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 March 31, 2007

OR

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

Commission File Number: 0-20293

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

The number of shares of common stock outstanding as of April 30, 2007 was 13,348,871.

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

ITEM 1 – FINANCIAL STATEMENTS

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

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)	March 31, 2006 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 50,192**	$ 55,511	$ 49,666
Interest-bearing deposits in other banks	**1,700**	950	1,065
Money market investments	**335**	322	155
Other interest-bearing deposits	**2,598**	2,598	2,598
Federal funds sold	**69**	16,509	20,699
Total cash and cash equivalents	**54,894**	75,890	74,183
Securities available for sale, at fair value	**268,182**	282,824	246,523
Loans held for sale	**22,927**	20,084	27,989
Loans, net of unearned income	**1,600,059**	1,549,445	1,410,945
Less allowance for loan losses	**18,251**	19,148	17,631
Net loans	**1,581,808**	1,530,297	1,393,314
Bank premises and equipment, net	**68,711**	63,461	49,219
Other real estate owned	**217**	—	—
Core deposit intangibles, net	**11,883**	12,341	8,199
Goodwill	**51,881**	50,049	31,297
Other assets	**58,352**	57,945	54,958
Total assets	**$ 2,118,855**	$ 2,092,891	$ 1,885,682
LIABILITIES			
Noninterest-bearing demand deposits	**$ 292,110**	$ 292,262	$ 261,173
Interest-bearing deposits:			
NOW accounts	**211,276**	212,328	196,451
Money market accounts	**157,608**	165,202	182,433
Savings accounts	**107,722**	107,163	113,847
Time deposits of $100,000 and over	**443,752**	442,953	352,237
Other time deposits	**454,703**	446,000	378,619
Total interest-bearing deposits	**1,375,061**	1,373,646	1,223,587
Total deposits	**1,667,171**	1,665,908	1,484,760
Securities sold under agreements to repurchase	**57,078**	62,696	53,168
Other short-term borrowings	**25,500**	—	42,600
Trust preferred capital notes	**60,310**	60,310	60,310
Long-term borrowings	**86,300**	88,850	47,000
Other liabilities	**19,655**	15,711	14,079
Total liabilities	**1,916,014**	1,893,475	1,701,917
Commitments and contingencies			
STOCKHOLDERS' EQUITY			
Common stock, $1.33 par value, shares authorized 36,000,000; issued and outstanding, 13,344,971 shares, 13,303,520 shares, and 13,195,987 shares, respectively.	**17,757**	17,716	17,640
Surplus	**38,715**	38,047	35,935
Retained earnings	**144,984**	142,168	128,901
Accumulated other comprehensive income	**1,385**	1,485	1,289
Total stockholders' equity	**202,841**	199,416	183,765
Total liabilities and stockholders' equity	**$ 2,118,855**	$ 2,092,891	$ 1,885,682

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
	2007	**2006**
Interest and dividend income:		
Interest and fees on loans	**$ 29,850**	$ 25,104
Interest on Federal funds sold	**263**	33
Interest on deposits in other banks	**15**	7
Interest on money market investments	**1**	2
Interest on other interest-bearing deposits	**34**	28
Interest and dividends on securities:		
Taxable	**2,332**	2,174
Nontaxable	**1,132**	942
Total interest and dividend income	**33,627**	28,290
Interest expense:		
Interest on deposits	**11,860**	8,214
Interest on Federal funds purchased	**306**	82
Interest on short-term borrowings	**756**	829
Interest on long-term borrowings	**2,545**	1,117
Total interest expense	**15,467**	10,242
Net interest income	**18,160**	18,048
Provision for (recapture of) loan losses	**(735)**	538
Net interest income after provision for (recapture of) loan losses	**18,895**	17,510
Noninterest income:		
Service charges on deposit accounts	**1,726**	1,615
Other service charges, commissions and fees	**1,444**	1,267
Gains on securities transactions, net	**301**	2
Gains on sales of loans	**2,344**	2,791
Gains (losses) on sales of other real estate	**(3)**	867
Other operating income	**397**	433
Total noninterest income	**6,209**	6,975
Noninterest expenses:		
Salaries and benefits	**9,939**	9,029
Occupancy expenses	**1,391**	1,094
Furniture and equipment expenses	**1,181**	1,077
Other operating expenses	**5,448**	4,420
Total noninterest expenses	**17,959**	15,620
Income before income taxes	**7,145**	8,865
Income tax expense	**1,997**	2,557
Net income	**$ 5,148**	$ 6,308
Earnings per share, basic	**$ 0.39**	$ 0.48
Earnings per share, diluted	**$ 0.38**	$ 0.47

See accompanying notes to condensed consolidated financial statements.

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UNION BANKSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(Dollars in thousands, except share amounts)
(Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total
Balance—December 31, 2005	$17,595	$35,426	$124,531	$ 1,806		$179,358
Comprehensive income:						
Net income—2006			6,308		$ 6,308	6,308
Unrealized holding losses arising during the period (net of tax, $279)					(516)	
Reclassification adjustment for gains included in net income (net of tax, $1)					(1)	
Other comprehensive loss (net of tax, $280)				(517)	(517)	(517)
Total comprehensive income					$ 5,791	
Cash dividend—2006 ($.15 per share)			(1,938)			(1,938)
Award of performance stock grants		23				23
Unearned compensation on restricted stock, net of amortization		(226)				(226)
Issuance of common stock under Dividend Reinvestment Plan (4,661 shares)	9	199				208
Issuance of common stock under Incentive Stock Option Plan (12,020 shares)	25	230				255
Issuance of restricted stock under Incentive Stock Option Plan (5,851 shares)	11	244				255
Stock-based compensation expense		39				39
Balance—March 31, 2006	$17,640	$35,935	$128,901	$ 1,289		$183,765
Balance—December 31, 2006	$17,716	$38,047	$142,168	$ 1,485		$199,416
Comprehensive income:						
Net income—2007			5,148		$ 5,148	5,148
Unrealized holding gains arising during the period (net of tax, $51)					95	
Reclassification adjustment for gains included in net income (net of tax, $106)					(195)	
Other comprehensive loss (net of tax, $55)				(100)	(100)	(100)
Total comprehensive income					$ 5,048	
Cash dividends—2007 ($.18 per share)			(2,332)			(2,332)
Unearned compensation on restricted stock, net of amortization						—
Issuance of common stock under Dividend Reinvestment Plan (10,317 shares)	13	256				269
Issuance of common stock under Incentive Stock Option Plan (21,161 shares)	28	280				308
Issuance of common stock for services rendered (470 shares)		13				13
Stock-based compensation expense		119				119
Balance—March 31, 2007	$17,757	$38,715	$144,984	$ 1,385		$202,841

See accompanying notes to condensed consolidated financial statements.

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UNION BANKSHARES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(Dollars in thousands)
(Unaudited)

	2007	2006
Operating activities:		
Net income	$ 5,148	$ 6,308
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization of bank premises and equipment	1,102	891
Amortization, net	630	506
Provision for (recapture of) loan losses	(735)	538
Loans held for sale, net	(2,843)	79
Gains on the sale of investment securities	(301)	(2)
(Gains) losses on sales of other real estate owned and premises, net	3	(867)
Stock-based compensation expense	119	91
Increase in other assets	(2,551)	(3,754)
Increase (decrease) in other liabilities	3,944	(1,382)
Net cash and cash equivalents provided by operating activities	4,516	2,408
Investing activities:		
Purchases of securities available for sale	(6,475)	(10,815)
Proceeds from sales of securities available for sale	376	268
Proceeds from maturities, calls and paydowns of securities available for sale	20,878	9,185
Net increase in loans	(50,776)	(48,714)
Purchases of bank premises and equipment	(6,355)	(3,911)
Net cash and cash equivalents used in investing activities	(42,352)	(53,987)
Financing activities:		
Net increase (decrease) in noninterest-bearing deposits	(152)	3,088
Net increase in interest-bearing deposits	1,415	25,157
Net increase (decrease) in short-term borrowings	19,882	(7,660)
Net decrease in long-term borrowings	(2,550)	—
Proceeds from trust preferred capital notes	—	37,114
Cash dividends paid	(2,332)	(1,938)
Issuance of common stock	577	463
Net cash and cash equivalents provided by financing activities	16,840	56,224
Increase (decrease) in cash and cash equivalents	(20,996)	4,645
Cash and cash equivalents at beginning of the period	75,890	69,538
Cash and cash equivalents at end of the period	$ 54,894	$ 74,183
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	$ 15,480	$ 10,172
Income taxes	—	19
Supplemental schedule of noncash investing and financing activities		
Unrealized losses on securities available for sale	$ 155	$ 796

See accompanying notes to condensed consolidated financial statements.

UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2007

1. ACCOUNTING POLICIES

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

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

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2006 Annual Report on Form 10-K. If needed, certain previously reported amounts have been reclassified to conform to current period presentation. In addition, share and per share amounts for all periods presented in the condensed consolidated financial statements and notes thereto have been retroactively adjusted to reflect the effect of the three-for-two stock split which occurred in October 2006.

2. MERGERS AND ACQUISITIONS

On April 3, 2006, the Company announced it had completed the acquisition of Prosperity Bank & Trust Company ("Prosperity"), effective April 1, 2006, in a transaction valued at approximately $36 million. Prosperity, with nearly $130 million in assets at the time of acquisition, operates three offices in Burke and Springfield Virginia, located in Fairfax County, a suburb of Washington, D.C. Prosperity operates as an independent bank subsidiary of the Company.

The acquisition was accounted for as a purchase which required the Company to allocate the total purchase price of the acquisition to the assets acquired and liabilities assumed, based on their respective fair values at the acquisition date, with any remaining acquisition cost being recorded as goodwill. Resulting goodwill balances are then subject to an impairment review on at least an annual basis. The acquisition was financed with proceeds from the issuance of trust preferred capital notes.

Acquisitions are accounted for as purchases with the results of their operations subsequent to the acquisition date included in the Company's Condensed Consolidated Statements of Income.

3. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 123R (Revised 2004), Statement of Financial Accounting Standard ("SFAS") Share-Based Payment ("SFAS No. 123R"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB Opinion No. 25"). SFAS No. 123R requires the costs resulting from all share-based payments to employees be recognized in the financial statements.

The Company’s 2003 Stock Incentive Plan provides for the granting of incentive stock options, non-statutory stock options, and nonvested stock awards to key employees of the Company. The 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 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 March 31, 2007, approximately 299,741 shares were available for issuance under the Company’s 2003 Stock Incentive Plan.

For the three months ended March 31, 2007, the Company recognized stock-based compensation expense of $90 thousand, net of tax, or approximately $.01 per share in accordance with SFAS No. 123R.

Stock Options

The following table summarizes the stock option activity for the three months ended March 31, 2007:

	Number of Stock Options	Weighted Average Exercise Price
Options outstanding, December 31, 2006	**304,536**	**$ 18.28**
Granted	**22,400**	**27.62**
Exercised	**(20,510)**	**14.99**
Forfeited	**(510)**	**30.04**
Options outstanding, March 31, 2007	**305,916**	**19.16**
Options exercisable, March 31, 2007	**247,108**	**17.21**

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 three months ended March 31, 2007:

	Three Months Ended March 31,	
	2007	2006
Dividend yield (1)	**1.99%**	**2.05%**
Expected life in years (2)	**7.5**	**7.5**
Expected volatility (3)	**25.23%**	**29.53%**
Risk-free interest rate (4)	**4.68%**	**4.56%**
Weighted average fair value per option granted	**$ 8.07**	**$ 10.26**

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

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

	Stock Options Vested or Expected to Vest	Exercisable
Stock options	305,916	247,108
Weighted average remaining contractual life in years	5.52	4.79
Weighted average exercise price on shares above water	$ 19.16	$ 17.21
Aggregate intrinsic value	$ 2,281	$ 2,210

The total intrinsic value for stock options exercised during the three months ended March 31, 2007 was $268 thousand. The fair value of stock options vested during the three months ended March 31, 2007 was approximately $233 thousand. Cash received from the exercise of stock options for the three months ended March 31, 2007 was approximately $307 thousand. The tax benefit realized from disqualifying dispositions during the three months ended March 31, 2007 was zero.

Nonvested Stock

The 2003 plan permits the granting of nonvested stock, but is limited to one-third of the aggregate number of total awards granted. This equity component of compensation is divided between restricted (time-based) stock grants and performance-based stock grants. The restricted stock vests fifty percent on each of the third and fourth anniversaries of the date of the grant. The performance-based stock is subject to vesting on the fourth anniversary of the date of the grant based on the performance of the Company's stock price. The value of the nonvested stock awards was calculated by multiplying the fair market value of the Company's common stock on grant date by the number of shares awarded. Employees have the right to vote the shares and to receive any cash or stock dividends on the restricted stock, but not the performance-based stock.

The following table summarizes the nonvested stock activity for the three months ended March 31, 2007:

	Nonvested Stock	Weighted Average Grant-Date Fair Value
Balance at December 31, 2006	33,213	$ 27.24
Granted	25,400	29.03
Vested	—	—
Forfeited	—	—
Balance at March 31, 2007	58,613	$ 28.02

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

	Stock Options	Nonvested Stock	Total
For the remaining nine months of 2007	$ 120	$ 309	$ 429
For year ended December 31, 2008	129	411	540
For year ended December 31, 2009	88	328	416
For year ended December 31, 2010	84	196	280
For year ended December 31, 2011	41	16	57
For year ended December 31, 2012	5	-	5
Total	$ 467	$ 1,260	$1,727

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4. ALLOWANCE FOR LOAN LOSSES

The following summarizes activity in the allowance for loan losses for the three months ended March 31, 2007 and 2006 (dollars in thousands):

	March 31, 2007	March 31, 2006
Beginning balance	**$19,148**	$17,116
Recoveries credited to allowance	**131**	90
Loans charged off	**(293)**	(113)
Provision for (recapture of) loan losses	**(735)**	538
Ending balance	**$18,251**	$17,631

5. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares outstanding attributable to stock awards. There were 58,836 anti-dilutive awards as of March 31, 2007 and 20,315 anti-dilutive awards as of March 31, 2006.

The following is a reconcilement of the denominators of the basic and diluted EPS computations for the three months ended March 31, 2007 and 2006 (dollars and shares in thousands, except per share amounts):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the Three Months ended March 31, 2007			
Basic EPS	**$ 5,148**	**13,307**	**$ 0.39**
Effect of dilutive stock awards	**—**	**107**	**(0.01)**
Diluted EPS	**$ 5,148**	**13,414**	**$ 0.38**
For the Three Months ended March 31, 2006			
Basic EPS	$ 6,308	13,196	$ 0.48
Effect of dilutive stock awards	—	143	(0.01)
Diluted EPS	$ 6,308	13,339	$ 0.47

6. TRUST PREFERRED CAPITAL NOTES

On March 30, 2006, the Company formed Statutory Trust II, a wholly owned subsidiary, for the purpose of issuing redeemable capital securities in connection with the acquisition of Prosperity that was completed on April 1, 2006. A Trust Preferred Capital Note of $36.0 million was issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 1.40%) which adjusts and is payable quarterly. The interest rate at March 31, 2007 was 6.75%. The redeemable capital securities may be called at par after five years on March 31, 2011 and each quarterly anniversary of such date until the securities mature in 30 years on March 31, 2036. The principal asset of the Statutory Trust II is $37.1 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital notes, of which $1.1 million is reflected as the Company's investment in Statutory Trust II reported as "Other assets" within the financial statements.

During the first quarter of 2004, the Company's Statutory Trust I, a wholly owned subsidiary, was formed for the purpose of issuing redeemable capital securities in connection with the acquisition of Guaranty Financial Corporation ("Guaranty"). On March 18, 2004, $22.5 million of Trust Preferred Capital Notes were issued through a pooled underwriting totaling approximately $858.8 million. The securities have a LIBOR-indexed floating rate (three month LIBOR plus 2.75%) which adjusts and is payable quarterly. The interest rate at March 31, 2007 was 8.10%. The redeemable capital securities may be redeemed at par beginning on June 17, 2009 and each quarterly anniversary of such date until the securities mature on June 17, 2034. The principal asset of the Statutory Trust I is $23.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the capital notes, of which $696 thousand is reflected as the Company's investment in Statutory Trust I reported as "Other assets" within the financial statements.

7. SEGMENT REPORTING DISCLOSURES

The Company has two reportable segments: traditional full service community banks and a mortgage loan origination business. The community bank business includes five banks, which provide loan, deposit, investment, and other banking services to retail and commercial customers throughout their 51 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 three months ended March 31, 2007 and 2006 is as follows (dollars in thousands):

	Community Banks	Mortgage	Eliminations	Consolidated
Three Months Ended March 31, 2007				
Net interest income	**$ 18,137**	**$ 23**	**$ —**	**$ 18,160**
Provision for (recapture of) loan losses	**(735)**	**—**	**—**	**(735)**
Net interest income after provision for (recapture of) loan losses	**18,872**	**23**	**—**	**18,895**
Noninterest income	**3,949**	**2,330**	**(70)**	**6,209**
Noninterest expenses	**15,438**	**2,591**	**(70)**	**17,959**
Income before income taxes	**7,383**	**(238)**	**—**	**7,145**
Income tax expense	**2,096**	**(99)**	**—**	**1,997**
Net income	**$ 5,287**	**$ (139)**	**$ —**	**$ 5,148**
Total assets	**$2,114,713**	**$26,354**	**$ (22,212)**	**$2,118,855**
Three Months Ended March 31, 2006				
Net interest income	$ 17,946	$ 102	$ —	$ 18,048
Provision for loan losses	538	—	—	538
Net interest income after provision for loan losses	17,408	102	—	17,510
Noninterest income	4,251	2,791	(67)	6,975
Noninterest expenses	12,898	2,789	(67)	15,620
Income before income taxes	8,761	104	—	8,865
Income tax expense	2,515	42	—	2,557
Net income	$ 6,246	$ 62	$ —	$ 6,308
Total assets	$1,882,291	$32,165	$ (28,774)	$1,885,682

8. STOCK REPURCHASE

The Board of Directors has authorized management of the Company to buy up to 225,000 shares of its outstanding common stock in the open market at prices that management determines to be prudent. This authorization expires May 31, 2007. The Company considers current market conditions and the Company's current capital level, in addition to other factors, when deciding whether to repurchase stock. It is anticipated that any repurchased shares will be used primarily for general corporate purposes, including the dividend reinvestment plan, incentive stock option plan and other employee benefit plans. No shares have been purchased under this authorization to date.

9. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but may change current practice for some entities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company does not expect the implementation of SFAS 157 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS 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. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. The Company is in the process of evaluating the impact SFAS 159 may have on its consolidated financial statements but does not intend to adopt the Statement early.

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10. GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, which prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives but require at least an annual impairment review and more frequently if certain impairment indicators are in evidence. Based on the annual testing for impairment of goodwill and intangible assets, there have been no impairment charges to date.

Core deposit intangible assets are being amortized over the period of expected benefit, which ranges from 5 to 15 years. As part of the purchase price allocation for the acquisition of Prosperity in 2006, the Company recorded $5.5 million in core deposit intangible assets and $20.5 million in goodwill. The core deposit intangible assets recorded for the Prosperity acquisition are being amortized over an average of 9.1 years.

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
March 31, 2007			
Amortizable core deposit intangibles	**$ 19,137**	**$ 7,254**	**$ 11,883**
Unamortizable goodwill	**52,223**	**342**	**51,881**
December 31, 2006			
Amortizable core deposit intangibles	$ 19,137	$ 6,796	$ 12,341
Unamortizable goodwill	50,391	342	50,049
March 31, 2006			
Amortizable core deposit intangibles	$ 13,623	$ 5,424	$ 8,199
Unamortizable goodwill	31,639	342	31,297

11. COMMITMENTS AND CONTINGENCIES

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require 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 March 31, 2007 and 2006, the Company had outstanding loan commitments approximating $510.8 million and $663.3 million, respectively.

Letters of credit written are conditional commitments issued by the Company to guarantee the performance of customers to third parties. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The amount of standby letters of credit whose contract amounts represent credit risk totaled approximately $32.8 million and $25.9 million at March 31, 2007 and 2006, respectively.

At March 31, 2007, Union Mortgage Group, Inc. ("Union Mortgage"), a wholly owned subsidiary of Union Bank and Trust Company, had rate lock commitments to originate mortgage loans amounting to $32.6 million and loans held for sale of $22.9

million. Union Mortgage has entered into corresponding mandatory commitments on a best-efforts basis to sell loans on a servicing released basis totaling approximately $55.5 million. These commitments to sell loans are designed to mitigate the mortgage company's exposure to fluctuations in interest rates in connection with rate lock commitments and loans held for sale.

12. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of investment securities as of March 31, 2007 and December 31, 2006 are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
March 31, 2007				
U.S. government and agency securities	**$ 8,978**	**$ —**	**$ (107)**	**$ 8,871**
Obligations of states and political subdivisions	**101,035**	**2,498**	**(173)**	**103,360**
Corporate and other bonds	**18,029**	**1,300**	**(125)**	**19,204**
Mortgage-backed securities	**126,638**	**318**	**(1,555)**	**125,401**
Federal Reserve Bank stock—restricted	**3,097**	**—**	**—**	**3,097**
Federal Home Loan Bank stock—restricted	**7,905**	**—**	**—**	**7,905**
Other securities	**294**	**65**	**(15)**	**344**
Total securities	**$ 265,976**	**$ 4,181**	**$ (1,975)**	**$ 268,182**
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	24	—	310
Total securities	$ 280,463	$ 4,766	$ (2,405)	$ 282,824

The following table shows the gross unrealized losses and fair value (in thousands) of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired. These are aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of March 31, 2007.

	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
U.S. government and agency securities	**$ 7,405**	**$ (87)**	**$ 1,466**	**$ (20)**	**$ 8,871**	**$ (107)**
Obligations of states and political subdivisions	**1,783**	**(16)**	**7,198**	**(157)**	**8,981**	**(173)**
Corporate and other bonds	**3,760**	**-**	**6,137**	**(125)**	**9,897**	**(125)**
Mortgage-backed securities	**13,063**	**(282)**	**73,646**	**(1,288)**	**86,709**	**(1,570)**
Total	**$ 26,011**	**$ (385)**	**$ 88,447**	**$ (1,590)**	**$ 114,458**	**$ (1,975)**

As of March 31, 2007, there were $88.4 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 $1.6 million and consisted primarily of mortgage-backed securities. Management has evaluated the investment portfolio by security and determined the declines in fair value were primarily attributable to changes in market interest rates, not in estimated cash flows or credit quality. Management has the positive ability and intent to hold these securities to maturity or until value is recovered. Therefore no other-than-temporary impairment was recorded at the end of the reporting period.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated balance sheets of Union Bankshares Corporation and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three month periods ended March 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet of Union Bankshares and subsidiaries, as of December 31, 2006 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
May 10, 2007

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of the Company. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report, as well as the Company's Annual Report on Form 10-K and management's discussion and analysis for the year ended December 31, 2006. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting the Company. Results of operations for the three month periods ended March 31, 2007 and 2006 are not necessarily indicative of results that may be attained for any other period. Amounts are rounded for presentation purposes, while some of the percentages presented are computed based on unrounded amounts. In addition, share and per share amounts for all periods presented herein have been retroactively adjusted to reflect the effect of the Company's three-for-two stock split in October 2006.

FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as "expect," "believe," "estimate," "plan," "project," "anticipate" or other statements concerning opinions or judgment of the Company and its management about future events. Although the Company believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits. The Company does not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

CRITICAL ACCOUNTING POLICIES

General

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

The more critical accounting and reporting policies include the Company's accounting for the allowance for loan losses and mergers and acquisitions. The Company's accounting policies are fundamental to understanding the Company's consolidated financial position and consolidated results of operations.

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) SFAS No. 5, Accounting for Contingencies, 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, 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. 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.

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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 costs are reflected in "Other operating expenses" within the Condensed Consolidated Statements of Income. The acquired entity records merger-related costs resulting from a plan to exit an activity, involuntarily terminate or relocate employees, and are recognized as liabilities assumed as of the consummation date of the acquisition.

BUSINESS OVERVIEW

Union Bankshares Corporation is one of the largest community banking organizations based in Virginia, providing full service banking to the Northern, Central, Rappahannock, Tidewater and Northern Neck regions of Virginia through 51 locations of its bank subsidiaries. Union Bank currently has 33 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 two locations in Washington and Front Royal, Virginia; Bay Community Bank has four locations in Williamsburg, Newport News and Grafton, Virginia; and Prosperity has three locations in Springfield and Burke, Virginia. Additionally, Union Bank operates a loan production office in Manassas, Virginia.

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

Additionally, the Company is near completion of constructing 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 current facility 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. Management anticipates that the current facility in Bowling Green will be either sold or leased.

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RESULTS OF OPERATIONS

Net Income

For the three months ended March 31, 2007, the Company reported net income of $5.1 million, down 18.4% from $6.3 million the same quarter in 2006. Earnings per share, on a diluted basis decreased $.09, or 19.1%, from $.47 to $.38 over the same time period a year ago. Return on average equity for the quarter ended March 31, 2007 was 10.38%, while return on average assets for the same period was 1.00%, compared to 14.05% and 1.41%, respectively, from the prior year's same quarter.

On a linked quarter basis (current quarter to most recent quarter) net income decreased $1.3 million, or 20.1%, to $5.1 million for the quarter ended March 31, 2007. This represents a decline in earnings per share, on a diluted basis of 20.8%, or $.10, from the prior quarter.

These declines were largely due to heavier reliance on purchased funds and higher cost deposits coupled with maturities of higher yielding earning assets. Additionally, the decline in earnings were partially offset by the recapture of $750 thousand in loan loss reserves.

Net Interest Income

The net interest margin, on a tax-equivalent basis, decreased to 4.09% in the first quarter of 2007 from 4.54% in the first quarter of 2006. This 45 basis point margin (53 basis point interest rate spread) decline was driven by increased costs of interest-bearing liabilities which rose to 3.94%, or 94 basis points, compared to increased yields on earning assets which rose to 7.44%, or only 41 basis points. Significant growth in certificates of deposits coupled with declines in low-cost deposits put pressure on the funding side of the balance sheet. Average interest-earning assets for the quarter ended March 31, 2007 increased approximately $208 million, or 12.5%, over the same period a year ago. Of this increase, approximately $76.5 million resulted from the acquisition of Prosperity. The remaining growth was driven primarily by increases in the commercial real estate and consumer loan portfolios. Average interest-bearing liabilities for the period ended March 31, 2007 increased approximately $210 million, or 15.2%, over the same period a year ago. Of this increase, approximately $111.4 million resulted from the acquisition of Prosperity. The remaining growth was driven primarily by increases in certificates of deposit.

On a linked quarter basis, the tax-equivalent net interest margin decreased to 4.09%, or 6 basis points, from 4.15%. Net interest income declined by $773 thousand to $18.2 million for the quarter ended March 31, 2007. Contributing to this decline and margin tightening was a continued shift of funds from demand deposits and lower cost interest-bearing liabilities (NOW, money market, savings accounts, etc) to higher cost interest-bearing liabilities (certificates of deposit) during a flat to inverted yield curve environment amid increased competition for low-cost deposits.

During the first quarter of 2007, approximately $6.2 million of investment securities were called by the issuers resulting in a gain of $301 thousand. The proceeds from these sales plus additional funds were used to payoff approximately $9.0 million of higher cost (6.3%) Federal Home Loan Bank advances. A penalty of $316 thousand associated with the early payoff of these advances has been reflected as an interest expense adjustment in the net interest margin for the first quarter of 2007. The securities gains and prepayment penalty effectively offset one another, but the anticipated interest expense saving from this early payoff is $175 thousand for the remainder of 2007.

Management carefully analyzes its local markets and the potential impact economic indicators (i.e. interest rates, housing sales, etc.) present. The Federal funds tightening cycle increased rates a quarter percentage point seventeen consecutive times beginning in June 2004. Economic indicators show signs of a slowing economy, particularly in the residential housing market where inventory levels remain high and demand has waned. During much of this period of rising interest rates, the Company's net interest margin benefited from the delay between increases in asset yields and the lagging increases in funding costs on its deposit products. As customers

have shifted out of lower cost deposit transaction accounts to higher rate CD products, the Company's funding costs have risen, negatively impacting the margin. With long-term rates virtually the same (or lower) than short-term rates, the current interest rate environment will continue to put pressure on the interest margin throughout the industry. Management anticipates continued declines in the Company's net interest margin (albeit at a slower pace than recent declines) until the yield curve assumes its more normal shape with short-term rates lower than long-term rates.

The following tables display the average balance sheets, interest income earned with annualized yields, and interest expenses paid with rates for the three months ended March 31, 2007, 2006 and 2005:

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

	For the Three Months Ended March 31,								
	2007			2006			2005		
	Average Balance	Interest Income / Expense	Yield/ Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)	Average Balance	Interest Income / Expense	Yield / Rate (1)
				(Dollars in thousands)					
Assets:									
Securities:									
Taxable	**$ 181,356**	**$ 2,332**	**5.21%**	$ 167,463	$ 2,174	5.27%	$ 155,088	$ 1,918	5.02%
Tax-exempt	**95,526**	**1,741**	**7.39%**	77,895	1,450	7.55%	74,450	1,431	7.80%
Total securities	**276,882**	**4,073**	**5.97%**	245,358	3,624	5.99%	229,538	3,349	5.92%
Loans, net (2) (3)	**1,565,888**	**29,658**	**7.68%**	1,389,579	24,750	7.22%	1,275,242	20,076	6.38%
Loans held for sale	**21,642**	**301**	**5.65%**	23,752	417	7.12%	31,671	472	6.04%
Federal funds sold	**3,812**	**263**	**5.45%**	1,877	33	4.64%	1,066	2	0.76%
Money market investments	**266**	**1**	**2.10%**	90	2	3.62%	72	—	1.89%
Interest-bearing deposits in other banks	**1,136**	**15**	**5.31%**	661	7	4.17%	2,504	16	2.52%
Other interest-bearing deposits	**2,598**	**34**	**5.33%**	2,598	28	4.39%	2,598	16	2.42%
Total earning assets	**1,872,224**	**34,345**	**7.44%**	1,663,915	28,861	7.03%	1,542,691	23,931	6.29%
Allowance for loan losses	**(19,107)**			(17,328)			(16,499)		
Total non-earning assets	**233,146**			172,998			146,643		
Total assets	**$2,086,263**			$1,819,585			$1,672,835		
Liabilities and Stockholders' Equity:									
Interest-bearing deposits:									
Checking	**$ 206,196**	**317**	**0.62%**	$ 195,190	181	0.38%	$ 194,605	147	0.31%
Money market savings	**161,954**	**917**	**2.30%**	180,637	1,010	2.27%	191,780	637	1.35%
Regular savings	**105,304**	**226**	**0.87%**	115,602	261	0.91%	118,950	219	0.75%
Certificates of deposit:									
$100,000 and over	**445,286**	**5,407**	**4.92%**	340,906	3,463	4.12%	221,724	1,834	3.35%
Under $100,000	**452,688**	**4,992**	**4.47%**	375,649	3,299	3.56%	360,717	2,622	2.95%
Total interest-bearing deposits	**1,371,428**	**11,859**	**3.51%**	1,207,984	8,214	2.76%	1,087,776	5,459	2.04%
Other borrowings	**221,461**	**3,607**	**6.61%**	175,118	2,029	4.70%	182,864	1,683	3.73%
Total interest-bearing liabilities	**1,592,889**	**15,466**	**3.94%**	1,383,102	10,243	3.00%	1,270,640	7,142	2.28%
Noninterest-bearing liabilities:									
Demand deposits	**275,391**			240,949			224,335		
Other liabilities	**16,868**			13,424			12,310		
Total liabilities	**1,885,148**			1,637,475			1,507,285		
Stockholders' equity	**201,115**			182,110			165,550		
Total liabilities and stockholders' equity	**$2,086,263**			$1,819,585			$1,672,835		
Net interest income		**$18,879**			$18,618			$16,789	
Interest rate spread (4)			**3.50%**			4.03%			4.01%
Interest expense as a percent of average earning assets			**3.35%**			2.50%			1.88%
Net interest margin			**4.09%**			4.54%			4.41%

(1) Rates and yields are annualized and calculated from actual, not rounded amounts in thousands, which appear above.
(2) Foregone interest on previously charged off credits of $38 thousand and $101 thousand has been excluded for 2006 and 2005, respectively.
(3) Nonaccrual loans are included in average loans outstanding.
(4) Income and yields are reported on a taxable equivalent basis using the statutory federal corporate tax rate of 35%.

Provision for Loan Losses

For the three months ended March 31, 2007, compared to the same period in 2006, provision for loan losses decreased $1.3 million from $538 thousand to a recapture of $735 thousand. Excluding loans of $76.5 million purchased in the Prosperity acquisition, loans grew 8.0%, or $112.6 million. On a linked quarter basis, the provision for loan losses declined $889 thousand from $154 thousand at December 31, 2006 to a recapture of $735 thousand at March 31, 2007. These declines were largely attributable to a reduction of estimated loss exposure to a continued nonperforming credit relationship that was partially reduced from $10.6 million at December 31, 2006 to $7.9 million at March 31, 2007.

As of March 31, 2007, nonperforming assets totaled $8.8 million, including a single credit relationship totaling $7.9 million. This reflects a reduction of $2.7 million in related loans within this relationship from the prior quarter. A prior management decision to extend further credit secured by additional property with significant equity was successful as such equity was extracted from this relationship, reducing the estimated loss exposure and the related specific reserves. The loans to this relationship are secured by real estate (two assisted living facilities), but a specific reserve of approximately $500 thousand remains at March 31, 2007.

Noninterest Income

Noninterest income for the three months ended March 31, 2007 declined $766 thousand, or 11.0%, from $7.0 million to $6.2 million compared to last year’s same period. This decline reflects gains on the sale of real estate of $856 thousand realized in the first quarter of 2006 and gains of $301 thousand related to investment securities called by the issuer in the first quarter of 2007. Notwithstanding the aforementioned gains noninterest income for the period decreased approximately $212 thousand, or 3.5%, and was principally attributable to declines in the mortgage segment. Mortgage segment gains on the sale of loans declined $447 thousand, or 16%, from the same quarter a year ago.

On a linked quarter basis, noninterest income declined $1.1 million, or 15.5%, from $7.3 million to $6.2 million for the period ended March 31, 2007. This decline included gains of $401 thousand related to investment securities called by the issuer in the fourth quarter of 2006 compared with a lesser amount of $301 thousand in the first quarter of 2007. The fourth quarter of 2006 also included $328 thousand of income from life insurance proceeds, as well as the receipt of a $289 thousand commission earned on the Company’s purchase of bank-owned life insurance (“BOLI”). Notwithstanding the aforementioned gains, insurance proceeds and BOLI income, noninterest income declined approximately $418 thousand, or 6.6%, and was principally attributable to decreases in other service charges and deposit account charges of $264 thousand (primarily overdraft fees and letter of credit fees) as well as lower gains from the sale of loans of $177 thousand from the mortgage segment.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2007 increased $2.3 million, or 15.0%, to $18.0 million compared to last year’s same period. The acquisition of Prosperity on April 1, 2006 is not included in first quarter 2006 figures. Excluding the noninterest expenses related to Prosperity from the first quarter of 2007, the increase is only $1.2 million, or an increase of 7.8%. The following increases exclude the effects of Prosperity. Salaries and benefits increased $522 thousand, or 5.8%, and were mainly attributable to new hires, increased group insurance costs as well as normal compensation adjustments. Other operating expenses increased $456 thousand, or 10.3%, and principally related to the operation of two additional branches, the relocation of two other branches for closer proximity to and convenience of customers, as well as the necessary infrastructure enhancements needed to support the Company’s continued growth. Some of the infrastructure enhancements include Voice Over Internet Protocol (VOIP) and the associated hardware and software to support this technology. Other initiatives include on-line check deposit technology, as well as enhancements to our internet banking delivery channel. Occupancy expenses increased $185 thousand, or 16.9%, and were principally attributable to increased facilities costs associated with the Company’s continued expansion. Some of these

increased costs included depreciation, property insurance, rental expenses and, to a lesser extent, utility costs. Furniture and equipment expenses increased $49 thousand, or 4.5%, and were attributable to the related depreciation and software costs of the additional branches.

On a linked quarter basis, noninterest expense increased by $662 thousand, or 3.8%, from $17.3 million to $18.0 million for the period ended March 31, 2007. Increases in salaries and benefits of $558 thousand, or 6.3%, are primarily attributable to normal compensation increases and incentive compensation adjustments. Increases in occupancy expenses of $45 thousand, or 3.3%, relate to a full quarter of operations for two branches opened in December 2006. Operating expenses increased only $15 thousand, or .03%, principally driven by increases in underwriting costs from mortgage segment operations, enhanced bandwidth capacity for voice and data offset by lower marketing costs. Furniture and equipment expenses increased only $14 thousand, or 1.2%, as a result of increased equipment maintenance offset by lower repairs.

Income Taxes

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

The Company must also evaluate the likelihood that deferred tax assets will be recovered from future taxable income. If any such assets are not likely to be recovered, a valuation allowance must be recognized. The Company has determined that a valuation allowance is not required for deferred tax assets as of March 31, 2007. The assessment of the carrying value of deferred tax assets is based on certain assumptions, changes in which could have a material impact on the Company's financial statements.

The effective tax rates for the three months ended March 31, 2007 was 29.2%, compared to 28.8%, respectively, for the same period in 2006.

SEGMENT INFORMATION

Community Bank Segment

For the three months ended March 31, 2007, net income for the community banking segment decreased 15.4% or $959 thousand to $5.2 million from the same period last year. As previously discussed, this decline was largely attributable to compression in the margin which resulted in net interest income growth of only $19 thousand, or 1.1%. Additionally, Prosperity was purchased on April 1, 2006 and operating results related to Prosperity are included in the first quarter of 2007 results but not in the first quarter of 2006 results. Additional costs related to two new branches opened since the first quarter of 2006 as well as the relocation of two existing branches to new sites, are reflected in the first quarter of 2007 results. Other increased costs are reflective of our continued investment in people and technology necessary to support our growth and service goals. Additionally, the Company was able to release $750 thousand in specific loan loss reserves due to a reduction in the estimated loss exposure on a large nonperforming credit relationship. See Asset Quality for additional information relating to this credit relationship.

Noninterest income decreased $302 thousand, or 7.1%, in the first quarter of 2007 from the same period a year earlier. This decrease included gains on the sale of real estate of $856 thousand in the first quarter of 2006 and gains on securities called by the issuer during the first quarter of 2007 totaling $301 thousand. Excluding these gains, noninterest income increased approximately $252

thousand, or 7.4%, largely attributable to brokerage income and debit card transaction fee income. Noninterest expense increased $2.5 million or, 19.7%, mainly due to operating costs as a result of the Prosperity purchase and branch expansion. The increases were in salaries and benefits of $1.2 million, operating expenses of $961 thousand, occupancy expenses of $242 thousand and furniture and fixture expenses of $147 thousand.

On a linked quarter basis, community bank segment net income decreased $1.2 million, or 19%, for the period ended March 31, 2007. Lower net interest income of $783 thousand is primarily attributable to two factors: funding costs have continued to rise and loan growth has slowed as a result of decreased residential housing activity in markets we serve. As previously mentioned, $750 thousand in specific loan loss reserves were released during the first quarter of 2007. Total noninterest income declined $945 thousand, or 19.3%, mainly as a result of lower overdraft fee charges, fees from letters of credit and gains related to investment securities called by the issuer. Additionally, the fourth quarter of 2006 included life insurance proceeds of approximately $328 thousand.

Mortgage Segment

For the three months ended March 31, 2007, net income for the mortgage segment declined from $62 thousand of net income in the first quarter of 2006 to a loss of $139 thousand. Although individual loan profitability improved during the middle quarters of 2006 due to increased demand for loan products with greater profit margins, overall loan volume decreased 19.5% from the same period last year. Inventories of existing and new homes have continued to rise within the Company's markets as the housing market has softened in certain of those markets. Net interest income in this segment fell $79 thousand, or 77.5%, over the same period due to tightening interest margins and a reduction in origination volume. An increase in reserves for early payoffs and early payment defaults totaling approximately $42 thousand also contributed to the decline in net income. On a linked quarter basis, mortgage segment net income declined $56 thousand, or 67%. Net interest income increased $11 thousand, or 91.7%, due to slightly more favorable interest margins. A 10.8% decrease in loan originations from the prior quarter coincided with a rise in reserves of approximately $31 thousand.

The mortgage segment continues to focus origination efforts on superior quality loans. While more stringent guidelines have been established by investors on many loan products, the Company does not anticipate that the deterioration of the sub-prime market will have a significant adverse effect on its performance.

BALANCE SHEET

Balance Sheet Overview

At March 31, 2007, total assets were approximately $2.12 billion compared to $2.09 billion and $1.89 billion as of December 31, 2006 and March 31, 2006, respectively. Loans increased $51.5 million, or 3.4%, and $188.5 million, or 13.5%, from December 31, 2006 and March 31, 2006, respectively. Loan growth was concentrated in the commercial real estate and consumer portfolios from the same quarter a year ago and construction and mortgage loans on a linked quarter basis. Deposits grew $1.2 million, or .1%, and $182.4 million, or 12.3%, from December 31, 2006 and March 31, 2006, respectively. This growth was principally attributed to increases in certificates of deposit. Total borrowings also increased by $26.1 million to $229.2 million, from March 31, 2006, in connection with the issuance of the aforementioned Trust Preferred Capital Note (Statutory Trust II) which bears interest at LIBOR plus 140 basis points. The Company's equity to assets ratio has declined slightly from 9.8% at March 31, 2006 and December 31, 2006, respectively, to 9.6% at March 31, 2007.

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing

deposits with banks, money market investments, Federal funds sold, securities available for sale, loans held for sale and loans maturing or re-pricing within one year. Additional sources of liquidity available to the Company include its capacity to borrow additional funds when necessary through Federal funds lines with several correspondent banks and a line of credit with the Federal Home Loan Bank of Atlanta (“FHLB”). Management considers the Company’s overall liquidity to be sufficient to satisfy its depositors’ requirements and to meet its customers’ credit needs.

As of March 31, 2007, cash, interest-bearing deposits in other banks, money market investments, Federal Funds sold, securities available for sale, loans available for sale and loans that mature or reprice in one year totaled $1.3 billion, or 68.4%, of total earning assets. As of March 31, 2007, approximately $934.9 million, or 58.4%, of total loans, are scheduled to mature or reprice within the next year. In addition to deposits, the Company utilizes Federal Funds purchased, FHLB advances, securities sold under agreements to repurchase and customer repurchase agreements, to fund the growth in its loan portfolio, securities purchases, and periodically, wholesale leverage transactions.

Loan Portfolio

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

	March 31, 2007	% of Total Loans	December 31, 2006	% of Total Loans	March 31, 2006	% of Total Loans
Mortgage loans on real estate:						
Residential 1-4 family	**$ 265,621**	**16.6%**	$ 263,770	17.0%	$ 265,063	18.8%
Commercial	**467,070**	**29.2%**	448,691	29.0%	399,372	28.3%
Construction	**355,006**	**22.2%**	324,606	20.9%	300,555	21.3%
Second mortgages	**38,758**	**2.4%**	35,584	2.3%	26,752	1.9%
Equity lines of credit	**112,388**	**7.0%**	112,079	7.2%	93,177	6.6%
Multifamily	**31,432**	**2.0%**	29,263	1.9%	28,897	2.0%
Agriculture	**14,027**	**0.9%**	12,903	0.8%	11,320	0.8%
Total real estate loans	**1,284,302**	**80.3%**	1,226,896	79.2%	1,125,136	79.7%
Commercial Loans	**130,148**	**8.1%**	136,617	8.8%	128,409	9.1%
Consumer installment loans						
Personal	**152,291**	**9.5%**	153,865	9.9%	131,426	9.4%
Credit cards	**10,023**	**0.6%**	9,963	0.6%	8,698	0.6%
Total consumer installment loans	**162,314**	**10.1%**	163,828	10.6%	140,124	10.0%
All other loans	**23,295**	**1.5%**	22,104	1.4%	17,276	1.2%
Gross loans	**$1,600,059**	**100.0%**	$1,549,445	100.0%	$1,410,945	100.0%

As reflected in the loan table at March 31, 2007, the largest component of the Company’s loan portfolio consisted of real estate loans, concentrated in residential 1-4 family, commercial and construction. The risks attributable to these concentrations are mitigated by the Company’s credit underwriting and monitoring process, including oversight by a centralized credit administration function and credit risk and policy management committee, as well as seasoned bankers focusing their lending to borrowers with proven track records in markets with which the Company is familiar.

Asset Quality

The allowance for loan losses represents management’s estimate of the amount adequate to provide for potential losses inherent in the loan portfolio. The Company’s management has established an allowance for loan losses which it believes is adequate for the risk of loss inherent in the loan portfolio. Among other factors, management considers the Company’s historical loss experience, the size and composition of the loan portfolio, the value and adequacy of collateral and guarantors, non-performing credits and current and anticipated economic conditions. There are additional risks of future loan losses, which cannot be precisely quantified nor attributed

to particular loans or classes of loans. Because those risks include general economic trends, as well as conditions affecting individual borrowers, the allowance for loan losses is an estimate. The allowance is also subject to regulatory examinations and determination as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and size of the allowance in comparison to peer companies identified by regulatory agencies.

The Company's asset quality remains good. As noted earlier the provision for loan losses declined $1.3 million from $538 thousand at March 31, 2006 to a recapture of $735 thousand at March 31, 2007. This decline is largely attributable to a reduction of estimated loss exposure to a continued nonperforming credit relationship that was partially reduced from $10.6 million December 31, 2006 to $7.9 million at March 31, 2007. The Company entered into a workout agreement with the borrower in the aforementioned credit relationship in March 2004. Under the terms of the agreement, the Company extended further credit secured by additional property with significant equity. Bankruptcy filings in 2005 by some affiliates of the borrower delayed the accomplishment of targeted actions; however, during the first quarter of 2006, a comprehensive Loan Modification Agreement was signed and the Company improved its overall collateral position. The Company continues to have constructive 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. Based on the specific impairment analysis, $750 thousand in specific reserves were released, leaving approximately $500 thousand in allocated reserves in light of continued uncertainty with respect to the performance of the underlying collateral and borrower's ability to repay.

Management maintains a list of loans that have potential weaknesses which may need special attention. This nonperforming loan list is used to monitor such loans and is used in the determination of the adequacy of the Company's allowance for loan losses. At March 31, 2007, nonperforming assets totaled $8.8 million, including a single credit relationship totaling $7.9 million. This reflects a reduction of $2.7 million in related loans within this relationship from the prior quarter. A prior management decision to extend further credit secured by additional property with significant equity was successful as such equity was extracted from this relationship, reducing the estimated loss exposure and the related specific reserves. The loans to this relationship continue to be secured by real estate (two assisted living facilities).

Net charge-offs were $162 thousand for the quarter ended March 31, 2007 compared to net charge-offs of $23 thousand in the same quarter last year. Net charge-offs were $97 thousand for the quarter ended December 31, 2006.

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

	March 31, 2007	December 31, 2006	March 31, 2006
Nonaccrual loans	**$ 8,558**	$ 10,873	$ 11,962
Foreclosed properties	**—**	—	—
Other real estate owned	**217**	—	—
Total nonperforming assets	**$ 8,775**	$ 10,873	$ 11,962
Balances			
Allowance for loan losses	**$ 18,251**	$ 19,148	$ 17,631
Average loans, net of unearned income	**1,565,888**	1,554,662	1,389,579
Loans, net of unearned income	**1,600,059**	1,549,445	1,410,945
Ratios			
Allowance for loan losses to loans	**1.14%**	1.24%	1.25%
Allowance for loan losses to nonperforming assets	**207.99%**	176.11%	147.39%
Nonperforming assets to loans & other real estate	**55.00%**	0.70%	0.85%
Net charge-offs (recoveries) to average loans	**0.01%**	0.00%	0.01%

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 Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, have adopted capital guidelines to supplement the existing definitions of capital for regulatory purposes and to establish minimum capital standards. Specifically, the guidelines categorize assets and off-balance sheet items into four risk-weighted categories. The minimum ratio of qualifying total assets is 8.0%, of which 4.0% must be Tier 1 capital, consisting of common equity, retained earnings and a limited amount of perpetual preferred stock, less certain intangible items. The Company had a total risk-based capital ratio of 12.48% and a Tier 1 risk-based capital ratio of 11.41% as of March 31, 2007, which allowed 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. The Company's current strategic plan includes a targeted equity to asset ratio between 8% and 9%. As of March 31, 2007, the ratio was 9.57%.

In connection with the latest 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 following summarizes the Company's regulatory capital and related ratios (dollars in thousands):

	March 31, 2007	December 31, 2006	March 31, 2006
Tier 1 capital	**$ 196,192**	$ 194,041	$ 201,480
Tier 2 capital	**18,251**	19,148	17,631
Total risk-based capital	**214,443**	213,189	219,111
Risk-weighted assets	**1,718,902**	1,668,699	1,511,450
Capital ratios:			
Tier 1 risk-based capital ratio	**11.41%**	11.63%	13.33%
Total risk-based capital ratio	**12.48%**	12.78%	14.50%
Leverage ratio (Tier 1 capital to average adjusted assets)	**9.70%**	9.57%	11.32%
Stockholders' equity to assets	**9.57%**	9.53%	9.75%
Tangible equity to tangible assets	**6.86%**	6.87%	8.00%

NON-GAAP MEASURES

In reporting the results as of March 31, 2007, the Company has provided supplemental performance measures on an operating or tangible basis. Such measures exclude amortization expense related to intangible assets, such as core deposit intangibles. The Company believes these measures are useful to investors as they exclude non-operating adjustments resulting from acquisition activity and allow investors to see the combined economic results of the organization. For the three months ended March 31, 2007, cash basis operating earnings per share was $.41 per share as compared to $.49 per share for the same period in 2006. Cash basis return on average tangible equity and assets for the three months ended March 31, 2007 was 15.90% and 1.09%, respectively, compared to 18.52% and 1.48%, respectively, for the same period 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.

A reconciliation of these non-GAAP measures from their respective GAAP basis measures are presented in the following table (dollars in thousands, except share and per share amounts) for the three months ending March 31:

	2007	2006
Net income	**$ 5,148**	$ 6,308
Plus: core deposit intangible amortization, net of tax	**297**	198
Cash basis operating earnings	**5,445**	6,506
Average assets	**2,086,263**	1,819,585
Less: average goodwill	**50,089**	31,297
Less: average core deposit intangibles	**12,108**	8,353
Average tangible assets	**2,024,066**	1,779,935
Average equity	**201,115**	182,110
Less: average goodwill	**50,089**	31,297
Less: average core deposit intangibles	**12,108**	8,353
Average tangible equity	**138,918**	142,460
Weighted average shares outstanding, diluted	**13,413,303**	13,338,116
Cash basis earnings per share, diluted	**$ 0.41**	$ 0.49
Cash basis return on average tangible assets	**1.09%**	1.48%
Cash basis return on average tangible equity	**15.90%**	18.52%

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ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

EARNING 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 three months ended March 31, 2007:

	Change In Net Interest Income	
	%	$
Change in Yield Curve:		
+200 basis points	**2.62%**	**$ 2,217**
+50 basis points	**0.64%**	**543**
Most likely rate scenario	**0.00%**	**—**
-50 basis points	**-0.68%**	**(574)**
-200 basis points	**-2.80%**	**(2,374)**

ECONOMIC VALUE SIMULATION

Economic value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Economic values are calculated based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value over different rate environments is an indication of the longer term earnings capability of the balance sheet. The same assumptions are used in the economic value simulation as in the earnings simulation. The economic value simulation uses instantaneous rate shocks to the balance sheet where the earnings simulation uses rate ramps over 12-months. The following chart reflects the estimated change in net economic value over different rate environments using economic value simulation for the three months ended March 31, 2007:

	Change In Economic Value Of Equity	
	%	$
Change in Yield Curve:		
+200 basis points	**-3.04%**	**$ (11,387)**
+50 basis points	**-0.76%**	**(2,852)**
Most likely rate scenario	**0.00%**	**—**
-50 basis points	**-0.11%**	**(411)**
-200 basis points	**-1.63%**	**(6,102)**

ITEM 4 – CONTROLS AND PROCEDURES

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

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective. There was no change in the internal control over financial reporting that occurred during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

As of March 31, 2007 there were no material changes to the risk factors previously disclosed on the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 6 – Exhibits

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

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

SIGNATURES

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

Union Bankshares Corporation
(Registrant)

Date: May 10, 2007	By: /s/ G. William Beale G. William Beale, President and Chief Executive Officer
Date: May 10, 2007	By: /s/ D. Anthony Peay D. Anthony Peay, Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, G. William Beale, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2007

/s/ G. William Beale

G. William Beale,
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, D. Anthony Peay, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2007

/s/ D. Anthony Peay

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

Exhibit 32.1

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

In connection with the Quarterly Report of Union Bankshares Corporation (the "Company") on Form 10-Q for the period ending March 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

Date: May 10, 2007

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Union Bankshares Corporation and will be retained by Union Bankshares Corporation and furnished to the Securities and Exchange Commission or its staff upon request.