

UNION BANKSHARES INC  
Form 10-Q  
November 12, 2014

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, 2014

Commission file number: 001-15985

UNION BANKSHARES, INC.

VERMONT

03-0283552

P.O. BOX 667  
20 LOWER 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  
(Title of class)

Nasdaq Stock Market  
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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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 ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of November 3, 2014:

Common Stock, \$2 par value

4,458,430 shares

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

UNION BANKSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(Unaudited)	
Assets	(Dollars in thousands)	
Cash and due from banks	\$4,254	\$5,223
Federal funds sold and overnight deposits	19,531	25,496
Cash and cash equivalents	23,785	30,719
Interest bearing deposits in banks	12,112	17,613
Investment securities available-for-sale	43,777	34,281
Investment securities held-to-maturity (fair value \$9.3 million and \$10.4 million at September 30, 2014 and December 31, 2013, respectively)	9,643	11,211
Loans held for sale	6,065	3,840
Loans	481,006	461,113
Allowance for loan losses	(4,758)	(4,647)
Net deferred loan costs	295	170
Net loans	476,543	456,636
Accrued interest receivable	1,823	1,663
Premises and equipment, net	11,154	10,678
Core deposit intangible	1,139	1,267
Goodwill	2,223	2,223
Investment in real estate limited partnerships	2,627	3,119
Company-owned life insurance	3,497	3,393
Other assets	8,278	8,800
Total assets	\$602,666	\$585,443
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	\$94,604	\$87,247
Interest bearing	297,444	269,614
Time	138,990	161,493
Total deposits	531,038	518,354
Borrowed funds	14,940	13,216
Accrued interest and other liabilities	4,016	4,053
Total liabilities	549,994	535,623
Commitments and Contingencies		
Stockholders' Equity		
Common stock, \$2.00 par value; 7,500,000 shares authorized; 4,929,296 shares issued at September 30, 2014 and 4,927,286 shares issued at December 31, 2013	9,859	9,855
Additional paid-in capital	414	363
Retained earnings	45,735	43,405
Treasury stock at cost; 470,866 shares at September 30, 2014 and 468,927 shares at December 31, 2013	(3,925)	(3,880)
Accumulated other comprehensive income	589	77
Total stockholders' equity	52,672	49,820
Total liabilities and stockholders' equity	\$602,666	\$585,443

See accompanying notes to unaudited interim consolidated financial statements.

Union Bankshares, Inc. Page 1

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UNION BANKSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Interest and fees on loans	\$5,900	\$5,944	\$17,490	\$17,399
Interest on debt securities:				
Taxable	196	138	607	388
Tax exempt	96	71	268	211
Dividends	24	17	55	46
Interest on federal funds sold and overnight deposits	6	3	14	26
Interest on interest bearing deposits in banks	36	59	120	178
Total interest and dividend income	6,258	6,232	18,554	18,248
Interest expense				
Interest on deposits	424	476	1,317	1,480
Interest on borrowed funds	104	133	317	390
Total interest expense	528	609	1,634	1,870
Net interest income	5,730	5,623	16,920	16,378
Provision for loan losses	150	95	300	230
Net interest income after provision for loan losses	5,580	5,528	16,620	16,148
Noninterest income				
Trust income	183	155	549	472
Service fees	1,424	1,326	3,981	3,772
Net gains (losses) on sales of investment securities available-for-sale	234	—	296	(1)
Net gains on sales of loans held for sale	653	541	1,594	1,791
Other income	215	177	368	436
Total noninterest income	2,709	2,199	6,788	6,470
Noninterest expenses				
Salaries and wages	2,253	2,320	6,694	6,712
Pension and employee benefits	692	596	2,062	1,917
Occupancy expense, net	272	249	906	871
Equipment expense	436	385	1,233	1,199
Other expenses	1,899	1,559	5,122	4,806
Total noninterest expenses	5,552	5,109	16,017	15,505
Income before provision for income taxes	2,737	2,618	7,391	7,113
Provision for income taxes	611	545	1,582	1,506
Net income	\$2,126	\$2,073	\$5,809	\$5,607
Earnings per common share	\$0.47	\$0.47	\$1.30	\$1.26
Weighted average number of common shares outstanding	4,458,422	4,458,025	4,458,380	4,456,891
Dividends per common share	\$0.26	\$0.25	\$0.78	\$0.75

See accompanying notes to unaudited interim consolidated financial statements.

UNION BANKSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30, 2014		September 30, 2013		Nine Months Ended September 30, 2014		2013	
	(Dollars in thousands)							
Net income	\$2,126		\$2,073		\$5,809		\$5,607	
Other comprehensive (loss) income, net of tax:								
Investment securities available-for-sale:								
Net unrealized holding (losses) gains arising during the period on investment securities available-for-sale	(35	)	(131	)	707		(740	)
Reclassification adjustment for net (gains) losses on investment securities available-for-sale realized in net income	(154	)	—		(195	)	1	
Total	(189	)	(131	)	512		(739	)
Defined benefit pension plan:								
Net actuarial loss arising during the period	—		—		—		(33	)
Reclassification adjustment for amortization of net actuarial loss realized in net income	—		31		—		94	
Total	—		31		—		61	
Total other comprehensive (loss) income	(189	)	(100	)	512		(678	)
Total comprehensive income	\$1,937		\$1,973		\$6,321		\$4,929	

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended September 30, 2014 and 2013 (Unaudited)

	Common Stock					Accumulated	Total
	Shares, net of treasury	Amount	Additional paid-in capital	Retained earnings	Treasury stock	other comprehensive income (loss)	stockholders' equity
(Dollars in thousands, except per share data)							
Balances, December 31, 2013	4,458,359	\$9,855	\$363	\$43,405	\$(3,880)	\$77	\$49,820
Net income	—	—	—	5,809	—	—	5,809
Other comprehensive income	—	—	—	—	—	512	512
Cash dividends declared (\$0.78 per share)	—	—	—	(3,479)	—	—	(3,479)
Stock based compensation expense	—	—	16	—	—	—	16
Exercise of stock options	2,010	4	35	—	—	—	39
Purchase of treasury stock	(1,939)	—	—	—	(45)	—	(45)
Balances, September 30, 2014	4,458,430	\$9,859	\$414	\$45,735	\$(3,925)	\$589	\$52,672
Balances, December 31, 2012	4,456,081	\$9,848	\$295	\$40,772	\$(3,859)	\$(2,010)	\$45,046
Net income	—	—	—	5,607	—	—	5,607
Other comprehensive loss	—	—	—	—	—	(678)	(678)
Cash dividends declared (\$0.75 per share)	—	—	—	(3,344)	—	—	(3,344)
Stock based compensation expense	—	—	9	—	—	—	9
Exercise of stock options	3,300	7	56	—	—	—	63
Purchase of treasury stock	(1,022)	—	—	—	(21)	—	(21)
Balances, September 30, 2013	4,458,359	\$9,855	\$360	\$43,035	\$(3,880)	\$(2,688)	\$46,682

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,	
	2014	2013
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	\$5,809	\$5,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	708	679
Provision for loan losses	300	230
Deferred income tax (credit) provision	(24	) 557
Net amortization of investment securities	67	36
Equity in losses of limited partnerships	492	518
Stock based compensation expense	16	9
Net increase in unamortized loan costs	(125	) (7
Proceeds from sales of loans held for sale	74,327	99,732
Origination of loans held for sale	(74,958	) (91,148
Net gains on sales of loans held for sale	(1,594	) (1,791
Net loss on disposals of premises and equipment	19	—
Net (gains) losses on sales of investment securities available-for-sale	(296	) 1
Write-downs of impaired assets	—	36
Net gains on sales of other real estate owned	(134	) (8
Increase in accrued interest receivable	(160	) (126
Amortization of core deposit intangible	129	129