

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1996

Commission File No. 0-20293

UNION BANKSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Virginia (State of Incorporation) 54-1598552 (I.R.S. Employer Identification No.)

211 North Main Street

P.O. Box 446

Bowling Green, Virginia 22427

(Address of principal executive offices)

(804) 633-5031

(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE  
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: COMMON

STOCK, \$4 PAR VALUE

Union Bankshares Corporation (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.

As of September 30, 1996, Union Bankshares Corporation had 3,562,849 shares of Common Stock outstanding.

UNION BANKSHARES CORPORATION  
FORM 10-Q  
September 30, 1996

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## PART 1 - FINANCIAL INFORMATION

## Item 1. Financial Statements

UNION BANKSHARES CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets (Unaudited)  
(Dollars in thousands)

<TABLE>  
<CAPTION>

	September 30, 1996	December 31, 1995
	----	----
<b>ASSETS</b>		
-----		
<S> <C>		
Cash and cash equivalents:		
Cash and due from banks	\$ 17,876	\$ 15,253
Interest-bearing deposits in other banks	1,264	124
Federal funds sold	5,734	2,650
	-----	-----
Total cash and cash equivalents	24,874	18,027
	-----	-----
Securities available for sale, at fair value	132,611	126,401
Investments securities,		
fair value of \$7,140 and \$9,533, respectively	6,228	15,132
	-----	-----
Total securities	138,839	141,533
	-----	-----
Loans, net of unearned income	351,376	327,132
Less allowance for loan losses (note 2)	4,309	4,060
	-----	-----
Net loans	347,067	323,072
	-----	-----
Bank premises and equipment, net	13,881	10,203
Other real estate owned	4,059	3,620
Other assets	11,725	8,919
	-----	-----
Total assets	\$ 540,445	\$ 505,374
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Non-interest-bearing demand deposits	\$ 62,971	\$ 49,905
Interest-bearing deposits:		
Savings accounts	58,723	55,889
NOW accounts	43,387	43,046
Money market accounts	53,519	56,147
Time deposits of \$100,000 and over	43,244	46,506
Other time deposits	177,558	164,262
	-----	-----
Total interest-bearing deposits	376,431	365,850
	-----	-----
Total deposits	439,402	415,755
	-----	-----
Short-term borrowings	28,850	31,108
Long-term borrowings	11,125	1,275
Other liabilities	3,886	3,553
	-----	-----
Total liabilities	483,263	451,691
	-----	-----
Stockholders' equity:		
Common stock, \$4 par value. Authorized 12,000,000 shares;		
issued and outstanding, 3,567,049 shares	14,251	14,248

Surplus		84	66
Retained earnings		43,414	38,722
Unrealized gains (losses) on securities available for sale, net of taxes		(567)	647
		-----	-----
Total stockholders' equity		57,182	53,683
		-----	-----
Commitments and contingencies			
Total liabilities and stockholders' equity	\$	540,445	\$ 505,374
		=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Income (Unaudited)  
(Dollars in thousands)

<TABLE>  
<CAPTION>

	Quarter ended		Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
<S> <C>				
Interest income:				
Interest and fees on loans	\$ 8,216	\$ 7,591	\$ 24,046	\$ 21,819
Interest on securities:				
U.S. Treasury securities	225	265	320	372
Obligations of U.S. Government agencies and corporations	686	841	2,476	2,907
Obligations of states and political	869	841	2,707	2,438
Other securities	342	124	631	364
Interest on Federal funds sold	95	97	239	257
Interest on interest-bearing deposits	23	11	27	27
	-----	-----	-----	-----
Total interest income	10,456	9,770	30,446	28,184
	-----	-----	-----	-----
Interest expense:				
Interest on deposits	4,395	4,249	13,047	11,980
Interest on other borrowings	583	386	1,450	1,054
	-----	-----	-----	-----
Total interest expense	4,978	4,635	14,497	13,034
	-----	-----	-----	-----
Net interest income	5,478	5,135	15,949	15,150
	-----	-----	-----	-----
Provision for loan losses (note 2)	242	249	563	727
	-----	-----	-----	-----
Net interest income after provision for loan losses	5,236	4,886	15,386	14,423
	-----	-----	-----	-----
Other income:				
Service fees	628	525	1,904	1,482
Gains (losses) on sale of securities	6	19	(97)	(28)
Gains (losses) on sales of other real estate owned and bank premises, net	4	(6)	68	(11)
Other operating income	113	124	649	350
	-----	-----	-----	-----
Total other income	751	662	2,524	1,793
	-----	-----	-----	-----
Other expenses:				
Salaries and benefits	1,919	1,763	5,579	5,115
Occupancy expenses	197	194	637	538
Furniture and equipment expenses	327	245	788	731
FDIC assessments	3	(20)	5	370
Other operating expenses	1,250	902	3,441	2,814
	-----	-----	-----	-----
Total other expenses	3,696	3,084	10,450	9,568
	-----	-----	-----	-----
Income before income taxes	2,291	2,464	7,460	6,648
Income tax expense	547	625	1,663	1,578
	-----	-----	-----	-----
Net income	\$ 1,744	\$ 1,839	\$ 5,797	\$ 5,070
	=====	=====	=====	=====
Net income per share of common stock	\$ 0.49	\$ 0.52	\$ 1.63	\$ 1.43
	=====	=====	=====	=====
Cash dividends per share of common stock	\$ -	\$ -	\$ 0.30	\$ 0.28
	=====	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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UNION BANKSHARES CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (Unaudited)  
Nine Months Ended September 30, 1996 and 1995  
(Dollars in thousands)

<TABLE>  
<CAPTION>

	1996	1995
	----	----
<S> <C> Operating activities:		
Net income	\$ 5,797	\$ 5,070
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation of bank premises and equipment	645	684
Amortization of intangibles	27	45
Provision for loan losses	563	727
Losses on sales of securities available for sale	66	58
Loss on sale of bank premises and other real estate owned	1	11
(Increase) decrease in other assets	538	68
Decrease (increase) in other liabilities	(333)	338
	-----	-----
Net cash and cash equivalents provided by operating activities	7,304	7,001
	-----	-----
Investing activities:		
Net decrease (increase) in securities	2,760	(6,515)
Net increase in loans	(24,558)	(24,936)
Acquisition of bank premises and equipment	(3,740)	(1,817)
Proceeds from sales of bank premises and other real estate owned	106	286
	-----	-----
Net cash and cash equivalents used in investing activities	(25,432)	(32,982)
	-----	-----
Financing activities:		
Net increase (decrease) in non-interest-bearing deposits	13,066	(506)
Net increase in interest-bearing deposits	10,581	23,978
Net increase in short-term borrowings	(2,258)	8,039
Repayment of long-term borrowings	(150)	(150)
Cash dividends paid	(858)	(917)
Issuance of shares under option plan	-	-
	-----	-----
Net cash and cash equivalents provided by financing activities	20,381	30,455
	-----	-----
Increase in cash and cash equivalents	2,253	4,474
Cash and cash equivalents at beginning of period	15,623	19,416
	-----	-----
Cash and cash equivalents at end of period	\$ 17,876	\$ 23,890
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

September 30, 1996

1. ACCOUNTING POLICIES

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

The information contained in the financial statements is unaudited and does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. Operating results for the three- and nine-month periods ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 1995 Annual Report to Stockholders. Certain previously reported amounts have been reclassified to conform to current period presentation.

2. ALLOWANCE FOR LOAN LOSSES

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

	1996	1995
	----	----
Balance, January 1	\$ 4,060	\$4,112
Provisions charged to operations	563	727
Recoveries credited to allowance	363	172
Loans charged off	(677)	(617)
	-----	-----
Balance, September 30	\$ 4,309	\$4,394
	=====	=====

3. EARNINGS PER SHARE

Earnings per share outstanding has been computed by dividing net income by the weighted average number of shares outstanding for the period. Weighted average shares used for the computation were 3,567,049 and 3,543,901 for the three months ended September 30, 1996 and 1995, respectively and 3,563,953 and 3,540,993 for the nine months ended September 30, 1996 and 1995, respectively.

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

Union Bankshares Corporation (the "Company") is a multi-bank holding company organized under Virginia law which provides financial services through its wholly-owned subsidiaries, Union Bank & Trust Company, Northern Neck State Bank, King George State Bank and Union Investment Services, Inc. The three subsidiary banks, Union Bank & Trust Company, Northern Neck State Bank and King George State Bank, are full service retail commercial banks offering a wide range of banking and related financial services, including demand and time deposits, as well as commercial, industrial, residential construction, residential mortgage and consumer loans. Union Investment Services, Inc., is a full service discount brokerage company which offers a full range of investment services, and sells mutual funds, bonds and stocks.

The Company's primary trade area stretches from Fredericksburg, south to Hanover County and east to the Northern Neck area of Virginia. The Corporate Headquarters are located in Bowling Green, Virginia. Through its banking subsidiaries, the Company operates 17 branches in its primary trade area. In September 1996, Union Bank & Trust Company opened its second in-store branches in a FasMart convenience store in Spotsylvania County. In addition in October 1996, Northern Neck State Bank opened a branch located in a WalMart Superstore in Tappahannock, Virginia. Management feels in-store branching supplements its existing branch network, providing increased accessibility for its customers and a competitive advantage for the Company.

On September 1, 1996, the Company consummated its previously-announced affiliation with King George State Bank, Inc. King George State Bank is a \$50 million bank located in King George, Virginia adjacent to and encompassing

certain of the markets currently served by the Company. The Company exchanged 5.5 shares of its common stock for each outstanding share of King George State Bank, Inc. stock. This transaction has been accounted for as a pooling of interest with prior period financial results adjusted accordingly.

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Union Bankshares Corporation and subsidiaries (the "Company"). The analysis focuses on the Consolidated Financial Statements, the footnotes thereto, and the other financial data herein. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Amounts are rounded for presentation purposes, while the percentages presented are computed based on unrounded amounts.

#### Results of Operations

Net income for the third quarter of 1996 was \$1.7 million, down slightly from \$1.8 million for the same period in 1995. Earnings per share amounted to \$.49 in the third quarter of 1996 as compared to to \$.52 in the third quarter of

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1995. The Company's annualized return on assets for the third quarter of 1996 was 1.31% as compared to 1.46% a year ago. The Company's annualized return on equity totaled 12.39% and 14.06% for the three months ended September 30, 1996 and 1995, respectively.

Net income for the first nine months of 1996 totaled \$5.8 million, up 14.3% from the same period in 1995. Earnings per share increased from \$1.43 in the first nine months of 1995 to \$1.63 in 1996. The Company's annualized return on assets for the first nine months of 1996 was 1.47% as compared to 1.46% a year ago. The Company's annualized return on equity totaled 13.96% and 14.66% for the nine months ended September 30, 1996 and 1995, respectively. Despite strong asset and capital growth, these performance ratios remain strong performance ratios by industry and peer standards.

Net income for the first nine months of 1996 reflects the continued competition for funds in the industry and increases in certain growth-related and infrastructure costs. Management expects increasing returns on these infrastructure costs through the development of new products and delivery systems. Such developments include "supermarket" branching, telephone banking, check cards, a credit card agency program and enhanced mortgage lending.

#### Net Interest Income

Net interest income on a tax-equivalent basis for the third quarter of 1996 increased by 7.9% to \$5.9 million from \$5.5 million for the same period a year ago. By managing its interest rate spread and increasing the volume of earning assets over interest-bearing liabilities, the Company has been able to maintain a strong net interest margin. Average earning assets during the third quarter of 1996 increased by \$36.6 million to \$494.9 million from the third quarter of 1995, while average interest-bearing liabilities grew by \$33.5 million to \$421.6 million over this same period. This additional growth in net earning assets was accomplished principally through continued strong loan demand over the last year. The industry has generally experienced steady, but slower, loan demand which, combined with increased competition for deposits, has led to a compression of interest margins. The Company's yield on average earning assets was down slightly at 8.74% from 8.76% a year ago, while its cost of average interest-bearing liabilities also decreased slightly from 4.74 % to 4.68%.

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UNION BANKSHARES CORPORATION  
Average Balances, Income and Expenses, Yields and Rates  
(Taxable Equivalent Basis)

Three Months Ended September 30,

<TABLE>  
<CAPTION>

	1996	
Average	Interest Income/	Yield/

	Balance	Expense	Rate
	-----	-----	-----
	(Dollars in thousands)		
<S> <C>			
Assets:			
Securities:			
Taxable . . . . .	\$ 65,692	\$ 1,089	6.58%
Tax-exempt(1) . . . . .	71,695	1,483	8.21%
	-----	-----	
Total securities . . . . .	137,387	2,572	7.43%
Loans, net. . . . .	348,841	8,210	9.34%
Federal funds sold . . . . .	7,482	103	5.46%
Interest-bearing deposits	-	-	
in other banks . . . . .	1,187	15	5.01%
	-----	-----	
Total earning assets . . . . .	494,897	10,900	8.74%
Allowance for loan losses . . . . .	(4,387)		
Total non-earning assets . . . . .	44,812		
	-----		
Total assets . . . . .	\$ 535,322		
	=====		
Liabilities & Stockholders' Equity:			
Interest-bearing deposits:			
Checking . . . . .	48,418	302	2.47%
Regular savings . . . . .	56,738	511	3.57%
Money market savings . . . . .	53,857	439	3.23%
Certificates of deposit:			
\$100,000 and over . . . . .	50,893	652	5.08%
Under \$100,000 . . . . .	171,707	2,483	5.74%
	-----	-----	
Total interest-bearing deposits . . . . .	381,613	4,387	4.56%
Other borrowings . . . . .	39,986	581	5.76%
	-----	-----	
Total interest-bearing liabilities . . . . .	421,599	4,968	4.68%
		-----	
Non-interest bearing liabilities:			
Demand deposits . . . . .	54,732		
Other liabilities . . . . .	4,391		
	-----		
Total liabilities . . . . .	480,722		
Stockholders' equity . . . . .	54,600		
	-----		
Total liabilities and stockholders' equity . . . . .	\$ 535,322		
	=====		
Net interest income . . . . .		\$5,932	
		=====	
Interest rate spread . . . . .			4.06%
Interest expense as a percent of average earning assets . . . . .			3.98%
Yield on earning assets . . . . .			4.76%
(1) Income and yields are reported on a taxable equivalent basis.			
Yield on total assets . . . . .			4.40%

</TABLE>

UNION BANKSHARES CORPORATION  
Average Balances, Income and Expenses, Yields and Rates  
(Taxable Equivalent Basis)  
Three Months Ended September 30,  
(continued)

<TABLE>  
<CAPTION>

-----		
1995		
Average Balance	Interest Income/Expense	Yield/Rate
-----	-----	-----
(Dollars in thousands)		

<S> <C>			
Assets:			
Securities:			
Taxable . . . . .	\$ 74,985	\$ 1,198	6.34%
Tax-exempt(1) . . . . .	62,114	1,234	7.88%
	-----	-----	
Total securities . . . . .	137,099	2,432	7.04%
Loans, net. . . . .	315,593	7,595	9.55%
Federal funds sold . . . . .	5,347	97	7.20%
Interest-bearing deposits			
in other banks . . . . .	274	8	11.58%
	-----	-----	
Total earning assets . . . . .	458,313	10,132	8.77%
Allowance for loan losses . . . . .	(4,454)		
Total non-earning assets . . . . .	35,935		
	-----		
Total assets . . . . .	\$ 489,794		
	=====		
Liabilities & Stockholders' Equity:			
Interest-bearing deposits:			
Checking . . . . .	43,179	288	2.65%
Regular savings . . . . .	56,304	525	3.70%
Money market savings . . . . .	57,163	482	3.35%
Certificates of deposit:			
\$100,000 and over . . . . .	42,000	608	5.74%
Under \$100,000 . . . . .	161,978	2,346	5.75%
	-----	-----	
Total interest-bearing			
deposits . . . . .	360,624	4,249	4.67%
Other borrowings . . . . .	27,446	386	5.58%
	-----	-----	
Total interest-bearing			
liabilities . . . . .	388,070	4,635	4.74%
		-----	
Non-interest bearing liabilities:			
Demand deposits . . . . .	48,179		
Other liabilities . . . . .	4,094		
	-----		
Total liabilities . . . . .	440,343		
Stockholders' equity . . . . .	49,451		
	-----		
Total liabilities and			
stockholders' equity . . . . .	\$ 489,794		
	=====		
Net interest income . . . . .		\$ 5,497	
		=====	
Interest rate spread . . . . .			4.03%
Interest expense as a percent			
of average earning assets . . . . .			4.01%
Yield on earning assets . . . . .			4.76%
(1) Income and yields are reported on a taxable equivalent basis.			
Yield on total assets . . . . .			4.45%

</TABLE>

UNION BANKSHARES CORPORATION  
Average Balances, Income and Expenses, Yields and Rates  
(Taxable Equivalent Basis)  
Three Months Ended September 30,  
(continued)

<TABLE>  
<CAPTION>

		1994
		-----
		-----
Yield/	Average	Interest
Rate	Balance	Income/ Expense
	-----	-----



-----			
<S> <C>			
Assets:			
Securities:			
	Taxable . . . . .	\$ 70,166	\$ 1,075
6.08%	Tax-exempt(1) . . . . .	60,585	1,172
7.67%		-----	-----
	Total securities . . . . .	130,751	2,247
6.82%	Loans, net. . . . .	272,365	6,105
8.89%	Federal funds sold . . . . .	3,784	47
4.93%	Interest-bearing deposits		
	in other banks . . . . .	666	5
2.98%		-----	-----
	Total earning assets . . . . .	407,566	8,404
8.18%	Allowance for loan losses . . . . .	(3,918)	
	Total non-earning assets . . . . .	31,219	
		-----	
	Total assets . . . . .	\$ 434,867	
		=====	
Liabilities & Stockholders' Equity:			
Interest-bearing deposits:			
	Checking . . . . .	47,347	280
2.35%	Regular savings . . . . .	56,947	276
1.92%	Money market savings . . . . .	50,630	523
4.10%	Certificates of deposit:		
	\$100,000 and over . . . . .	29,214	312
4.24%	Under \$100,000 . . . . .	131,309	1,709
5.16%		-----	-----
	Total interest-bearing		
	deposits . . . . .	315,447	3,100
3.90%	Other borrowings . . . . .	16,443	172
4.15%		-----	-----
	Total interest-bearing		
	liabilities . . . . .	331,890	3,272
3.91%		-----	-----
Non-interest bearing liabilities:			
	Demand deposits . . . . .	53,986	
	Other liabilities . . . . .	3,755	
		-----	
	Total liabilities . . . . .	389,631	
	Stockholders' equity . . . . .	45,236	
		-----	
	Total liabilities and		
	stockholders' equity . . . . .	\$ 434,867	
		=====	
	Net interest income . . . . .		\$ 5,132
			=====
Interest rate spread . . . . .			
4.27%	Interest expense as a percent		
	of average earning assets . . . . .		
3.19%	Yield on earning assets . . . . .		
5.00%			
(1) Income and yields are reported on a taxable equivalent basis.			
	Yield on total assets . . . . .		
4.68%			

</TABLE>

The following table presents the Company's interest sensitivity position at September 30, 1996. This one-day position, which is continually changing, is not necessarily indicative of the Company's position at any other time.

<TABLE>  
<CAPTION>

Interest Sensitivity Analysis September 30, 1996					
	Within 90 Days	90-365 Days	1-5 Years	Over 5 Years	Total
(In thousands)					
<b>Earning Assets:</b>					
Loans, net of unearned income (3) . . . . .	\$ 104,782	\$ 50,497	\$ 130,226	\$ 65,713	\$ 351,218
Investment securities . . . . .	100	624	4,614	890	6,228
Securities available for sale . . . . .	4,544	6,917	40,044	81,106	132,611
Federal funds sold . . . . .	5,734	--	--	--	5,734
Other short-term investments . . . . .	1,264	--	--	--	1,264
	-----	-----	-----	-----	-----
Total earning assets . . . . .	116,424	58,038	174,884	147,709	497,055
	-----	-----	-----	-----	-----
<b>Interest-Bearing Liabilities:</b>					
Interest checking (2) . . . . .	--	624	49,008	--	49,632
Regular savings (2) . . . . .	--	7,015	51,708	--	58,723
Money market savings . . . . .	47,519	259	1,038	6,000	54,816
Certificates of deposit:	--	--	--	--	--
\$100,000 and over . . . . .	12,916	19,234	17,846	--	49,996
Under \$100,000 . . . . .	24,642	81,794	64,371	--	170,807
Short-term borrowings . . . . .	18,541	10,309	--	--	28,850
Long-term borrowings . . . . .	--	150	10,600	375	11,125
	-----	-----	-----	-----	-----
Total interest-bearing liabilities . . . . .	103,618	119,385	194,571	6,375	423,949
	-----	-----	-----	-----	-----
Period gap . . . . .	12,806	(61,347)	(19,687)	141,334	--
Cumulative gap . . . . .	\$ 12,806	\$ (48,541)	\$ (68,228)	\$ 73,106	\$ 73,106
	=====	=====	=====	=====	=====
Ratio of cumulative gap to total earning assets . . . . .	2.58%	-9.77%	-13.73%	14.71%	--
	=====	=====	=====	=====	-----

</TABLE>

- (1) The repricing dates may differ from maturity dates for certain assets due to prepayment assumptions.
- (2) The Company has found that interest-bearing checking deposits and regular savings deposits are not sensitive to changes in related market rates and therefore, it has placed them predominantly in the "1-5 Years" column.
- (3) Excludes non-accrual loans

**Provision for Possible Loan Losses**

The provision for possible loan losses totaled \$242,000 for the third quarter of 1996, down slightly from \$249,000 for the third quarter of 1995. Provisions for the first nine months of 1996 and 1995 totaled \$563,000 and \$727,000, respectively. These provisions reflect recoveries of \$363,000 on loans previously charged off, including approximately \$230,000 related to a single real estate loan. It is also reflective of the performance of the loan portfolio and management's assessment of the credit risk in the portfolio. (See Asset Quality)

**Non-Interest Income**

Non-interest income for the third quarter of 1996 totaled \$751,000, up from \$662,000 a year ago. Non-interest income for the first nine months of 1996 totaled \$2.5 million, up from \$1.8 million in 1995. This increase is due principally to the increases in income from service fees on deposit accounts, increased brokerage commissions and additional fee income on mortgage loans originated for the secondary market. Fees generated by the Company's brokerage subsidiary increased by \$126,000 over 1995 levels. Management continues to seek additional sources of non-interest income, including increased emphasis on its credit card operations, mortgage banking activities and discount brokerage services.

## Non-Interest Expense

Non-interest expense increased by 19.8% for the third quarter of 1996, totaling \$3.7 million as compared to \$3.1 million for the quarter ended September 30, 1995. Personnel costs comprised much of this change, increasing approximately 8.9% over the third quarter of 1995, consistent with the loan and asset growth for the same period of 9.8% and 8.2%, respectively.

Much of this cost is attributable to infrastructure associated with the development and introduction of new products and delivery systems, which are expected to enhance future earnings through increased revenue and/or improved efficiencies. The Company continues to stress budgetary expense controls and operates at considerably more efficient levels than its peers, as measured by the efficiency ratio (ratio of non-interest expenses to net interest income plus non-interest income). For the third quarter of 1996 the Company's efficiency ratio was 58.4%.

## Financial Condition

Total assets as of September 30, 1996 were \$540.4 million, an increase of 6.9% from \$505.4 million at December 31, 1995 and 8.2% from \$500.0 million at September 30, 1995. Asset growth continued to be fueled by strong loan demand, as loans totaled \$351.4 million at September 30, 1996, an increase of 7.4% from \$327.1 million at December 31, 1995, and 9.8% from \$320.0 million at September 30, 1995. Stockholders' equity totaled \$57.2 million at September 30, 1996 which represents a book value of \$ 16.05 per share.

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Deposit growth, though outpaced by loan growth, remained steady. Total deposits at September 30, 1996 were \$439.4 million, up 2.7% from December 31, 1995 and 6.2% from \$413.7 million a year earlier. Other borrowings totaled \$40.0 million a 23.4% increase over \$32.4 million at the end of 1995 and a 33.9% increase from \$29.9 million at September 30, 1995. The Company continues to utilize other borrowings to supplement deposit growth and, periodically, in wholesale leverage transactions.

Continued competition for deposits, particularly as it impacts certificate of deposit rates, is reflected in the deposit mix. Management's focus on increasing lower costs deposit products has resulted in improved growth in those products, including non-interest bearing demand deposits and savings accounts. Increased competition for funds, particularly by non-banks, continues to contribute to a narrowing of the net interest margin which has been largely offset by increases in the volume of earning assets.

## Asset Quality

The allowance for credit losses is an estimate of an amount adequate to provide for potential losses in the loan portfolio. The level of credit losses is affected by general economic trends as well as conditions affecting individual borrowers. The allowance is also subject to regulatory examinations and determination as to adequacy, which may take in to account such factors as the methodology used to calculate the allowance and comparison to peer groups.

The allowance for loan losses totaled \$4.3 million at September 30, 1996 or 1.23% of total loans, as compared to 1.28% at December 31, 1995 and 1.37% at September 30, 1995. Non-performing assets of \$4.5 million included foreclosed properties of \$3.6 million at September 30, 1996. The increase from the prior year is principally due to the addition of a single property comprising over 1800 acres in King George County and carried at \$1.9 million.

	September 30 1996 -----	December 31, 1995 -----	September 30, 1995 -----
Non-accrual loans	\$ 477	\$ 596	\$2,087
Foreclosed properties	4,059	3,288	1,757
	-----	-----	-----
Non-performing assets	\$4,536	\$3,884	\$3,844
	=====	=====	=====
Allowance for loan losses	\$4,309	\$3,757	\$4,394
Allowance as % of total loans	1.23%	1.28%	1.37%
Non-performing assets to loans and foreclosed properties	1.28%	1.31%	1.37%

## Capital Resources

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

absorb potential losses.

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

At September 30, 1996, the Company's ratio of total capital to risk-weighted assets was 16.22% and its ratio of Tier 1 capital to risk-weighted assets was 13.39%. Both ratios exceed the fully phased-in capital requirements. The following summarizes the Company's regulatory capital and related ratios at September 30, 1996:

Tier 1 capital	\$ 57,482
Tier 2 capital	\$ 4,309
Total risk-based capital	\$ 61,791
Total risk-weighted assets	\$ 380,907

Capital Ratios:

Tier 1 risk-based capital ratio	13.39%
Total risk-based capital ratio	16.22%
Leverage ratio (Tier I capital to average adjusted total assets)	9.50%
Equity to assets ratio	10.64%

The Company's book value per share at September 30, 1996 was \$16.05. Dividends to stockholders are typically declared and paid semi-annually in September and December.

Liquidity

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

At September 30, 1996, cash, interest-bearing deposits in other banks, federal funds sold, securities available for sale and loans maturing or repricing in one year were 61.2% of total earning assets. At September 30, 1996 approximately \$155.3 million or 44.2% of total loans would mature or reprice within the next year. The Company utilizes federal funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, in addition to deposits, to fund the growth in its loan portfolio, and to fund securities purchases.

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PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) A Form 8-K was filed on September 15, 1996.

Signatures

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

Union Bankshares Corporation  
(Registrant)

November 14, 1996

s/ G. William Beale

-----  
(Date)

-----  
G. William Beale,  
President, Chief Executive Officer  
and Director

November 14, 1996

s/ D. Anthony Peay

-----  
(Date)

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

UNION BANKSHARES CORPORATION AND SUBSIDIARIES

Index to Exhibits

Form 10-Q / September 30, 1996

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Exhibit

No.	Description	
<S> <C> 2	Plan of acquisition, reorganization, arrangement, liquidation or succession -	Not Applicable
4	Instruments defining the rights of security holders, including indentures	Not Applicable
10	Material contracts	Not Applicable
11	Statement re: computation of per share earnings	Not Applicable
15	Letter re: unaudited interim financial information	Not Applicable
18	Letter re: change in accounting principles	Not Applicable
19	Previously unfiled documents	Not Applicable
20	Report furnished to security holders	Not Applicable
22	Published report re: matters submitted to vote of security holders	None
23	Consents of experts and counsel	Not Applicable
24	Power of Attorney	Not Applicable
99	Additional Exhibits	None

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