UNION BANKSHARES INC
Form 10-Q
November 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2010

Commission file number: 001-15985

UNION BANKSHARES, INC.

VERMONT	03-0283552

P.O. BOX 667

MAIN STREET

MORRISVILLE, VT 05661

Registrant s telephone number: 802-888-6600

Former name, former address and former fiscal year, if changed since last report: Not applicable

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

Common Stock, $2.00 par value	Nasdaq Stock Market
(Title of class)	**(Exchanges registered on)**

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 [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of

October 29, 2010:

Common Stock, $2 par value	4,455,704 shares

UNION BANKSHARES, INC.

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Item 1. Financial Statements

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2010	December 31, 2009
Assets	(Dollars in thousands)	
Cash and due from banks	$ 4,799	$ 4,942
Federal funds sold and overnight deposits	23,755	17,190
Cash and cash equivalents	28,554	22,132
Interest bearing deposits in banks	15,172	22,975
Investment securities held-to-maturity (fair value $1,504 at 9/30/10)	1,500	-
Investment securities available-for-sale	21,414	24,649
Loans held for sale	3,653	9,262
Loans	362,311	348,827
Allowance for loan losses	(3,697)	(3,493)
Unamortized net loan costs	208	78
Net loans	358,822	345,412
Accrued interest receivable	1,450	1,634
Premises and equipment, net	7,824	7,613
Prepaid FDIC insurance assessment	1,360	1,804
Other real estate owned	1,091	886
Other assets	9,934	11,155
Total assets	$450,774	$447,522
Liabilities and Stockholders Equity		
Liabilities		
Deposits		
Noninterest bearing	$ 57,105	$ 60,129
Interest bearing	319,895	308,698
Total deposits	377,000	368,827
Borrowed funds	24,894	30,993
Liability for defined benefit pension plan	2,937	3,048
Accrued interest and other liabilities	3,449	3,474

Total liabilities	408,280	406,342
Commitments and Contingencies		
Stockholders Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,921,786 shares issued at September 30, 2010 and December 31, 2009	9,844	9,844
Paid-in capital	238	219
Retained earnings	37,355	36,494
Treasury stock at cost; 465,968 shares at September 30, 2010 and 460,578 shares at December 31, 2009	(3,821)	(3,724)
Accumulated other comprehensive loss	(1,122)	(1,653)
Total stockholders' equity	42,494	41,180
Total liabilities and stockholders' equity	$450,774	$447,522

See accompanying notes to unaudited interim consolidated financial statements.

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
	(Dollars in thousands except per share data)			
Interest income				
Interest and fees on loans	$5,375	$5,477	$15,973	$16,293
Interest on debt securities				
Taxable	176	173	556	630
Tax exempt	74	72	221	227
Dividends	1	-	1	1
Interest on federal funds sold and overnight deposits	7	11	15	16
Interest on interest bearing deposits in banks	95	115	327	344
Total interest income	5,728	5,848	17,093	17,511
Interest expense				
Interest on deposits	740	985	2,269	3,236
Interest on borrowed funds	290	292	853	887
Total interest expense	1,030	1,277	3,122	4,123
Net interest income	4,698	4,571	13,971	13,388
Provision for loan losses	200	75	380	245
Net interest income after provision for loan losses	4,498	4,496	13,591	13,143
Noninterest income				
Trust income	126	96	343	278
Service fees	1,020	924	3,004	2,690
Net gains on sales of investment securities available-for-sale	-	30	-	74
Net gains on sales of loans held for sale	403	314	829	800
Other income	76	145	248	290
Total noninterest income	1,625	1,509	4,424	4,132
Noninterest expenses				
Salaries and wages	1,682	1,563	4,839	4,542
Pension and employee benefits	699	760	2,133	2,175
Occupancy expense, net	225	224	701	741
Equipment expense	279	265	771	845
FDIC insurance assessment	114	101	372	566
Other expenses	1,207	1,221	3,703	3,411
Total noninterest expenses	4,206	4,134	12,519	12,280

Income before provision for income taxes	1,917	1,871	5,496	4,995
Provision for income taxes	457	426	1,291	1,048
Net income	$1,460	$1,445	$4,205	$3,947
Earnings per common share	$0.33	$0.32	$0.94	$0.88
Weighted average number of common shares outstanding	4,456,281	4,464,056	4,459,020	4,468,533
Dividends per common share	$0.25	$0.25	$0.75	$0.78

See accompanying notes to unaudited interim consolidated financial statements.

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended September 30, 2010 and 2009

(Unaudited)

	Common stock Shares, net of treasury	Amount	Paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total stockholders equity
				(Dollars in thousands)			
Balances, December 31, 2009	4,461,208	$9,844	$219	$36,494	$(3,724)	$(1,653)	$41,180
Comprehensive income:							
Net income	-	-	-	4,205	-	-	4,205
Other comprehensive income, net of tax:							
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	-	-	-	-	-	458	458
Change in net unrealized loss on unfunded defined benefit plan liability, net of reclassification adjustment and tax effects	-	-	-	-	-	73	73
Total other comprehensive income						531	
Total comprehensive income							4,736
Cash dividends declared ($0.75 per share)	-	-	-	(3,344)	-	-	(3,344)
Stock based compensation expense	-	-	19	-	-	-	19

Purchase of treasury stock	(5,390)	-	-	-	(97)	-	(97)
Balances, September 30, 2010	4,455,818	$9,844	$238	$37,355	$(3,821)	$(1,122)	$42,494
Balances, December 31, 2008	4,474,598	$9,844	$207	$35,869	$(3,500)	$(3,270)	$39,150
Comprehensive income:							
Net income	-	-	-	3,947	-	-	3,947
Other comprehensive income, net of tax:							
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects	-	-	-	-	-	673	673
Change in net unrealized loss on unfunded defined benefit plan liability, net of reclassification adjustment and tax effects	-	-	-	-	-	167	167
Total other comprehensive income						840	
Total comprehensive income							4,787
Cash dividends declared ($0.78 per share)	-	-	-	(3,486)	-	-	(3,486)
Stock based compensation expense	-	-	9	-	-	-	9
Purchase of treasury stock	(12,570)	-	-	-	(210)	-	(210)
Balances, September 30, 2009	4,462,028	$9,844	$216	$36,330	$(3,710)	$(2,430)	$40,250

See accompanying notes to unaudited interim consolidated financial statements.

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$ 4,205	$ 3,947
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	485	557
Provision for loan losses	380	245
Deferred income tax provision (benefit)	162	(327)
Net amortization of investment securities	11	10
Net gains on sales of investment securities available-for-sale	-	(74)
Equity in losses of limited partnerships	319	319
Stock based compensation expense	19	9
Net increase in unamortized loan costs	(130)	(156)
Proceeds from sales of loans held for sale	40,392	54,445
Origination of loans held for sale	(33,954)	(56,854)
Net gains on sales of loans held for sale	(829)	(800)
Net losses on disposals of premises and equipment	6	17
Net gains on sales of repossessed property	(2)	(2)
Write-down of impaired assets	9	76
Net (gains) losses on sales of other real estate owned	(9)	10
Decrease in accrued interest receivable	184	404
Decrease (increase) in other assets	910	(55)
Contribution to defined benefit pension plan	(454)	(1,178)
Increase in other liabilities	608	753
Net cash provided by operating activities	12,312	1,346
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	15,859	13,539
Purchases	(8,056)	(19,430)
Investment securities held-to-maturity		
Proceeds from maturities, calls and paydowns	500	-
Purchases	(2,000)	-
Investment securities available-for-sale		
Proceeds from sales	-	4,128
Proceeds from maturities, calls and paydowns	10,222	4,077
Purchases	(6,304)	(3,253)
Net (increase) decrease in loans	(14,320)	4,259
Recoveries of loans charged off	43	49
Purchases of premises and equipment	(702)	(619)

Investments in limited partnerships	(179)	-
Proceeds from sales of other real estate owned	394	178
Proceeds from sales of repossessed property	20	26
Net cash (used in) provided by investing activities	(4,523)	2,954

	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Cash Flows From Financing Activities		
Repayment of long-term debt	(980)	(1,659)
Net decrease in short-term borrowings outstanding	(5,119)	-
Net decrease in noninterest bearing deposits	(3,024)	(2,195)
Net increase in interest bearing deposits	11,197	7,269
Purchase of treasury stock	(97)	(210)
Dividends paid	(3,344)	(3,486)
Net cash used in financing activities	(1,367)	(281)
Net increase in cash and cash equivalents	6,422	4,019
Cash and cash equivalents		
Beginning of period	22,132	26,330
End of period	$28,554	$30,349
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 3,352	$ 4,384
Income taxes paid	$ 1,305	$ 945
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$ 914	$ 682
Other assets acquired in settlement of loans	$ 19	$ 21
Loans originated to finance the sale of other real estate owned	$ 320	$ 501

See accompanying notes to unaudited interim consolidated financial statements.

UNION BANKSHARES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Union Bankshares, Inc. (the Company) as of September 30, 2010 and 2009, and for the three and nine months then ended have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, general practices within the banking industry, and the accounting policies described in the Company s Annual Report to Shareholders and Annual Report on Form 10-K/A for the year ended December 31, 2009. In the opinion of Company s management, all adjustments, consisting only of normal recurring adjustments and disclosures necessary for a fair presentation of the information contained herein, have been made. This information should be read in conjunction with the Company s 2009 Annual Report to Shareholders and 2009 Annual Report on Form 10-K/A. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2010, or any other interim period.

Certain amounts in the 2009 unaudited interim consolidated financial statements have been reclassified to conform to the 2010 presentation.

Note 2. Commitments and Contingencies

In the normal course of business, the Company is involved in various legal and other proceedings. In the opinion of management, any liability resulting from such proceedings is not expected to have a material adverse effect on the Company s consolidated financial condition or results of operations.

Note 3. Per Share Information

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period and reduced for shares held in treasury. The assumed conversion of available outstanding stock options does not result in material dilution and is not included in the calculation.

Note 4. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), *Fair Value Measurements and Disclosures*: *Improving Disclosures about Fair Value Measurements,* to amend the disclosure requirements and clarify existing requirements related to recurring and nonrecurring fair value measurements and employers disclosures about postretirement benefit plan assets. The guidance requires new disclosures regarding transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities, separately reporting purchases, sales, issuance, and settlements, for assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The new disclosure requirements apply to interim and annual reporting periods beginning after December 15, 2009, except for the new rules regarding purchases, sales, issuances and settlements associated with Level 3 measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Other than requiring additional disclosures, adoption of this accounting standard did not have a material effect on the Company s consolidated financial statements. See Note 8.

In July 2010, the FASB issued an ASU, *Receivables- Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures will be required on a disaggregated basis- portfolio segment and class of financing receivable. The new disclosures will require an entity to provide credit quality indicators of financing receivables at the end of the reporting period by class, the aging of past due financing receivables at the end of the reporting period by class, the nature and extent of troubled debt restructurings that occurred during the period by class and their effect on the allowance for loan losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous twelve months that defaulted during the reporting period by class and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. The ASU also requires existing disclosures be amended for an entity to provide disclosures about its financing receivables on a disaggregated basis including a rollforward schedule of allowance for credit losses for the reporting period on a portfolio segment basis with the ending balance further disaggregated on the basis of the impairment method and the related recorded investment in financing receivables as well as the nonaccrual and/or impairment status of financing receivables by class. The new and amended disclosures for public entities as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this ASU encourage, but do not require, comparative disclosures for earlier reporting periods. Other than requiring additional disclosures, the Company does not anticipate the adoption of this ASU will have a material impact on the Company s consolidated financial statements.

Note 5. Investment Securities

Investment securities as of the balance sheet dates consisted of the following:

September 30, 2010:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(Dollars in thousands)		
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$ 1,277	$ 14	$ (2)	$ 1,289
Mortgage-backed	4,441	102	(5)	4,538
State and political subdivisions	8,596	550	-	9,146
Corporate	5,725	583	-	6,308
Total debt securities	20,039	1,249	(7)	21,281
Marketable equity securities	50	1	(5)	46
Mutual funds	87	-	-	87
Total	$20,176	$1,250	$(12)	$21,414
Held-to-maturity				
U.S. Government-sponsored enterprises	$ 1,500	$ 4	$ -	$ 1,504

December 31, 2009:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(Dollars in thousands)		
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$ 4,499	$ 3	$(48)	$ 4,454
Mortgage-backed	4,750	112	(2)	4,860
State and political subdivisions	7,548	166	(28)	7,686
Corporate	7,176	349	(2)	7,523

Total debt securities	23,973	630	(80)	24,523
Marketable equity securities	50	-	(6)	44
Mutual funds	82	-	-	82
Total	$24,105	$630	$(86)	$24,649

There were no sales of securities available-for-sale for the nine months ended September 30, 2010. Proceeds from the sale of securities available-for-sale for the nine months ended September 30, 2009 were $4.1 million. Gross realized gains from sales of investments available-for-sale were $74 thousand for the nine months ended September 30, 2009 with no gross realized losses. The specific identification method is used to determine realized gains and losses on sales of available-for-sale securities.

The amortized cost and estimated fair value of debt securities (dollars in thousands) by contractual scheduled maturity as of September 30, 2010 were as follows:

	Amortized Cost	Fair Value
Available-for-sale		
Due in one year or less	$ 476	$ 490
Due from one to five years	3,583	3,803
Due from five to ten years	5,406	5,957
Due after ten years	6,133	6,493
	15,598	16,743
Mortgage-backed securities	4,441	4,538
Total debt securities	$20,039	$21,281
Held-to-maturity		
Due from five to ten years	$ 1,500	$ 1,504

Actual maturities may differ for certain debt securities that may be called by the issuer prior to the contractual maturity. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid, usually without any penalties. Therefore, these mortgage-backed securities are shown separately and not included in the maturity categories in the above maturity summary.

The fair values (dollars in thousands) of investment securities available-for-sale with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position were as follows:

September 30, 2010:	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities:						
U.S.Government-sponsored enterprises	$ 775	$(2)	$ -	$ -	$ 775	$(2)
Mortgage-backed	1,348	(5)	-	-	1,348	(5)
Total debt securities	2,123	(7)	-	-	2,123	(7)
Marketable equity securities	-	-	9	(5)	9	(5)
Total	$2,123	$(7)	$9	$(5)	$2,132	$(12)

December 31, 2009:	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities:						

U.S. Government-sponsored enterprises	$3,951	$(48)	$ -	$ -	$3,951	$(48)
Mortgage-backed	546	-	160	(2)	706	(2)
State and political subdivisions	1,120	(11)	276	(17)	1,396	(28)
Corporate	498	(2)	-	-	498	(2)
Total debt securities	6,115	(61)	436	(19)	6,551	(80)
Marketable equity securities	35	(1)	9	(5)	44	(6)
Total	$6,150	$(62)	$445	$(24)	$6,595	$(86)

The Company evaluates all investment securities on a quarterly basis, and more frequently when economic conditions warrant, determining if an other-than-temporary impairment exists. A debt security is considered impaired if the fair value is lower than its amortized cost basis at the report date. If impaired, management then assesses whether the impairment is other-than-temporary.

Authoritative guidance provides that an unrealized loss on a debt security is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an other-than-temporary impairment write-down is recorded, net of tax effect, through net income as a component of net other-than-temporary impairment losses in the consolidated statement of income, while the remaining portion of the impairment loss is recognized in other comprehensive income (loss) reflected in stockholders equity in the balance sheet, provided the Company does not intend to sell the underlying debt security and it is more likely than not that the Company will not have to sell the debt security prior to recovery.

Management considers the following factors in determining whether an other-than-temporary impairment exists and the period over which the debt security is expected to recover:

- The length of time, and extent to which, the fair value has been less than the amortized cost;
- Adverse conditions specifically related to the security, industry, or geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security and the likelihood of the issuer being able to make payments that may increase in the future;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency;
- Recoveries or additional declines in fair value subsequent to the balance sheet date; and
- The nature of the issuer, including whether it is a private company, public entity or government-sponsored enterprise, and the existence or likelihood of any government or third party guaranty.

At September 30, 2010, available-for-sale securities, consisting of two U.S. Government-sponsored enterprises, one agency collateralized mortgage obligation, one agency mortgage-backed security and one marketable equity security had unrealized losses of $12 thousand. Only the one marketable equity security has had an unrealized loss of greater than twelve months and the Company has the ability to hold such security for the foreseeable future. No declines were deemed by management to be other-than-temporary at September 30, 2010.

Investment securities with a carrying amount of $1.7 million and $3.6 million at September 30, 2010 and December 31, 2009, respectively, were pledged as collateral for public deposits and for other purposes as required or permitted by law.

Note 6. Defined Benefit Pension Plan

Union Bank, the Company s sole subsidiary, sponsors a noncontributory defined benefit pension plan covering all eligible employees. The plan provides defined benefits based on years of service and final average salary.

Net periodic pension benefit cost for the three and nine months ended September 30 consisted of the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Service cost	$144	$144	$433	$433
Interest cost on projected benefit obligation	193	180	579	540
Expected return on plan assets	(182)	(133)	(547)	(400)
Amortization of prior service cost	1	2	4	5
Amortization of net loss	36	79	107	237
Net periodic benefit cost	$192	$272	$576	$815

Note 7. Other Comprehensive Income (Loss)

Accounting principles generally require recognized revenue, expenses, gains, and losses be included in net income or loss. Certain changes in assets and liabilities, such as the after tax effect of unrealized gains and losses on investment securities available-for-sale that are not other than temporarily impaired, are not reflected in the statement of income. The cumulative effect of such items is reflected as a separate component of the equity section of the balance sheet (accumulated other comprehensive income or loss). Other comprehensive income or loss, along with net income, comprises the Company s total comprehensive income or loss. As of the balance sheet dates, the components of accumulated other comprehensive loss, net of tax, were:

	September 30, 2010	**December 31, 2009**
	(Dollars in thousands)	
Net unrealized gain on investment securities available-for-sale	$ 817	$ 359
Defined benefit pension plan:		
Net unrealized actuarial loss	(1,927)	(1,997)
Net unrealized prior service cost	(12)	(15)
Total	$(1,122)	$(1,653)

The following comprised total comprehensive income for the three and nine months ended September 30:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
	(Dollars in thousands)			
Net income	$1,460	$1,445	$4,205	$3,947
Investment securities available-for-sale:				
Net unrealized holding gains on investment securities available-for-sale, net of tax	236	449	458	722
Reclassification adjustment for net gains on investment securities available-for-sale realized in net income, net of tax	-	(20)	-	(49)
Total	236	429	458	673
Defined benefit pension plan:				
Reclassification adjustment for amortization of net actuarial loss realized in net income, net of tax	23	55	70	164
Reclassification adjustment for amortization of prior service cost realized in net income, net of tax	1	1	3	3
Total	24	56	73	167
Total other comprehensive income	260	485	531	840
Total comprehensive income	$1,720	$1,930	$4,736	$4,787

Note 8: Fair Value Measurements and Disclosures

The Company utilizes FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, as guidance for accounting for assets and liabilities carried at fair value. This standard defines fair value as the price that would be received, without adjustment for transaction costs, to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The guidance in FASB ASC Topic 820 establishes a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following is a description of the valuation methodologies used for the Company s financial assets that are measured on a recurring basis at estimated fair value:

Investment securities available-for-sale: Certain corporate debt securities, marketable equity securities and mutual funds have been valued using unadjusted quoted prices from active markets and therefore have been classified as level 1. However, the majority of the Company s available-for-sale investment securities have been valued utilizing level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Assets measured at fair value on a recurring basis at September 30, 2010 and December 31, 2009, segregated by fair value hierarchy level, are summarized below:

		Fair Value Measurements		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(Dollars in thousands)		
September 30, 2010:				
Investment securities available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$ 1,289	$ -	$ 1,289	$ -
Mortgage-backed	4,538	-	4,538	-
State and political subdivisions	9,146	-	9,146	-
Corporate	6,308	4,114	2,194	-
Total debt securities	21,281	4,114	17,167	-
Marketable equity securities	46	46	-	-
Mutual funds	87	87	-	-
Total	$21,414	$4,247	$17,167	$ -
December 31, 2009:				
Investment securities available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$ 4,454	$ -	$ 4,454	$ -

Mortgage-backed	4,860	-	4,860	-
State and political subdivisions	7,686	-	7,686	-
Corporate	7,523	5,279	2,244	-
Total debt securities	24,523	5,279	19,244	-
Marketable equity securities	44	44	-	-
Mutual funds	82	82	-	-
Total	$24,649	$5,405	$19,244	$ -

There were no significant transfers in or out of Levels 1 and 2 for the quarter or nine months ended September 30, 2010. Certain other assets and liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets and liabilities measured at fair value on a nonrecurring basis such as investment securities held-to-maturity, other real estate owned, impaired loans and mortgage servicing rights were not significant at

September 30, 2010 or December 31, 2009. The Company has not elected to apply the fair value option to any financial assets or liabilities other than those situations where other accounting pronouncements require fair value measurements.

FASB ASC Topic 825*, Financial Instruments,* requires disclosure of the estimated fair value of financial instruments. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Management s estimates and assumptions are inherently subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could dramatically affect the estimated fair values. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Certain financial instruments may be excluded from the fair value disclosure requirements. Thus, the aggregate fair value amounts presented may not necessarily represent the actual underlying fair value of all financial instruments of the Company. In addition, all nonfinancial instruments may be excluded from the fair value disclosures.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Interest bearing deposits in banks: Fair values for interest bearing deposits in banks are based on discounted present values of cash flows.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, with the assistance of an independent pricing service, management s fair value measurements consider observable data which may include market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Loans and loans held for sale: Fair values of loans are estimated for portfolios of loans with similar financial characteristics and segregated by loan type. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed-rate residential, commercial real estate, and rental property mortgage loans, and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future cash flows, future expected loss experience and risk characteristics. The carrying amounts reported in the balance sheet for loans that are held for sale approximate their estimated fair values. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits: The fair values disclosed for demand deposits or nonmaturity deposits (for example, checking and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate time deposits approximate their estimated fair values at the reporting date. The fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated contractual maturities on such time deposits.

Accrued interest receivable and payable: The carrying amounts of accrued interest approximate their estimated fair values.

Federal Home Loan Bank (FHLB) of Boston stock: The carrying amount approximates its estimated fair value.

Borrowed funds: The fair values of the Company s long-term debt are estimated using discounted cash flow analysis based on interest rates currently being offered on similar debt instruments. The fair values of the Company s short-term debt approximate the carrying amounts reported in the balance sheet.

Off-balance-sheet financial instruments: Estimated fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The only commitments to extend credit that are normally longer than one year in duration are the Home Equity Lines whose interest rates are variable quarterly. The only fees collected for commitments are an annual fee on credit card arrangements and often a flat fee on commercial lines of credit and standby letters of credit. The estimated fair value of off-balance-sheet financial instruments is not significant.

As of the balance sheet dates, the estimated fair values and related carrying amounts of the Company's significant financial instruments were as follows:

	September 30, 2010		**December 31, 2009**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets		(Dollars in thousands)		
Cash and cash equivalents	$ 28,554	$ 28,554	$ 22,132	$ 22,132
Interest bearing deposits in banks	15,172	15,438	22,975	23,346
Investment securities held-to-maturity	1,500	1,504	-	-
Investment securities available-for-sale	21,414	21,414	24,649	24,649
Loans and loans held for sale, net	362,475	357,321	354,674	346,797
Accrued interest receivable	1,450	1,450	1,634	1,634
FHLB of Boston stock	1,922	1,922	1,922	1,922
Financial liabilities				
Deposits	$377,000	$377,528	$368,827	$369,500
Borrowed funds	24,894	28,484	30,993	35,584
Accrued interest payable	326	326	556	556

The carrying amounts in the preceding table are included in the balance sheet under the applicable captions.

Note 9. Subsequent Events

Subsequent events represent events or transactions occurring after the balance sheet date but before the financial statements are issued. Financial statements are considered issued when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP. Events occurring subsequent to September 30, 2010 have been evaluated as to their potential impact to the consolidated financial statements.

On October 20, 2010, Union Bankshares, Inc. declared a $0.25 per share regular quarterly cash dividend payable November 10, 2010 to stockholders of record on October 30, 2010.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion and analysis by management focuses on those factors that had a material effect on the financial position of Union Bankshares, Inc. (the Company) as of September 30, 2010 and December 31, 2009, and its results of operations for the three and nine months ended September 30, 2010 and 2009. This discussion is being presented to provide a narrative explanation of the consolidated financial statements and should be read in conjunction with the consolidated financial statements and related notes and with other financial data appearing elsewhere in this filing and with the Company s Annual Report on Form 10-K/A for the year ended December 31, 2009. In the opinion of the Company s management, the interim unaudited data reflects all adjustments, consisting only of normal recurring adjustments, and disclosures necessary to fairly present the Company s consolidated financial position and results of operations for the interim periods presented. Management is not aware of the occurrence of any events after September 30, 2010 which would materially affect the information presented.

CAUTIONARY ADVICE ABOUT FORWARD LOOKING STATEMENTS

The Company may from time to time make written or oral statements that are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include financial projections, statements of plans and objectives for future operations, estimates of future economic performance or conditions and assumptions relating thereto. The Company may include forward-looking statements in its filings with the Securities and Exchange Commission (SEC), in its reports to stockholders, including this Quarterly Report, in press releases, other written materials, and in statements made by senior management to analysts, rating agencies, institutional investors, representatives of the media and others.

Forward-looking statements reflect management s current expectations and are subject to uncertainties, both general and specific, and risk exists that actual results will differ from those predictions, forecasts, projections and other estimates contained in forward-looking statements. These risks cannot be readily quantified. When management uses any of the words believes, expects, anticipates, intends, plans, seeks, estimates, may, could, woul expressions, they are making forward looking statements. Many possible events or factors, including those beyond the control of management, could affect the future financial results and performance of the Company and could cause results or performance to differ materially from those expressed in forward-looking statements. Management has discussed some of the more likely factors that might affect forward-looking statements in this report on Form 10-Q. Those factors include the following:

loans and investments may be called or prepaid prior to their contractual maturity or become other than temporarily impaired;
future cash requirements might be higher than anticipated due to loan commitments or unused lines of credit being drawn upon or depositors withdrawing their funds at higher volumes or in different time frames than anticipated based on historical patterns and contractual terms;
assumptions made regarding interest rate movement and sensitivity could vary substantially if actual experience differs from historical experience, which could adversely affect the Company s results of operations;
further expansion of fair value accounting as proposed by the Financial Accounting Standards Board (FASB) which could result in, among other things, volatility in reported asset values and earnings;
uncontrollable increases in the cost of doing business, such as increased costs of Federal Deposit Insurance Corporation (FDIC) insurance or higher taxes, assessments, compliance or audit expense imposed by regulatory or legislative bodies;
regulatory limitations placed on income producing methods including the limiting of debit and credit card interchange fees and restricting of asset sales;

the failure of actuarial, investment, work force, salary and other assumptions underlying the establishment of reserves for future pension costs or changes in legislative or regulatory requirements affecting such costs;
further disruptions in U.S. and global financial and credit markets;
ability of financial institutions to offer interest bearing transaction accounts to all customers as of July 21, 2011 and the resulting competitive impacts and the impact on the cost of deposits;
further modification of the federal Transaction Account Guaranty Program (TAG program) providing unlimited deposit insurance for two years beginning January 1, 2011 which becomes mandatory for all banks and will no longer cover any interest bearing transaction accounts;
changes to the Company s and/ or the financial market operations resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act or the Act);
adverse changes in the local real estate market, which negatively impact collateral values and the Company s ability to recoup loan losses through disposition of real estate collateral;
changes in monetary, regulatory or tax policy that could affect consumer behavior;
continuing economic instability, including high unemployment rates, higher taxation and resolution of entitlement programs; and
changes in state foreclosure policies or procedures, which may result in delays in lien enforcement and additional cost.

When evaluating forward-looking statements to make decisions with respect to the Company, investors and others are cautioned to consider these and other risks and uncertainties, including the events and circumstances discussed under Recent Developments below, and are reminded not to place undue reliance on such statements. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update them to reflect new or changed information or events, except as may be required by federal securities laws.

RECENT DEVELOPMENTS

In June 2010, The U.S. Banker magazine ranked Union Bankshares, Inc. number 41 based on 3 year return on average equity (ROAE), from a list including all U.S. banks and thrifts listed on major exchanges, pink sheets and stock trading bulletin boards or who filed with the SEC and had under $2 billion in assets. The Company had an ROAE of 13.07% and a 2009 ROAE of 13.29%. The Company has been ranked by the U.S. Banker Magazine in the top 125 or better for each of the last five years.

The U.S. and global economies have experienced significant stress and disruptions in the financial sector over the last three years but certain segments are showing signs of stabilization or recovery. Interest rates remain at historic lows, bank failures are higher than they have been in over 15 years, the FDIC collected three years of prepaid assessments from the remaining banks and the amount of government dollars pumped into the financial system is unprecedented. Dramatic slowdowns in the housing industry with falling home prices, continuing foreclosures and the high unemployment rate have resulted in significant problems for some financial institutions, including government-sponsored entities and investment banks. These problems have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Economic instability progressed to many other business and government sectors and has affected the majority of consumers as well. Tough decisions face our elected representatives and local municipal governments as the recession continues and they face how to recover from the growing deficit situation without making the current recession worse. Resolution of the future of taxation, housing finance programs and entitlement programs including healthcare and government spending will affect all consumers and businesses including Union Bankshares, Inc. and its subsidiary, Union Bank (Union).

Despite the volatile economy, Vermont continues to have the lowest residential foreclosure rate in the country with 143 foreclosures in 2009, but the pace of foreclosures did increase 4.4% in 2009 from 2008. Also, as northern New England had not experienced the dramatic run up in housing prices, likewise, we have not seen the values drop as far as other parts of the country. New England has also not seen unemployment rates as high as some parts of the country (national average for September 2010 was 9.6%) with Vermont s rate dropping to 5.8% for September 2010 from 6.6% in September 2009.

In response to the financial crisis affecting the banking and financial markets, many new laws, regulations and programs have been adopted or proposed. The Company s 2009 annual report on Form 10-K/A discussed those that management believed would have a known impact on the Company or its operations. The discussion below mentions those government actions or initiatives that have changed or been added or whose financial impact on the Company is not yet known.

The Dodd-Frank Act, signed into law in July 2010, represents a dramatic rewrite of the rules governing all financial service providers and products and will usher in a new era of regulation. The Act has some key reform provisions that will level the playing field for community banks in some areas including: asset-based deposit insurance assessments, resolution of too-big-to fail institutions, regulation on nonbank competitors and others as discussed below. It will also mean numerous new regulations to be adopted by the regulators and implemented by the financial services industry. The Dodd-Frank Act requires more than 60 studies be conducted and more than 200 regulations be written over the next couple of years, resulting in years of uncertainty for banks and other affected entities. The Act s impact will not only be felt by the banking industry but by consumers and businesses that rely on banks everyday to meet their financial needs. Also, many of the new rules require international cooperation and consistency with international standards, further complicating and likely delaying the regulatory implementation process.

The Dodd-Frank Act creates an independent Bureau of Consumer Financial Protection to oversee consumer financial protection regulations for all providers of financial services products with the exception of the Community Reinvestment Act requirements and ensure consumers are protected from unfair, deceptive or abusive practices. There are a number of current consumer regulations which may be amended as a result of this legislation. The Act authorizes the Secretary of the Treasury to establish a multi-year program of grants, agreements and similar undertakings to promote initiatives that enable low and moderate income individuals access to financial products that meet their financial needs and are of reasonable cost. Products would include deposit accounts, savings accounts and closed end loans. The Secretary is also authorized to establish multi-year programs to provide low-cost alternatives to small-dollar loans.

The Dodd-Frank Act eliminated the requirement under the Sarbanes-Oxley Act for the preparation and inclusion in a nonaccelerated filer s (less than $75 million in market capitalization held by nonaffiliates) annual report of an independent auditor s attestation regarding the effectiveness of the company s internal controls over financial reporting, which was to have begun for 2010. This should save the Company approximately $17 thousand, after tax, annually. Disclosure of management attestations on internal control over financial reporting is still required.

The increase in the FDIC insurance coverage limits to $250,000 per depositor per ownership category at each insured financial institution has been made permanent retroactive to January 1, 2008 which will have a negative effect on the FDIC insurance reserve in light of the thirteen financial institutions that failed between January 1, 2008 and October 3, 2008.

The temporary opt-in 100% guaranty on deposits in noninterest bearing transaction deposit accounts under the FDIC TAG Program which was scheduled to expire on June 30, 2010 for participating financial institutions continues until December 31, 2010 at a cost of 15 basis points per annum. The definition of noninterest bearing transaction deposit account changed on July 1, 2010 to qualifying deposit accounts paying a rate of 0.25% or less from its earlier definition of 0.50%. Under the Dodd-Frank Act, the coverage is being extended to all banks for 2011 and 2012 but will only apply to demand deposit accounts where no interest is paid. The coverage will no longer be a special program but a part of the regular FDIC insurance coverage. The cost for this coverage has not yet been determined. The Dodd-

Frank Act removes the prohibition on payment of interest on demand deposit accounts as of July 21, 2011 but only accounts that pay no interest will be 100% insured.

The Dodd-Frank Act will also change the formula under which banks pay for FDIC insurance coverage from a quarterly assessment based on covered deposits at each quarter end to total average assets less average tangible equity. An effective date for this change has not yet been determined but management believes this change will lower future FDIC assessment costs for the Company once implemented. On the other hand, the Act also increases the FDIC s minimum reserve ratio from 1.15% to not less than 1.35% of the estimated insured deposits or the new assessment base by 2020. This change could mean increased assessments in the future; however, the Dodd-Frank Act does require the FDIC to mitigate the effect of the increase in the reserve ratio on financial institutions, such as the Company, that are under $10 billion in assets. The Act also requires the FDIC to evaluate the definitions of core deposits and brokered deposits and their impact on the economy and the banking sector, as well as any potential impact from redefining core deposits.

The Act authorizes and encourages higher capital requirements to apply to insured depository institutions, bank and thrift holding companies, and systemically important nonbank financial companies but leaves much of the details up to the Federal regulators. These new requirements will include new source of strength rules for bank holding companies with regard to their depository institution subsidiaries. Eventually the requirements will also have to provide consistency with evolving Basel III standards which have not yet been finalized. Stricter capital standards will be imposed for interstate acquisitions requiring firms to be well capitalized and well managed . The Act also modifies regulations related to transactions with affiliates, lending limits, charter conversions, SEC s elective investment bank holding company framework (eliminated) and supervision of securities holding companies.

The Act also will provide shareholders with a nonbinding say on pay and certain corporate affairs for publicly held companies. Smaller reporting companies, such as the Company, will be subject to a scaled-down version of these requirements. These changes will have to be aligned with the recently published guidance issued by the federal banking regulators in June 2010 which discusses better emerging practices related to incentive compensation operating models, including governance structures, identification and assessment of covered employees, quarterly and annual review processes, and the interface with the institution s enterprise risk management program, as well as with SEC regulations yet to be fully developed.

The FASB has also issued a number of new accounting proposals which are currently out for comment that would have an impact on the Company s financial statements and/or footnote disclosures in the future if adopted. These proposals include a new statement of comprehensive income which would incorporate a continuous statement of financial performance pulling together information that is currently detailed in various financial statements and footnotes. A proposed clarification to accounting for troubled debt restructurings by creditors would assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment and for disclosure of troubled debt restructurings.

A new fair value measurements and disclosures proposal by FASB would require companies to use mark-to-market values for reporting financial instruments on their balance sheets. This means that under the proposal, all loans and debt securities would be recorded at fair value, as would most financial liabilities, including deposits. This proposal will distort the carrying values on the balance sheet and subject capital to volatility that is not reflective of a Company s financial position or the cash flows expected to be generated. The proposal includes the addition of unfunded loan commitments to the balance sheet as an asset and a liability which would change the fundamental nature of the balance sheet and make historical ratio calculations meaningless. The requirement included in the proposal to measure loan loss reserves on a forward-looking expected loss vs. incurred loss and to add a component for debt securities held for long-term investment would further inhibit investment