profit sharing contributions into the 401(k) Plan, ESOP and in cash. Company discretionary contributions to both the 401(k) Plan and the ESOP are allocated to participant accounts in proportion to each participant's compensation and vested over a six year time interval. Employee contributions to the ESOP are not allowed and the 401(k) Plan does provide for limited investment in the Company's stock. Company discretionary profit sharing payments made in 2007, 2006 and 2005 are as follows (dollars in thousands):

	2007	2006	2005
401(k) Plan	**$1,780**	$1,429	$1,020
ESOP	**1,061**	1,226	790
Cash	**296**	238	192
Total	**$3,137**	$2,893	$2,002

The Company has an obligation to certain members of the subsidiary banks' Boards of Directors under deferred compensation plans in the amount of $1.1 million on both December 31, 2007 and 2006. The expenses related to the deferred compensation plans were $89 thousand, $103 thousand, and $115 thousand for the years ended December 31, 2007, 2006 and 2005, respectively. These benefits will be fully funded by life insurance proceeds.

In December 2001, the Company's Board of Directors approved an incentive compensation plan as a means of attracting, rewarding and retaining management. The plan is based on both corporate and individual objectives established annually for each participant. The corporate goals are based on cash return on equity and earnings per share growth relative to peer banks, while the individual goals are based on specific performance evaluation objectives. Each participant is evaluated within these two categories to determine eligibility and rate of payment based on performance. Salaries and benefits expense includes $541 thousand, $464 thousand, and $645 thousand for the years ended December 31, 2007, 2006 and 2005, respectively, for incentive compensation under this plan.

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 Company's 2003 Stock Incentive Plan replaced the 1993 Stock Incentive Plan, and became effective on July 1, 2003 after shareholders approved the plan at the annual meeting of shareholders. The stock incentive plan makes available 525,000 shares, which may be awarded to employees of the Company in the form of equity based awards intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986. 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 stock-based awards. As of December 31, 2007, approximately 309,984 shares were available for issuance under the Company's 2003 Stock Incentive Plan.

Stock Options

The following table summarizes the stock option activity for the last three years:

	Number of Stock Options	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Balance, December 31, 2004	340,094	$ 15.74	143,295	$ 12.57
Granted	34,688	24.77		
Exercised	(31,413)	12.92		
Forfeited	(15,075)	18.72		
Balance, December 31, 2005	328,294	16.78	287,223	16.44
Granted	27,473	31.57		
Exercised	(48,395)	15.35		
Forfeited	(2,836)	24.06		
Balance, December 31, 2006	304,536	18.28	247,438	16.71
Granted	22,400	27.62		
Exercised	(46,743)	14.19		
Forfeited	(2,830)	26.65		
Balance, December 31, 2007	**277,363**	**19.64**	**219,875**	**17.62**

A summary of options outstanding at December 31, 2007 is as follows:

Range of Exercise Prices			Options Outstanding			Options Exercisable	
			Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 8.54	-	$ 8.67	17,148	2.65 yrs	$ 8.60	17,148	$ 8.60
		10.67	32,090	4.00	10.67	32,089	10.67
		13.42	40,290	0.06	13.42	40,290	13.42
		18.58	54,780	5.07	18.58	49,920	18.58
18.98	-	20.33	5,250	5.88	19.94	5,250	19.94
		22.65	53,475	6.08	22.65	42,705	22.65
23.50	-	27.51	24,338	7.15	24.12	24,338	24.12
		27.62	21,320	9.15	27.62	—	—
		31.57	25,672	8.15	31.57	5,135	31.57
		31.84	3,000	7.96	31.84	3,000	31.84
$ 8.54	**-**	**$ 31.84**	**277,363**	**5.09 yrs**	**$19.64**	**219,875**	**$17.62**

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 years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Dividend yield	**1.99%**	**2.05%**	**2.30%**
Expected life in years	**7.5**	**7.5**	**10.0**
Expected volatility	**25.23%**	**29.53%**	**32.93%**
Risk-free interest rate	**4.68%**	**4.56%**	**4.22%**
Weighted average fair value per option granted	**$ 8.07**	**$10.26**	**$ 8.93**

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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 December 31, 2007 (dollars in thousands, except share and per share amounts):

	Stock Options Vested or Expected to Vest	Exercisable
Stock options	**268,514**	**219,875**
Weighted average remaining contractual life in years	**5.00**	**4.36**
Weighted average exercise price on shares above water	**$ 19.38**	**$ 17.62**
Aggregate intrinsic value	**$ 1,007**	**$ 996**

The total intrinsic value for stock options exercised during the year ended December 31, 2007 was $516 thousand. The total intrinsic values of stock options outstanding and exercisable at December 31, 2007 were $1.0 million and $996 thousand, respectively. The fair value of stock options vested during the year ended December 31, 2007 was approximately $233 thousand. Cash received from the exercise of stock options for the year ended December 31, 2007 was approximately $663 thousand. The tax benefits realized from tax deductions associated with options exercised during the year ended December 31, 2007 was $22 thousand.

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 nonvested stock activity for the year ended December 31, 2007:

	Performance Stock	Restricted Stock	Weighted Average Grant-Date Fair Value
Balance, December 31, 2006	**16,443**	**16,770**	**$ 27.24**
Granted	15,238	12,774	28.53
Vested	—	—	—
Forfeited	(1,400)	(1,201)	27.73
Balance, December 31, 2007	**30,281**	**28,343**	**27.84**

The estimated unamortized compensation expense, net of estimated forfeitures, related to nonvested stock and stock options issued and outstanding as of December 31, 2007 will be recognized in future periods is as follows (dollars in thousands):

	Stock Options	Nonvested Stock	Total
For year ended December 31, 2008	**$ 128**	**$ 410**	**$ 538**
For year ended December 31, 2009	**87**	**331**	**418**
For year ended December 31, 2010	**83**	**202**	**285**
For year ended December 31, 2011	**41**	**21**	**62**
For year ended December 31, 2012	**5**	**—**	**5**
Total	**$ 344**	**$ 964**	**$1,308**

As of December 31, 2007, there was $1.3 million of total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the plan. The cost is expected to be recognized through 2012.

A summary of the status of the Company's nonvested stock as of December 31, 2007, and changes during the year ended December 31, 2007, is presented below:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Balance, December 31, 2006	**33,213**	**$ 27.24**
Granted	**28,012**	**28.53**
Vested	—	—
Forfeited	**(2,601)**	**27.73**
Balance, December 31, 2007	**58,624**	**27.84**

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

Commitments to extend credit are agreements to lend to 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 payment of a fee. 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 December 31, 2007 and 2006, the Company had outstanding loan commitments approximating $704.6 million and $688.8 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 $30.8 million and $32.6 million at December 31, 2007 and 2006, respectively.

At December 31, 2007, Union Mortgage had rate lock commitments to originate mortgage loans amounting to $29.9 million and loans held for sale of $25.2 million. Union Mortgage has entered into corresponding mandatory commitments on a best-efforts basis to sell loans on a servicing released basis totaling approximately $55.1 million. These commitments to sell loans are designed to eliminate Union Mortgage's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

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12. RELATED PARTY TRANSACTIONS

The Company has entered into transactions with its directors, principal officers and affiliated companies in which they are principal stockholders. Such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties totaled \$39.6 million and \$31.2 million at December 31, 2007 and 2006, respectively. During 2007, new advances to such related parties amounted to \$33.8 million and repayments amounted to \$25.4 million.

13. EARNINGS PER SHARE

The basic EPS calculation was 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 approximately 98,126, 26,394 and 2,000 anti-dilutive options as of December 31, 2007, 2006 and 2005, respectively.

The following is a reconciliation of the denominators of the basic and diluted EPS computations for the years ended December 31, 2007, 2006 and 2005 (in thousands except per share data):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the Year Ended December 31, 2007			
Basic EPS	**\$ 19,756**	**13,342**	**\$ 1.48**
Effect of dilutive stock awards	**—**	**80**	**(0.01)**
Diluted EPS	**\$ 19,756**	**13,422**	**\$ 1.47**
For the Year Ended December 31, 2006			
Basic EPS	\$ 25,992	13,233	\$ 1.97
Effect of dilutive stock awards	—	129	(0.03)
Diluted EPS	\$ 25,992	13,362	\$ 1.94
For the Year Ended December 31, 2005			
Basic EPS	\$ 24,822	13,143	\$ 1.89
Effect of dilutive stock awards	—	132	(0.02)
Diluted EPS	\$ 24,822	13,275	\$ 1.87

14. COMMITMENTS AND LIABILITIES

In the ordinary course of its operations, the Company and its subsidiaries are parties to various legal proceedings. Based on the information presently available, and after consultation with legal counsel, management believes that the ultimate outcome in such proceedings, in the aggregate, will not have a material adverse effect on the business or the financial condition or results of operations of the Company.

The Company must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final weekly reporting period in the years ended December 31, 2007 and 2006, the aggregate amount of daily average required reserves, net of vault cash, was approximately \$1.7 million and \$1.6 million, respectively.

The Company has approximately \$1.4 million in deposits in other financial institutions in excess of amounts insured by the FDIC at December 31, 2007.

15. REGULATORY MATTERS

The Company and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Community Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), the Company and the Community Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Banks to maintain minimum amounts and ratios of Total to Risk-Weighted Assets (as defined) and Tier I capital (as defined) to Average Assets (as defined) and Risk-Weighted Assets. Management believes, as of December 31, 2007, that the Company met all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Reserve categorized the subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the subsidiary banks' category.

The Company and its principal banking subsidiaries' actual capital amounts and ratios are also presented in the following table at December 31, 2007 and 2006 (dollars in thousands):

	Actual		Required for Capital Adequacy Purposes		Required in Order to Be Well Capitalized Under PCA	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total capital to risk weighted assets:						
UBSH Consolidated	**$220,687**	**11.67%**	**$ 151,246**	**8.00%**	**NA**	**NA**
Union Bank and Trust	**143,203**	**10.58%**	**108,288**	**8.00%**	**$ 135,360**	**10.00%**
Northern Neck State Bank	**28,017**	**11.29%**	**19,851**	**8.00%**	**24,814**	**10.00%**
Tier 1 capital to risk weighted assets:						
UBSH Consolidated	**201,351**	**10.65%**	**75,623**	**4.00%**	**NA**	**NA**
Union Bank and Trust	**128,525**	**9.50%**	**54,144**	**4.00%**	**81,216**	**6.00%**
Northern Neck State Bank	**25,911**	**10.44%**	**9,925**	**4.00%**	**14,888**	**6.00%**
Tier 1 capital to average adjusted assets:						
UBSH Consolidated	**201,351**	**9.20%**	**87,556**	**4.00%**	**NA**	**NA**
Union Bank and Trust	**128,525**	**8.58%**	**59,948**	**4.00%**	**74,935**	**5.00%**
Northern Neck State Bank	**25,911**	**7.76%**	**13,353**	**4.00%**	**16,692**	**5.00%**
As of December 31, 2006						
Total capital to risk weighted assets:						
UBSH Consolidated	$213,189	12.78%	$ 133,496	8.00%	NA	NA
Union Bank and Trust	138,845	11.62%	95,597	8.00%	$ 119,496	10.00%
Northern Neck State Bank	30,151	13.06%	18,469	8.00%	23,087	10.00%
Tier 1 capital to risk weighted assets:						
UBSH Consolidated	194,041	11.63%	66,748	4.00%	NA	NA
Union Bank and Trust	124,017	10.38%	47,799	4.00%	71,698	6.00%
Northern Neck State Bank	28,101	12.17%	9,235	4.00%	13,852	6.00%
Tier 1 capital to average adjusted assets:						
UBSH Consolidated	194,041	9.57%	81,090	4.00%	NA	NA
Union Bank and Trust	124,017	8.92%	55,606	4.00%	69,507	5.00%
Northern Neck State Bank	28,101	8.53%	13,182	4.00%	16,477	5.00%

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INTEREST RATE RISK

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

Cash and Cash Equivalents

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

Investment Securities Available for Sale

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

Loans Held for Sale

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

Loans

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

Deposits

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

Borrowings

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2007 and 2006, the carrying value and fair value of loan commitments and standby letters of credit was immaterial.

The carrying values and estimated fair values of the Company’s financial instruments as of December 31, 2007 and 2006 are as follows (dollars in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 58,279**	**$ 58,279**	$ 75,890	$ 75,890
Securities available for sale	**282,699**	**282,699**	282,824	282,824
Loans held for sale	**25,248**	**25,248**	20,084	20,084
Net loans	**1,728,484**	**1,765,219**	1,530,297	1,537,829
Accrued interest receivable	**11,303**	**11,303**	10,897	10,897
Financial liabilities:				
Deposits	**1,659,578**	**1,669,232**	1,665,908	1,668,881
Borrowings	**412,696**	**411,632**	211,856	213,814
Accrued interest payable	**3,422**	**3,422**	3,274	3,274

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

17. PARENT COMPANY FINANCIAL INFORMATION

The primary sources of funds for the dividends paid by Union Bankshares Corporation (the "Parent Company") are dividends received from its subsidiary banks. The payments of dividends by the subsidiary banks and the ability of the banks to loan or advance funds to the Parent Company are subject to certain statutory limitations which contemplate that the current year earnings and earnings retained for the two preceding years may be paid to the Parent Company without regulatory approval. As of December 31, 2007, the aggregate amount of unrestricted funds, which could be transferred from the Company's subsidiaries to the Parent Company, without prior regulatory approval, totaled approximately $36.6 million, or 17%, of the consolidated net assets.

Financial information for the Parent Company is as follows:

PARENT COMPANY
BALANCE SHEETS
AS OF DECEMBER 31, 2007 and 2006
(Dollars in thousands)

	2007	2006
ASSETS		
Cash	**$ 2,735**	$ 333
Securities available for sale, at fair value	**100**	154
Bank premises and equipment, net	**18,141**	9,363
Other assets	**4,388**	3,826
Investment in subsidiaries	**261,691**	251,017
Total assets	**$ 287,055**	$ 264,693
LIABILITIES & STOCKHOLDERS' EQUITY		
Long-term borrowings	**$ 12,500**	$ 2,350
Trust preferred capital notes	**60,310**	60,310
Other liabilities	**2,163**	2,617
Total liabilities	**74,973**	65,277
Common stock	**17,879**	17,716
Surplus	**40,758**	38,047
Retained earnings	**152,238**	142,168
Accumulated other comprehensive income	**1,207**	1,485
Total stockholders' equity	**212,082**	199,416
Total liabilities and stockholders' equity	**$ 287,055**	$ 264,693

PARENT COMPANY
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
(Dollars in thousands)

	2007	2006	2005
Income:			
Interest and dividend income	**$ 6**	$ 5	$ 3
Management fee received from subsidiaries	**14,966**	13,084	10,854
Dividends received from subsidiaries	**20,618**	12,031	9,297
Equity in undistributed net income from subsidiaries	**2,594**	17,003	17,048
Gains on sale of securities, net	**91**	276	—
Gains (losses) on sale of fixed assets, net	**307**	—	(5)
Other operating income	**38**	67	1
Total income	**38,620**	42,466	37,198
Expenses:			
Interest expense	**4,821**	3,618	1,385
Salaries and benefits	**9,472**	8,938	7,354
Occupancy expenses	**643**	306	301
Furniture and equipment expenses	**1,423**	1,245	1,107
Other operating expenses	**2,505**	2,367	2,229
Total expenses	**18,864**	16,474	12,376
Net income	**$ 19,756**	$ 25,992	$ 24,822

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PARENT COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
(Dollars in thousands)

	2007	2006	2005
Operating activities:			
Net income	$ 19,756	$ 25,992	$ 24,822
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(2,594)	(17,003)	(17,048)
Gains on sale of investment securities	(91)	(276)	—
Increase in other assets	(1,501)	(1,869)	(357)
Other, net	1,961	3,515	1,092
Net cash and cash equivalents provided by operating activities	17,531	10,359	8,509
Investing activities:			
Purchases of investment securities	—	—	—
Proceeds from sales of investment securities	123	559	—
Proceeds from maturities, calls and paydowns of securities available for sale	—	—	31
Net increase in bank premises and equipment	(9,360)	(6,653)	(801)
Payments for investments in and advances to subsidiaries	(8,080)	(41,415)	(1,000)
Net cash and cash equivalents used in investing activities	(17,317)	(47,509)	(1,770)
Financing activities:			
Net increase in long-term borrowings	10,150	2,350	(571)
Proceeds from trust preferred capital notes	—	37,114	—
Cash dividends paid	(9,686)	(8,345)	(6,751)
Tax benefit from exercise of equity-based awards	22	182	—
Cash paid for fractional shares	—	(10)	
Issuance of common stock	1,702	1,634	1,091
Net cash and cash equivalents provided by (used in) financing activities	2,188	32,925	(6,231)
Increase (decrease) in cash and cash equivalents	2,402	(4,225)	508
Cash and cash equivalents at beginning of the period	333	4,558	4,050
Cash and cash equivalents at end of the period	$ 2,735	$ 333	$ 4,558

18. SEGMENT REPORTING

The Company has two reportable segments: traditional full service community banks and a mortgage loan origination business. The community bank business includes five banks, which provide loan, deposit, investment, and trust services to retail and commercial customers throughout their 58 retail locations in Virginia and the D.C. metro area. 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 minimus 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.

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Information about reportable segments and reconciliation of such information to the consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 are as follows (dollars in thousands):

	Community Banks	Mortgage	Eliminations	Consolidated Totals
For the Year Ended December 31, 2007				
Net interest income	**$ 75,497**	**$ 248**	**$ —**	**$ 75,745**
Provision for loan losses	**1,060**	**—**	**—**	**1,060**
Net interest income after provision for loan losses	**74,437**	**248**	**—**	**74,685**
Noninterest income	**16,586**	**8,797**	**(278)**	**25,105**
Noninterest expenses	**63,437**	**10,391**	**(278)**	**73,550**
Income (loss) before income taxes	**27,586**	**(1,346)**	**—**	**26,240**
Income tax expense (benefit)	**7,027**	**(543)**	**—**	**6,484**
Net income (loss)	**$ 20,559**	**$ (803)**	**$ —**	**$ 19,756**
Total assets	**$ 2,300,528**	**$28,852**	**$ (27,983)**	**$2,301,397**
Capital expenditures (1)	**$ 14,573**	**$ —**	**$ —**	**$ 14,573**
For the Year Ended December 31, 2006				
Net interest income	$ 76,490	$ 225	$ —	$ 76,715
Provision for loan losses	1,450	—	—	1,450
Net interest income after provision for loan losses	75,040	225	—	75,265
Noninterest income	17,240	11,273	(268)	28,245
Noninterest expenses	56,571	11,264	(268)	67,567
Income before income taxes	35,709	234	—	35,943
Income tax expense	9,855	96	—	9,951
Net income	$ 25,854	$ 138	$ —	$ 25,992
Total assets	$ 2,090,461	$23,763	$ (21,333)	$2,092,891
Capital expenditures (1)	$ 20,954	$ 130	$ —	$ 21,084
For the Year Ended December 31, 2005				
Net interest income	$ 68,453	$ 897	$ —	$ 69,350
Provision for loan losses	1,172	—	—	1,172
Net interest income after provision for loan losses	67,281	897	—	68,178
Noninterest income	12,729	12,973	(192)	25,510
Noninterest expenses	46,463	12,004	(192)	58,275
Income before income taxes	33,547	1,866	—	35,413
Income tax expense	9,855	736	—	10,591
Net income	$ 23,692	$ 1,130	$ —	$ 24,822
Total assets	$ 1,820,366	$33,064	$ (28,472)	$1,824,958
Capital expenditures (1)	$ 7,523	$ 274	$ —	$ 7,797

(1) Capital expenditures include purchase of property, furniture and equipment.

19. OTHER OPERATING EXPENSES

The following table presents the statement of income line “Other Operating Expenses” broken into greater detail for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands):

	2007	2006	2005
Communication expenses	**$ 6,598**	$ 5,046	$ 3,921
Professional services	**2,063**	2,049	1,685
Data processing fees	**1,366**	1,367	974
Marketing & advertising expense	**2,526**	2,467	2,276
Insurance expense	**333**	281	259
Other taxes	**1,692**	1,321	1,098
Loan & OREO expenses	**608**	440	392
Amortization of core deposit premiums	**1,889**	1,697	1,239
Other expenses (1)	**6,809**	5,755	4,800
Total other operating expenses	**$ 23,884**	$ 20,423	$ 16,644

(1) Includes merger-related costs.

20. STOCK SPLIT

On September 7, 2006, the Company’s Board of Directors declared a three-for-two stock split to shareholders of record as of the close of business on October 2, 2006. Shares resulting from the split were distributed by the Company’s transfer agent on October 13, 2006. Fractional shares were settled in cash based on the closing price of the Company’s shares reported by the NASDAQ Global Select Market as of October 13, 2006. Following the stock split, the number of outstanding shares increased to approximately 13.3 million shares. Accordingly, share and per share amounts for all periods presented in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the effect of the three-for-two split.

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

During the past two years, there have been no changes in or reportable disagreement with the certifying accountants for the Company or any of its subsidiaries.

ITEM 9A. – CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. The Company maintains “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commissions rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on the assessment using those criteria, management concluded that the internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by Yount, Hyde & Barbour, P.C., the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Yount, Hyde & Barbour, P.C.'s attestation report on the Company's internal control over financial reporting appears on pages 33 through 34 hereof.

Changes in Internal Control over Financial Reporting. There was no change in the internal control over financial reporting that occurred during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

ITEM 9B. – OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information regarding directors, executive officers, the Company's audit committee and the audit committee financial expert is incorporated by reference from the Company's definitive proxy statement for the Company's 2008 Annual Meeting of Shareholders to be held April 15, 2008 ("Proxy Statement"), under the captions "Election of Directors," "Corporate Governance," and "Executive Officers."

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

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

ITEM 11. – EXECUTIVE COMPENSATION.

This information is incorporated by reference from the Proxy Statement under the captions "Corporate Governance", "Compensation Discussion and Analysis", "Report of the Compensation Committee", "Executive Compensation", and "Director Compensation."

ITEM 12. – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

This information is incorporated by reference from the Proxy Statement under the caption “Ownership of Company Common Stock” and from Note 10 “Employee Benefits” contained in the “Notes to the Consolidated Financial Statements”, of this 10-K.

ITEM 13. – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

This information is incorporated by reference from the Proxy Statement under the captions “Corporate Governance” and “Interest of Directors and Officers in Certain Transactions.”

ITEM 14. – PRINCIPAL ACCOUNTING FEES AND SERVICES.

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

PART IV

ITEM 15. – EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent registered public accountants of the Company are in Part II, Item 8:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets—December 31, 2007 and 2006;
- Consolidated Statements of Income—Years ended December 31, 2007, 2006 and 2005;
- Consolidated Statements of Changes in Stockholders’ Equity—Years ended December 31, 2007, 2006 and 2005;
- Consolidated Statements of Cash Flows—Years ended December 31, 2007, 2006 and 2005;
- Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

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

Exhibit No.	Description
2.01	Agreement and Plan of Reorganization, dated December 18, 2003, by and between Union Bankshares Corporation and Guaranty Financial Corporation (incorporated by reference to Form S-4 Registration Statement, SEC file no. 333-112416)
2.02	Agreement and Plan of Reorganization, dated October 31, 2005, by and between Union Bankshares Corporation and Prosperity Bank & Trust Company (incorporated by reference to the registrant's Current Report on Form 8-K, dated October 31, 2005)
3.01	Restated Articles of Incorporation (incorporated by reference to the registrant's Current Report on Form 8-K, dated October 3, 2006)
3.02	Amended and Restated By-Laws (incorporated by reference to the registrant's Current Report on Form 8-K, dated October 24,2007)
10.01	Management Continuity Agreement (formerly referred to as Change in Control Employment Agreement) of G. William Beale (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006)
10.02	Employment Agreement of G. William Beale (incorporated by reference to the registrant's Current Report on Form 8-K, dated July 26, 2006)
10.03	Management Continuity Agreement (formerly referred to as Change in Control Employment Agreement) of D. Anthony Peay (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2001)
10.04	Management Continuity Agreement (formerly referred to as Change in Control Employment Agreement) of John C. Neal (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2003)
10.05	Management Continuity Agreement (formerly referred to as Change in Control Employment Agreement) of N. Byrd Newton (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2003)
10.06	Management Continuity Agreement (formerly referred to as Change in Control Employment Agreement) of Rawley H. Watson, III (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005)
10.07	Union Bankshares Corporation 2003 Stock Incentive Plan (incorporated by reference to Form S-8 Registration Statement; SEC file no. 333-113839)
10.08	Management Continuity Agreement (formerly referred to as Change in Control Employment Agreement) of Janis Orfe (incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005)
10.09	Amended and Restated Employment Agreement of John C. Neal (incorporated by reference to the registrant's Current Report on Form 8-K, dated September 5, 2006)
10.10	Employment Agreement of D. Anthony Peay (incorporated by reference to the registrant's Current Report on Form 8-K, dated September 5, 2006)

11.0	Statement re: Computation of Per Share Earnings (incorporated by reference to Note 13 of the notes to consolidated financial statements included in this report)
21.0	Subsidiaries of the Registrant
23.01	Consent of Yount, Hyde & Barbour, P.C.
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Union Bankshares Corporation

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

Date: March 14, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 14, 2008.

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

Exhibit 21.0

Subsidiaries of Union Bankshares Corporation

Subsidiary	State of Incorporation
Union Bank and Trust Company	Virginia
Northern Neck State Bank	Virginia
Rappahannock National Bank	Federally Chartered
Union Investment Services, Inc.	Virginia
Bay Community Bank	Virginia
Union Mortgage Group, Inc.	Virginia
Union Insurance Group, LLC	Virginia
Carmel Church Properties, LLC	Virginia
Prosperity Bank & Trust Company	Virginia

Exhibit 23.01

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements No. 333-102012, 333-81199, and 033-78060 on Form S-3, Registrations Statement No. 333-112416, 333-49563, and 333-06631 on Form S-4, and Registration Statements No. 333-113842 and 333-113839 on Form S-8 of Union Bankshares Corporation and Subsidiaries of our report dated February 28, 2008, relating to our audits of the consolidated financial statements and internal control over financial reporting, which appear in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Union Bankshares Corporation and Subsidiaries for the year ended December 31, 2007.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 14, 2008

Exhibit 31.01

<u>CERTIFICATIONS</u>

I, G. William Beale, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 14, 2008

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

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

Exhibit 31.02

CERTIFICATIONS

I, D. Anthony Peay, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 14, 2008

/s/ D. Anthony Peay

D. Anthony Peay
Executive Vice President and Chief Financial Officer

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

Exhibit 32.01

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

In connection with the Annual Report of Union Bankshares Corporation (the “Company”) on Form 10-K for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ G. William Beale

G. William Beale, Chief Executive Officer

/s/ D. Anthony Peay

D. Anthony Peay, Chief Financial Officer

March 14, 2008