

REFINITIV

DELTA REPORT

10-Q

UNB - UNION BANKSHARES INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 935

█ CHANGES 465

█ DELETIONS 213

█ ADDITIONS 257

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

OR

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

For the quarterly period ended: June 30, 2023 September 30, 2023

Commission file number: 001-15985

UNION BANKSHARES, INC.

VT

03-0283552

20 LOWER MAIN STREET, P.O. BOX 667
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:

<u>Common Stock, \$2.00 par value</u> (Title of class)	<u>UNB</u> (Trading Symbol)	<u>Nasdaq Stock Market</u> (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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 28, 2023 October 27, 2023.

Common Stock, \$2 par value 4,507,098 4,507,219 shares

UNION BANKSHARES, INC.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

Assets	Assets	June 30, 2023		December 31, 2022		Assets	September 30, 2023		December 31, 2022	
		(Unaudited)					(Dollars in thousands)			
Cash and due from banks	Cash and due from banks	\$ 4,351		\$ 4,504		Cash and due from banks	\$ 4,187		\$ 4,504	
Federal funds sold and overnight deposits	Federal funds sold and overnight deposits	31,452		33,381		Federal funds sold and overnight deposits	17,143		33,381	
Cash and cash equivalents	Cash and cash equivalents	35,803		37,885		Cash and cash equivalents	21,330		37,885	
Interest bearing deposits in banks	Interest bearing deposits in banks	15,183		16,428		Interest bearing deposits in banks	14,436		16,428	
Investment securities available-for-sale	Investment securities available-for-sale	267,537		250,267		Investment securities available-for-sale	248,997		250,267	
Other investments	Other investments	1,378		1,264		Other investments	1,340		1,264	
Total investments	Total investments	268,915		251,531		Total investments	250,337		251,531	
Loans held for sale	Loans held for sale	3,145		1,178		Loans held for sale	6,452		1,178	
Loans	Loans	935,536		958,157		Loans	1,021,583		958,157	

Allowance for credit losses on loans	Allowance for credit losses on loans	(6,780)	(8,339)	Allowance for credit losses on loans	(6,895)	(8,339)
Net deferred loan costs	Net deferred loan costs	1,556	1,336	Net deferred loan costs	1,700	1,336
Net loans	Net loans	930,312	951,154	Net loans	1,016,388	951,154
Premises and equipment, net	Premises and equipment, net	20,054	20,479	Premises and equipment, net	20,365	20,479
Company-owned life insurance	Company-owned life insurance	18,733	18,518	Company-owned life insurance	18,851	18,518
Other assets	Other assets	42,599	39,316	Other assets	47,469	39,316
Total assets	Total assets	\$ 1,334,744	\$ 1,336,489	Total assets	\$ 1,395,628	\$ 1,336,489
Liabilities and Stockholders' Equity	Liabilities and Stockholders' Equity			Liabilities and Stockholders' Equity		
Liabilities	Liabilities			Liabilities		
Deposits	Deposits			Deposits		
Noninterest bearing	Noninterest bearing	\$ 238,636	\$ 286,145	Noninterest bearing	\$ 229,101	\$ 286,145
Interest bearing	Interest bearing	633,019	762,722	Interest bearing	707,872	762,722
Time	Time	252,031	153,045	Time	285,315	153,045
Total deposits	Total deposits	1,123,686	1,201,912	Total deposits	1,222,288	1,201,912
Borrowed funds	Borrowed funds	120,549	50,000	Borrowed funds	90,696	50,000
Subordinated notes	Subordinated notes	16,222	16,205	Subordinated notes	16,230	16,205
Accrued interest and other liabilities	Accrued interest and other liabilities	15,233	13,152	Accrued interest and other liabilities	17,168	13,152
Total liabilities	Total liabilities	1,275,690	1,281,269	Total liabilities	1,346,382	1,281,269
Commitments and Contingencies	Commitments and Contingencies			Commitments and Contingencies		
Stockholders' Equity	Stockholders' Equity			Stockholders' Equity		
Common stock, \$2.00 par value; 7,500,000 shares authorized; 4,984,311 shares issued at June 30, 2023 and 4,982,523 shares issued at December 31, 2022		9,969	9,965	Common stock, \$2.00 par value; 7,500,000 shares authorized; 4,984,311 shares issued at September 30, 2023 and 4,982,523 shares issued at December 31, 2022		9,969
Common stock, \$2.00 par value; 7,500,000 shares authorized; 4,984,311 shares issued at September 30, 2023 and 4,982,523 shares issued at December 31, 2022				Common stock, \$2.00 par value; 7,500,000 shares authorized; 4,984,311 shares issued at September 30, 2023 and 4,982,523 shares issued at December 31, 2022		9,965
Additional paid-in capital	Additional paid-in capital	2,465	2,225	Additional paid-in capital	2,607	2,225
Retained earnings	Retained earnings	87,136	84,669	Retained earnings	88,045	84,669
Treasury stock at cost; 474,738 shares at June 30, 2023 and 473,936 shares at December 31, 2022		(4,265)	(4,220)	Treasury stock at cost; 476,406 shares at September 30, 2023 and 473,936 shares at December 31, 2022		(4,312)
Treasury stock at cost; 476,406 shares at September 30, 2023 and 473,936 shares at December 31, 2022				Treasury stock at cost; 476,406 shares at September 30, 2023 and 473,936 shares at December 31, 2022		(4,220)
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(36,251)	(37,419)	Accumulated other comprehensive loss	(47,063)	(37,419)
Total stockholders' equity	Total stockholders' equity	59,054	55,220	Total stockholders' equity	49,246	55,220
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	\$ 1,334,744	\$ 1,336,489	Total liabilities and stockholders' equity	\$ 1,395,628	\$ 1,336,489

See accompanying notes to unaudited interim consolidated financial statements.

Union Bankshares, Inc. Page 1

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

		Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
		June 30,		June 30,		September 30,		September 30,	
		2023	2022	2023	2022	2023	2022	2023	2022
Interest and dividend income	Interest and dividend income	(Dollars in thousands, except per share data)							
Interest and fees on loans	Interest and fees on loans	\$ 11,876	\$ 9,010	\$ 23,081	\$ 17,484	Interest and fees on loans	\$ 12,874	\$ 10,074	\$ 35,955
Interest on debt securities:	Interest on debt securities:					Interest on debt securities:			\$ 27,558
Taxable	Taxable	1,154	1,038	2,328	2,010	Taxable	1,130	1,077	3,458
Tax exempt	Tax exempt	514	221	927	443	Tax exempt	515	221	1,442
Dividends	Dividends	47	4	88	10	Dividends	80	7	168
Interest on federal funds sold and overnight deposits	Interest on federal funds sold and overnight deposits	110	94	214	113	Interest on federal funds sold and overnight deposits	153	41	367
Interest on interest bearing deposits in banks	Interest on interest bearing deposits in banks	102	37	209	70	Interest on interest bearing deposits in banks	95	43	113
Total interest and dividend income	Total interest and dividend income	13,803	10,404	26,847	20,130	Total interest and dividend income	14,847	11,463	41,694
Interest expense	Interest expense								
Interest on deposits	Interest on deposits	3,299	591	5,742	1,212	Interest on deposits	4,743	868	10,485
Interest on borrowed funds	Interest on borrowed funds	743	—	1,227	—	Interest on borrowed funds	814	14	2,041
Interest on subordinated notes	Interest on subordinated notes	143	142	285	284	Interest on subordinated notes	142	141	427
Total interest expense	Total interest expense	4,185	733	7,254	1,496	Total interest expense	5,699	1,023	12,953
Net interest income	Net interest income	9,618	9,671	19,593	18,634	Net interest income	9,148	10,440	28,741
Credit loss benefit, net	Credit loss benefit, net	(96)	—	(22)	—	Credit loss benefit, net	(139)	—	(161)
Net interest income after credit loss benefit	Net interest income after credit loss benefit	9,714	9,671	19,615	18,634	Net interest income after credit loss benefit	9,287	10,440	28,902
Noninterest income	Noninterest income								
Wealth management income	Wealth management income	240	217	451	426	Wealth management income	244	203	695
Service fees	Service fees	1,740	1,738	3,434	3,373	Service fees	1,785	1,803	5,219
									5,176

Net gains on sales of investment securities available-for-sale	Net gains on sales of investment securities available-for-sale	—	5	—	31	Net gains on sales of investment securities available-for-sale	—	—	—	31
Net gains on sales of loans held for sale	Net gains on sales of loans held for sale	306	286	500	300	Net gains on sales of loans held for sale	336	448	836	748
Net gains (losses) on other investments		56	(142)	102	(60)					
Net (losses) gains on other investments						Net (losses) gains on other investments	(41)	(60)	61	(120)
Other income	Other income	141	175	281	439	Other income	143	146	424	585
Total noninterest income	Total noninterest income	2,483	2,279	4,768	4,509	Total noninterest income	2,467	2,540	7,235	7,049
Noninterest expenses	Noninterest expenses					Noninterest expenses				
Salaries and wages	Salaries and wages	3,673	3,520	7,175	6,930	Salaries and wages	3,720	3,575	10,895	10,505
Employee benefits	Employee benefits	1,471	1,295	2,848	2,600	Employee benefits	1,217	1,154	4,065	3,754
Occupancy expense, net	Occupancy expense, net	482	462	1,060	989	Occupancy expense, net	459	448	1,519	1,437
Equipment expense	Equipment expense	882	934	1,779	1,850	Equipment expense	935	948	2,714	2,798
Other expenses	Other expenses	2,555	2,198	4,951	4,329	Other expenses	2,595	2,314	7,546	6,643
Total noninterest expenses	Total noninterest expenses	9,063	8,409	17,813	16,698	Total noninterest expenses	8,926	8,439	26,739	25,137
Income before provision for income taxes	Income before provision for income taxes					Income before provision for income taxes				
		3,134	3,541	6,570	6,445		2,828	4,541	9,398	10,986
Provision for income taxes	Provision for income taxes					Provision for income taxes				
		435	610	894	1,032		296	783	1,190	1,815
Net income	Net income	\$ 2,699	\$ 2,931	\$ 5,676	\$ 5,413	Net income	\$ 2,532	\$ 3,758	\$ 8,208	\$ 9,171
Basic earnings per common share	Basic earnings per common share	\$ 0.60	\$ 0.65	\$ 1.26	\$ 1.20	Basic earnings per common share	\$ 0.56	\$ 0.84	\$ 1.82	\$ 2.04
Diluted earnings per common share	Diluted earnings per common share	\$ 0.60	\$ 0.65	\$ 1.26	\$ 1.20	Diluted earnings per common share	\$ 0.55	\$ 0.83	\$ 1.81	\$ 2.03
Weighted average number of common shares outstanding	Weighted average number of common shares outstanding	4,508,593	4,494,027	4,508,845	4,494,447	Weighted average number of common shares outstanding	4,508,028	4,495,348	4,508,569	4,494,751
Weighted average common and potential common shares for diluted EPS	Weighted average common and potential common shares for diluted EPS	4,539,288	4,513,411	4,521,091	4,510,106	Weighted average common and potential common shares for diluted EPS	4,540,026	4,521,973	4,536,851	4,512,793
Dividends per common share	Dividends per common share	\$ 0.36	\$ 0.35	\$ 0.72	\$ 0.70	Dividends per common share	\$ 0.36	\$ 0.35	\$ 1.08	\$ 1.05

See accompanying notes to unaudited interim consolidated financial statements.

Union Bankshares, Inc. Page 2

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME **LOSS** (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
(Dollars in thousands)				
Net income	\$ 2,699	\$ 2,931	\$ 5,676	\$ 5,413
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	(2,737)	(10,969)	1,168	(26,822)
Reclassification adjustment for net gains on sales of investment securities available-for-sale realized in net income	—	(4)	—	(25)
Total other comprehensive (loss) income	(2,737)	(10,973)	1,168	(26,847)
Total comprehensive (loss) income	\$ (38)	\$ (8,042)	\$ 6,844	\$ (21,434)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
(Dollars in thousands)				
Net income	\$ 2,532	\$ 3,758	\$ 8,208	\$ 9,171
Other comprehensive loss, net of tax:				
Investment securities available-for-sale:				
Net unrealized holding losses arising during the period on investment securities available-for-sale	(10,812)	(12,539)	(9,644)	(39,361)
Reclassification adjustment for net gains on sales of investment securities available-for-sale realized in net income	—	—	—	(25)
Total other comprehensive loss	(10,812)	(12,539)	(9,644)	(39,386)
Total comprehensive loss	\$ (8,280)	\$ (8,781)	\$ (1,436)	\$ (30,215)

See accompanying notes to unaudited interim consolidated financial statements.

Union Bankshares, Inc. Page 3

UNION BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

	Three Month Periods Ended June 30, 2023 and 2022						Three Month Periods Ended September 30, 2023 and 2022					
	Common Stock			Accumulated			Common Stock			Accumulated		
	Shares, net of treasury	Additional paid-in capital	Retained earnings	Treasury stock	comprehensive loss	Total equity	Shares, net of treasury	Additional paid-in capital	Retained earnings	Treasury stock	comprehensive loss	Total equity
(Dollars in thousands, except per share data)												
Balances March 31, 2023	4,506,950	\$ 9,965	\$ 2,353	\$ 86,060	\$ (4,272)	\$ (33,514)	60,592					
Balances June 30, 2023							Balances June 30, 2023	4,509,573	\$ 9,969	\$ 2,465	\$ 87,136	\$ (4,265)
Net income	Net income	—	—	—	2,699	—	Net income	—	—	—	2,532	—

Other comprehensive loss	Other comprehensive loss	—	—	—	—	(2,737)	(2,737)	Other comprehensive loss	—	—	—	—	—	
Dividend reinvestment plan	Dividend reinvestment plan	835	—	11	—	7	—	18	832	—	12	—	8	
Cash dividends declared (\$0.36 per share)	Cash dividends declared (\$0.36 per share)	—	—	—	(1,623)	—	—	(1,623)	—	—	—	(1,623)	—	
Stock based compensation expense	Stock based compensation expense	1,788	4	101	—	—	—	105	—	—	130	—	—	
Purchase of treasury stock								Purchase of treasury stock	(2,500)	—	—	—	(55)	
Balances, September 30, 2023								Balances, September 30, 2023	4,507,905	\$ 9,969	\$ 2,607	\$ 88,045	\$ (4,312)	
Balances, June 30, 2023	4,509,573	\$ 9,969	\$ 2,465	\$ 87,136	\$ (4,265)	\$ (36,251)	\$ 59,054							
Balances March 31, 2022	4,493,170	\$ 9,937	\$ 1,878	\$ 79,259	\$ (4,231)	\$ (17,426)	\$ 69,417							
Balances June 30, 2022								Balances June 30, 2022	4,494,812	\$ 9,940	\$ 2,019	\$ 80,617	\$ (4,231)	
Net income	Net income	—	—	—	2,931	—	—	2,931	Net income	—	—	—	3,758	
Other comprehensive loss	Other comprehensive loss	—	—	—	—	—	(10,973)	(10,973)	Other comprehensive loss	—	—	—	—	
Dividend reinvestment plan	Dividend reinvestment plan	512	—	11	—	4	—	15	Dividend reinvestment plan	538	—	9	—	
Cash dividends declared (\$0.35 per share)	Cash dividends declared (\$0.35 per share)	—	—	—	(1,573)	—	—	(1,573)	Cash dividends declared (\$0.35 per share)	—	—	—	(1,574)	
Stock based compensation expense	Stock based compensation expense	1,280	3	130	—	—	—	133	Stock based compensation expense	537	1	122	—	
Purchase of treasury stock	(150)	—	—	—	(4)	—	(4)							
Balances, June 30, 2022	4,494,812	\$ 9,940	\$ 2,019	\$ 80,617	\$ (4,231)	\$ (28,399)	\$ 59,946							
Balances, September 30, 2022								Balances, September 30, 2022	4,495,887	\$ 9,941	\$ 2,150	\$ 82,801	\$ (4,226)	
Six Month Periods Ended June 30, 2023 and 2022														
Common Stock														
Shares, net of treasury		Additional paid-in capital		Retained earnings		Treasury stock		Accumulated other comprehensive loss		Total stockholders' equity				
treasury		Amount		Amount		Amount		Amount		Amount				
(Dollars in thousands, except per share data)														
Balances, December 31, 2022	Balances, December 31, 2022	4,508,587	\$ 9,965	\$ 2,225	\$ 84,669	\$ (4,220)	\$ (37,419)	\$ 55,220	Balances, December 31, 2022	4,508,587	\$ 9,965	\$ 2,225	\$ 84,669	\$ (4,220)
Impact of adoption of ASU No. 2016-13	Impact of adoption of ASU No. 2016-13	—	—	—	37	—	—	37	Impact of adoption of ASU No. 2016-13	—	—	—	37	
Net income	Net income	—	—	—	5,676	—	—	5,676	Net income	—	—	—	8,208	
Other comprehensive income	—	—	—	—	—	—	1,168	1,168						

Other comprehensive loss							Other comprehensive loss							
Dividend reinvestment plan	Dividend reinvestment plan	1,728	—	26	—	15	—	41	Dividend reinvestment plan	2,560	—	38	—	23
Cash dividends declared (\$0.72 per share)		—	—	—	(3,246)	—	—	(3,246)	Cash dividends declared (\$1.08 per share)	—	—	—	(4,869)	—
Stock based compensation expense	Stock based compensation expense	1,788	4	214	—	—	—	218	Stock based compensation expense	1,788	4	344	—	—
Purchase of treasury stock	Purchase of treasury stock	(2,530)	—	—	—	(60)	—	(60)	Purchase of treasury stock	(5,030)	—	—	—	(115)
Balances, June 30, 2023		4,509,573	\$ 9,969	2,465	\$ 87,136	\$ (4,265)	\$ (36,251)	\$ 59,054	Balances, September 30, 2023	4,507,905	\$ 9,969	2,607	\$ 88,045	\$ (4,312)
Balances, December 31, 2021	Balances, December 31, 2021	4,493,655	\$ 9,934	1,769	\$ 78,350	\$ (4,160)	\$ (1,552)	\$ 84,341	Balances, December 31, 2021	4,493,655	\$ 9,934	1,769	\$ 78,350	\$ (4,160)
Net income	Net income	—	—	—	5,413	—	—	5,413	Net income	—	—	—	9,171	—
Other comprehensive loss	Other comprehensive loss	—	—	—	—	—	(26,847)	(26,847)	Other comprehensive loss	—	—	—	—	—
Dividend reinvestment plan	Dividend reinvestment plan	928	—	20	—	8	—	28	Dividend reinvestment plan	1,466	—	29	—	13
Cash dividends declared (\$0.70 per share)		—	—	—	(3,146)	—	—	(3,146)	Cash dividends declared (\$1.05 per share)	—	—	—	(4,720)	—
Stock based compensation expense	Stock based compensation expense	2,879	6	230	—	—	—	236	Stock based compensation expense	3,416	7	352	—	—
Purchase of treasury stock	Purchase of treasury stock	(2,650)	—	—	—	(79)	—	(79)	Purchase of treasury stock	(2,650)	—	—	—	(79)
Balances, June 30, 2022		4,494,812	\$ 9,940	2,019	\$ 80,617	\$ (4,231)	\$ (28,399)	\$ 59,946	Balances, September 30, 2022	4,495,887	\$ 9,941	2,150	\$ 82,801	\$ (4,226)

See accompanying notes to unaudited interim consolidated financial statements.

Union Bankshares, Inc. Page 4

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

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022

Cash Flows From Operating Activities		Cash Flows From Operating Activities			Cash Flows From Operating Activities		
		(Dollars in thousands)			(Dollars in thousands)		
Net income	Net income	\$ 5,676	\$ 5,413		Net income	\$ 8,208	\$ 9,171
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:				Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	Depreciation	812	922		Depreciation	1,212	1,373
Credit loss benefit	Credit loss benefit	(22)	—		Credit loss benefit	(161)	—
Deferred income tax provision	Deferred income tax provision	30	12		Deferred income tax provision	29	11
Net amortization of premiums on investment securities	Net amortization of premiums on investment securities	259	324		Net amortization of premiums on investment securities	394	485
Equity in losses of limited partnerships	Equity in losses of limited partnerships	661	548		Equity in losses of limited partnerships	1,024	864
Stock based compensation expense	Stock based compensation expense	218	236		Stock based compensation expense	348	359
Net increase in unamortized loan costs	Net increase in unamortized loan costs	(220)	(488)		Net increase in unamortized loan costs	(364)	(599)
Proceeds from sales of loans held for sale	Proceeds from sales of loans held for sale	30,084	34,672		Proceeds from sales of loans held for sale	52,086	60,915
Origination of loans held for sale	Origination of loans held for sale	(31,551)	(24,363)		Origination of loans held for sale	(56,524)	(49,481)
Net gains on sales of loans held for sale	Net gains on sales of loans held for sale	(500)	(300)		Net gains on sales of loans held for sale	(836)	(748)
Net gains on disposals of premises and equipment	Net gains on disposals of premises and equipment	(1)	—		Net gains on disposals of premises and equipment	(1)	—
Net gains on sales of investment securities available-for-sale	Net gains on sales of investment securities available-for-sale	—	(31)		Net gains on sales of investment securities available-for-sale	—	(31)
Net (gains) losses on other investments	Net (gains) losses on other investments	(102)	60		Net (gains) losses on other investments	(61)	120
Decrease in accrued interest receivable		363	262				
Increase in accrued interest receivable					Increase in accrued interest receivable	(158)	(6)
Amortization of debt issuance costs	Amortization of debt issuance costs	17	17		Amortization of debt issuance costs	25	25
Increase in other assets	Increase in other assets	(1,415)	(1,184)		Increase in other assets	(1,257)	(312)
Increase in other liabilities	Increase in other liabilities	1,436	246		Increase in other liabilities	2,192	575
Net cash provided by operating activities	Net cash provided by operating activities	5,745	16,346		Net cash provided by operating activities	6,156	22,721
Cash Flows From Investing Activities		Cash Flows From Investing Activities			Cash Flows From Investing Activities		
Interest bearing deposits in banks	Interest bearing deposits in banks				Interest bearing deposits in banks		

Proceeds from maturities and redemptions	Proceeds from maturities and redemptions	2,490	5,229	Proceeds from maturities and redemptions	3,486	5,478
Purchases	Purchases	(1,245)	(5,976)	Purchases	(1,494)	(6,723)
Investment securities available-for-sale	Investment securities available-for-sale			Investment securities available-for-sale		
Proceeds from sales	Proceeds from sales	—	6,827	Proceeds from sales	—	6,827
Proceeds from maturities, calls and paydowns	Proceeds from maturities, calls and paydowns	8,303	13,650	Proceeds from maturities, calls and paydowns	12,852	19,161
Purchases	Purchases	(24,923)	(48,599)	Purchases	(24,922)	(48,599)
Net purchases of other investments	Net purchases of other investments	(12)	(90)	Net purchases of other investments	(15)	(122)
Net (increase) decrease in nonmarketable stock		(2,878)	276			
Net increase in nonmarketable stock				Net increase in nonmarketable stock	(1,822)	(652)
Net decrease (increase) in loans		22,618	(30,905)			
Net increase in loans				Net increase in loans	(63,434)	(151,000)
Recoveries of loans charged off	Recoveries of loans charged off	1	6	Recoveries of loans charged off	4	6
Net purchases of premises and equipment	Net purchases of premises and equipment	(402)	(290)	Net purchases of premises and equipment	(1,113)	(476)
Investments in limited partnerships	Investments in limited partnerships	(853)	(1,874)	Investments in limited partnerships	(2,418)	(1,975)
Proceeds from sales of premises and equipment	Proceeds from sales of premises and equipment	16	—	Proceeds from sales of premises and equipment	16	—
Net cash provided by (used in) investing activities		3,115	(61,746)			
Net cash used in investing activities				Net cash used in investing activities	(78,860)	(178,075)

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Cash Flows From Financing Activities	Cash Flows From Financing Activities	Six Months Ended June 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Advances on long-term borrowings	Advances on long-term borrowings	95,349	—	Advances on long-term borrowings	90,696
Net decrease in short-term borrowings outstanding		(24,800)	—	Net (decrease) increase in short-term borrowings outstanding	(50,000)
Net (decrease) increase in short-term borrowings outstanding					25,000

Net (decrease) increase in noninterest bearing deposits	Net (decrease) increase in noninterest bearing deposits	(47,509)	72,252	Net (decrease) increase in noninterest bearing deposits	(57,044)	72,625
Net decrease in interest bearing deposits	Net decrease in interest bearing deposits	(129,703)	(60,701)	Net decrease in interest bearing deposits	(54,850)	(1,271)
Net increase (decrease) in time deposits		98,986	(3,580)			
Net increase in time deposits				Net increase in time deposits	132,270	29,976
Purchase of treasury stock	Purchase of treasury stock	(60)	(79)	Purchase of treasury stock	(115)	(79)
Dividends paid	Dividends paid	(3,205)	(3,118)	Dividends paid	(4,808)	(4,678)
Net cash (used in) provided by financing activities		(10,942)	4,774			
Net cash provided by financing activities				Net cash provided by financing activities	56,149	121,573
Net decrease in cash and cash equivalents	Net decrease in cash and cash equivalents	(2,082)	(40,626)	Net decrease in cash and cash equivalents	(16,555)	(33,781)
Cash and cash equivalents	Cash and cash equivalents			Cash and cash equivalents		
<i>Beginning of period</i>	<i>Beginning of period</i>	37,885	65,922	<i>Beginning of period</i>	37,885	65,922
<i>End of period</i>	<i>End of period</i>	\$ 35,803	\$ 25,296	<i>End of period</i>	\$ 21,330	\$ 32,141
Supplemental Disclosures of Cash Flow Information	Supplemental Disclosures of Cash Flow Information			Supplemental Disclosures of Cash Flow Information		
Interest paid	Interest paid	\$ 6,631	\$ 1,510	Interest paid	\$ 11,789	\$ 2,654
Income taxes paid	Income taxes paid	\$ 725	\$ 200	Income taxes paid	\$ 925	\$ 450
Supplemental Schedule of Noncash Investing Activities	Supplemental Schedule of Noncash Investing Activities			Supplemental Schedule of Noncash Investing Activities		
Investment in limited partnerships acquired by capital contributions payable	Investment in limited partnerships acquired by capital contributions payable	\$ —	\$ 3,494	Investment in limited partnerships acquired by capital contributions payable	\$ 2,303	\$ 3,494
Dividends paid on Common Stock:	Dividends paid on Common Stock:			Dividends paid on Common Stock:		
Dividends declared	Dividends declared	\$ 3,246	\$ 3,146	Dividends declared	\$ 4,869	\$ 4,720
Dividends reinvested	Dividends reinvested	(41)	(28)	Dividends reinvested	(61)	(42)
		\$ 3,205	\$ 3,118		\$ 4,808	\$ 4,678

See accompanying notes to unaudited interim consolidated financial statements.

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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. and Subsidiary (together, the Company) as of **June 30, 2023** **September 30, 2023**, and for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, have been prepared in conformity with GAAP for interim financial information, general

practices within the banking industry, and the accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (2022 Annual Report), except as disclosed in the Summary of Significant Accounting Policies below. The Company's sole subsidiary is Union Bank. In the opinion of the 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 2022 Annual Report. 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, 2023, or any future interim period.

The Company is a "smaller reporting company" and as permitted under the rules and regulations of the SEC, has elected to provide its consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for a two year, rather than three year, period. The Company has also elected to provide certain other scaled disclosures in this report, as permitted for smaller reporting companies. Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the current year presentation.

In addition to the definitions set forth elsewhere in this report, the acronyms, abbreviations and capitalized terms identified below are used throughout this Form 10-Q, including Part I. "Financial Information" and Part II. "Other Information". The following is provided to aid the reader and provide a reference page when reviewing this Form 10-Q.

ACL:	Allowance for credit losses	HUD:	U.S. Department of Housing and Urban Development
AFS:	Available-for-sale	ICS:	Insured Cash Sweeps of IntraFi
ASC:	Accounting Standards Codification	IntraFi:	IntraFi Network LLC
ASU:	Accounting Standards Update	MBS:	Mortgage-backed security
Board:	Board of Directors	MSRs:	Mortgage servicing rights
bp or bps:	Basis point(s)	OAO:	Other assets owned
CDARS:	Certificate of Deposit Accounts Registry Service of IntraFi	OCI:	Other comprehensive income (loss)
Company:	Union Bankshares, Inc. and Subsidiary	OREO:	Other real estate owned
CECL:	Current Expected Credit Losses	RD:	USDA Rural Development
DCF:	Discounted cash flow	RSU:	Restricted Stock Unit
DRIP:	Dividend Reinvestment Plan	SBA:	U.S. Small Business Administration
FASB:	Financial Accounting Standards Board	SEC:	U.S. Securities and Exchange Commission
FDIC:	Federal Deposit Insurance Corporation	TDR:	Troubled-debt restructuring
FHA:	U.S. Federal Housing Administration	Union:	Union Bank, the sole subsidiary of Union Bankshares, Inc
FHLB:	Federal Home Loan Bank of Boston	USDA:	U.S. Department of Agriculture
FRB:	Federal Reserve Board	VA:	U.S. Veterans Administration
FHLMC/Freddie Mac:	Federal Home Loan Mortgage Corporation	2014 Equity Plan:	2014 Equity Incentive Plan, as amended
GAAP:	Generally Accepted Accounting Principles in the United States	2022 Annual Report:	Annual Report on Form 10-K for the year ended December 31, 2022
HTM:	Held-to-maturity		

Summary of Significant Accounting Policies

The disclosures below supplement and update the accounting policies previously disclosed in Note 1. Significant Accounting Policies in the Company's 2022 Annual Report. The updates reflect the adoption of the FASB ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, more commonly referred to as Current Expected Credit Losses (CECL), effective January 1, 2023.

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The Company adopted CECL using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the incurred loss methodology under previously applicable GAAP.

Allowance for Credit Losses on AFS Debt Securities: Upon adoption of CECL, effective January 1, 2023, for AFS debt securities in an unrealized loss position, management first assesses whether it intends to sell, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through earnings. For AFS debt securities that do not meet the above criteria, management evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, management compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes.

A change in the ACL on AFS debt securities is recorded as expense (credit) within the Credit loss expense on the consolidated statement of income. Losses are charged against the ACL when management believes the uncollectibility of an AFS debt security is confirmed based on the above described analysis. As of **June 30, 2023** **September 30, 2023** and CECL adoption date of January 1, 2023, there was no ACL carried on the Company's AFS debt securities. Refer to Note 5 of the consolidated financial statements for further discussion.

Allowance for Credit Losses on Loans: The ACL on loans is a significant accounting estimate used in the preparation of the Company's consolidated financial statements. The level of the ACL on loans represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date. The expected life of the loans is based on the contractual term of the loans adjusted for estimated prepayments. The contractual life is calculated based on the maturity date and excludes expected extensions, renewals, and modifications.

Upon adoption of CECL on January 1, 2023, the Company replaced the incurred loss model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. The ACL on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL on loans when they are deemed uncollectible. The ACL on loans is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial loans.

The Company uses the DCF method to estimate expected credit losses for all loan pools. For each of the loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default rates. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical benchmark data.

The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default rates. This analysis also determines how expected probability of default and loss given default rates will react to forecasted levels of the loss drivers. For all loan pools utilizing the DCF method, management utilizes and forecasts national unemployment as a loss driver.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over four quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the four-quarter forecast period.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level that represents the sum of expected losses to determine the estimated ACL on loans.

The ACL on loans evaluation also considers various qualitative factors, including changes in policy and/or underwriting standards, actual or expected changes in economic trends and conditions, changes in the nature and volume of the portfolio, changes in credit and lending staff/administration, problem loan trends, credit risk concentrations, loan review results, changes in the value of underlying collateral for loans, and changes in the regulatory and business environment.

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Certain loans are individually evaluated for estimated credit losses, including those greater than \$500,000 that are classified as substandard or doubtful and are on nonaccrual or that have other unique characteristics differing from the segment. Specific

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reserves are established when appropriate for such loans based on the present value of expected future cash flows of the loan or the estimated realizable value of the collateral, if any.

Management may also adjust its assumptions to account for differences between expected and actual losses from period-to-period. The variability of management's assumptions could alter the ACL on loans materially and impact future results of operations and financial condition. The loss estimation models and methods used to determine the ACL are continually refined and enhanced.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The ACL on off-balance sheet credit exposures is a component of Accrued interest and other liabilities on the Company's consolidated balance sheets and represents the estimate of probable credit losses inherent in unfunded commitments to extend credit as of the balance sheet date. Unfunded commitments to extend credit include unused portions of lines of credit, commitments to originate loans and standby and commercial letters of credit. The process used to determine the ACL for these exposures is consistent with the process for determining the ACL on loans, as adjusted for estimated funding probabilities or loan equivalency factors. A charge or credit to Credit loss expense on the consolidated statements of income is made to account for the change in the ACL on off-balance sheet exposures between reporting periods.

Accrued Interest: Upon adoption of CECL on January 1, 2023, the Company elected to present accrued interest receivable balances in Other assets on the consolidated balance sheets and exclude accrued interest from the ACL on loans and AFS debt securities. The Company will continue to write-off accrued interest receivable by reversing interest income when a security or loan is placed in nonaccrual, which is generally when payments on a security or loan are 90 days or more past due.

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Impact of Adoption:

The following table illustrates the adoption of ASU No. 2013-16 on January 1, 2023. As noted above, there was no ACL on AFS debt securities required to be recorded upon adoption of the ASU.

	Pre-CECL Adoption	Reclassification to CECL Portfolio Segmentation		Pre-CECL Adoption Portfolio Segmentation		Post-CECL Adoption	Impact of CECL Adoption			
		CECL Portfolio Segmentation	Portfolio Segmentation	— \$	— \$					
Assets										
Loans										
Residential real estate	\$ 352,433	\$ (352,433)	\$ —	\$ —	\$ —	\$ —	\$ —			
Non-revolving residential real estate	—	335,470	335,470	335,470	335,470	335,470	—			
Revolving residential real estate	—	16,963	16,963	16,963	16,963	16,963	—			
Construction real estate	96,620	(96,620)	—	—	—	—	—			
Commercial construction real estate	—	56,501	56,501	56,501	56,501	56,501	—			
Residential construction real estate	—	40,119	40,119	40,119	40,119	40,119	—			
Commercial real estate	377,947	(377,947)	—	—	—	—	—			
Non-residential commercial real estate	—	282,397	282,397	282,397	282,397	282,397	—			
Multi-family residential real estate	—	95,550	95,550	95,550	95,550	95,550	—			
Commercial	40,973	—	40,973	40,973	40,973	40,973	—			
Consumer	2,204	—	2,204	2,204	2,204	2,204	—			
Municipal	87,980	—	87,980	87,980	87,980	87,980	—			
Total loans	\$ 958,157	\$ —	\$ 958,157	\$ 958,157	\$ 958,157	\$ 958,157	\$ —			
ACL on loans										
Residential real estate	\$ 2,417	\$ (2,417)	\$ —	\$ —	\$ —	\$ —	\$ —			
Non-revolving residential real estate	—	2,294	2,294	2,024	2,024	(270)	—			
Revolving residential real estate	—	123	123	148	148	25	—			
Construction real estate	1,032	(1,032)	—	—	—	—	—			
Commercial construction real estate	—	611	611	1,593	1,593	982	—			
Residential construction real estate	—	421	421	131	131	(290)	—			
Commercial real estate	3,935	(3,935)	—	—	—	—	—			
Non-residential commercial real estate	—	2,931	2,931	2,174	2,174	(757)	—			
Multi-family residential real estate	—	1,004	1,004	224	224	(780)	—			
Commercial	301	—	301	492	492	191	—			
Consumer	10	—	10	5	5	(5)	—			
Municipal	95	—	95	53	53	(42)	—			
Unallocated	549	—	549	—	—	(549)	—			
Total ACL on loans	\$ 8,339	\$ —	\$ 8,339	\$ 6,844	\$ 6,844	\$ (1,495)	—			
Liabilities										
ACL on off-balance sheet credit exposures	—	—	\$ 1,458	\$ 1,458	\$ 1,458	\$ 1,458	—			
Retained earnings										
Decrease in ACL on loans	—	—	\$ 1,495	\$ 1,495	\$ 1,495	\$ 1,495	—			
Increase in ACL on off-balance sheet credit exposures	—	—	(1,458)	(1,458)	(1,458)	(1,458)	—			
Increase to retained earnings	—	—	\$ 37	\$ 37	\$ 37	\$ 37	—			

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Note 2. Legal 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

The following table presents the reconciliation between the calculation of basic EPS and diluted EPS for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,				For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022		2023		2022		2023		2022	
	(Dollars in thousands, except per share data)								(Dollars in thousands, except per share data)							
Net income	Net income	\$ 2,699	\$ 2,931	\$ 5,676	\$ 5,413				Net income	\$ 2,532	\$ 3,758	\$ 8,208	\$ 9,171			
Weighted average common shares outstanding for basic EPS	Weighted average common shares outstanding for basic EPS	4,508,593	4,494,027	4,508,845	4,494,447				Weighted average common shares outstanding for basic EPS	4,508,028	4,495,348	4,508,569	4,494,751			
Dilutive effect of stock- based awards	Dilutive effect of stock- based awards								Dilutive effect of stock- based awards							
(1)	(1)	30,695	19,384	12,246	15,659				(1)	31,998	26,625	28,282	18,042			
Weighted average common and potential common shares for diluted EPS	Weighted average common and potential common shares for diluted EPS	4,539,288	4,513,411	4,521,091	4,510,106				Weighted average common and potential common shares for diluted EPS	4,540,026	4,521,973	4,536,851	4,512,793			
Earnings per common share:	Earnings per common share:								Earnings per common share:							
Basic EPS	Basic EPS	\$ 0.60	\$ 0.65	\$ 1.26	\$ 1.20				Basic EPS	\$ 0.56	\$ 0.84	\$ 1.82	\$ 2.04			
Diluted EPS	Diluted EPS	\$ 0.60	\$ 0.65	\$ 1.26	\$ 1.20				Diluted EPS	\$ 0.55	\$ 0.83	\$ 1.81	\$ 2.03			

(1) *Dilutive effect of stock based awards represents the effect of assumed vesting of all outstanding equity compensation awards, which currently consist solely of restricted stock units. Unvested awards do not have dividend or dividend equivalent rights.*

Note 4. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The guidance in the ASU requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as AFS. The ASU became effective for the Company beginning with the 2023 fiscal year. The impact of the ASU on the Company's consolidated financial statements is discussed in Note 1, Summary of Significant Accounting Policies.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and has issued subsequent amendments thereto, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedites and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2024. The transition away from LIBOR is not expected to have a material impact on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*. The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of an existing loan. These amendments are also intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in ASU No. 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company

adopted ASU No. 2022-02 effective January 1, 2023. The adoption of the provisions contained within ASU No. 2022-02 did not have a material impact on the consolidated financial statements.

In March 2023, the FASB issued ASU No. 2023-02, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. ASU No. 2014-01, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*, previously introduced the option to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits when certain requirements are met; however, this guidance limited the proportional amortization method to investments in low-income-housing tax credit (LIHTC) structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the income statement as a component of income tax expense (benefit). Equity investments in other tax credit structures are typically accounted for using the equity method, which results in investment income, gains and losses, and tax credits being presented gross on the income statement in their respective line items. The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The amendments in this update are effective for the Company for fiscal years beginning after December 31, 2023, including interim periods within those fiscal years. Early adoption is permitted in any interim period. If early adoption is elected, adoption must be as of the beginning of the fiscal year that includes the interim period of adoption. The amendments in this update must be applied on either a modified retrospective or a retrospective basis. The Company has not elected early adoption and is currently evaluating the impact of this standard for its tax equity investments and the impact to noninterest income, noninterest expense, and income tax expense within the consolidated financial statements.

Note 5. Investment Securities

Debt securities AFS as of the balance sheet dates consisted of the following:

June 30, 2023		Amortized Cost	Gross	Gross	Fair Value						
			Unrealized Gains	Unrealized Losses		September 30, 2023	Amortized Cost	Gross	Gross	Unrealized Gains	Unrealized Losses
(Dollars in thousands)										(Dollars in thousands)	
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	\$ 44,586	\$ (5,718)	\$ 38,868		U.S. Government-sponsored enterprises	\$ 44,321	\$ (6,383)	\$ 37,938		
Agency mortgage-backed	Agency mortgage-backed	190,607	53	(33,320)	157,340	Agency mortgage-backed	186,282	—	(40,149)	146,133	
State and political subdivisions	State and political subdivisions	72,450	310	(7,531)	65,229	State and political subdivisions	72,352	25	(13,558)	58,819	
Corporate	Corporate	6,350	—	(250)	6,100	Corporate	6,354	—	(247)	6,107	
Total	Total	\$ 313,993	\$ 363	\$ (46,819)	\$ 267,537	Total	\$ 309,309	\$ 25	\$ (60,337)	\$ 248,997	
Amortized Cost											
(Dollars in thousands)										Fair Value	
December 31, 2022											
U.S. Government-sponsored enterprises		\$ 45,090	\$ (5,845)	\$ 39,245							
Agency mortgage-backed		198,478	104	(34,150)	164,432						
State and political subdivisions		47,722	281	(7,537)	40,466						
Corporate		6,343	—	(219)	6,124						
Total		\$ 297,633	\$ 385	\$ (47,751)	\$ 250,267						

There were no investment securities HTM at June 30, 2023 September 30, 2023 or December 31, 2022. Investment securities AFS with carrying amounts of \$940 \$874 thousand and \$433 thousand were pledged as collateral for public unit deposits or for other purposes as required or permitted by law at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The amortized cost and estimated fair value of debt securities by contractual scheduled maturity as of **June 30, 2023** **September 30, 2023** were as follows:

Available-for-sale	Available-for-sale	Amortized Cost			Fair Value			Available-for-sale	Amortized Cost			Fair Value		
		(Dollars in thousands)			(Dollars in thousands)				(Dollars in thousands)			(Dollars in thousands)		
Due in one year or less	Due in one year or less	\$ 997	\$ 981					Due in one year or less	\$ 1,013	\$ 1,002				
Due from one to five years	Due from one to five years	24,428	22,052					Due from one to five years	28,232	25,182				
Due from five to ten years	Due from five to ten years	25,224	22,264					Due from five to ten years	22,101	18,824				
Due after ten years	Due after ten years	72,737	64,900					Due after ten years	71,681	57,856				
		123,386	110,197						123,027	102,864				
Agency mortgage-backed	Agency mortgage-backed	190,607	157,340					Agency mortgage-backed	186,282	146,133				
Total debt securities available-for-sale	Total debt securities available-for-sale	\$ 313,993	\$ 267,537					Total debt securities available-for-sale	\$ 309,309	\$ 248,997				

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

Information pertaining to all AFS debt securities with gross unrealized losses, for which an ACL has not been recorded, as of the balance sheet dates, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

June 30, 2023		Less Than 12 Months			12 Months and over			Total			September 30, 2023		Less Than 12 Months			12 Months and over		
September 30, 2023																		
		Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses			Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
(Dollars in thousands)																		
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	1	\$ 2,934	\$ (3)	34	\$ 35,820	\$ (5,715)	35	\$ 38,754	\$ (5,718)	U.S. Government-sponsored enterprises	1	\$ 2,889	\$ (2)	33	\$ 33,101	\$ (5,718)	
Agency mortgage-backed	Agency mortgage-backed	2	5,089	(247)	91	146,810	(33,073)	93	151,899	(33,320)	Agency mortgage-backed	2	5,091	(120)	93	146,133	(33,320)	
State and political subdivisions	State and political subdivisions	18	26,312	(815)	60	32,490	(6,716)	78	58,802	(7,531)	State and political subdivisions	22	26,932	(3,837)	62	201	\$ 201,133	
Corporate	Corporate	7	3,229	(122)	6	2,871	(128)	13	6,100	(250)	Corporate	—	—	—	13			
Total	Total	28	\$ 37,564	\$ (1,187)	191	\$ 217,991	\$ (45,632)	219	\$ 255,555	\$ (46,819)	Total	25	\$ 34,912	\$ (3,959)	201	\$ 201,133	\$ (46,819)	
December 31, 2022		Less Than 12 Months			12 Months and over			Total										
		Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses			Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
(Dollars in thousands)																		
U.S. Government-sponsored enterprises		4	\$ 8,000	\$ (533)	31	\$ 31,103	\$ (5,312)	35	\$ 39,103	\$ (5,845)								

Agency mortgage-backed	31	24,306	(2,192)	62	134,297	(31,958)	93	158,603	(34,150)
State and political subdivisions	39	15,457	(1,846)	27	18,613	(5,691)	66	34,070	(7,537)
Corporate	10	4,719	(124)	3	1,405	(95)	13	6,124	(219)
Total	84	\$ 52,482	\$ (4,695)	123	\$ 185,418	\$ (43,056)	207	\$ 237,900	\$ (47,751)

AFS debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For AFS debt securities in an unrealized loss position, management first assesses whether it intends to sell, or it is more likely than not that the Company will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through earnings. For AFS debt securities that do not meet the above criteria, management evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the

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security and the issuer, among other factors. If this assessment indicates that a credit loss exists, management compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an ACL is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. For AFS debt securities, any decline in fair value that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of applicable taxes.

No ACL for AFS debt securities was recorded at adoption of ASU No. 2016-13 or at **June 30, 2023** **September 30, 2023**. Accrued interest receivable on AFS debt securities totaled **\$1.4** **\$1.1** million and \$984 thousand at **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively, and is excluded from the estimate of credit losses. Under previously applicable GAAP, no ACL for AFS debt securities was required at December 31, 2022.

There were no sales or calls of securities for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** or for the three months ended **September 30, 2022**. The following table presents the proceeds from sales and calls resulting in gross realized gains and gross realized losses from the disposition of AFS securities for the **three and six** **nine** months ended **June 30, 2022** **September 30, 2022**:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,
	2022		2022
	(Dollars in thousands)		
Proceeds from sales	\$ —	— \$	6,827
Proceeds from calls		502	502
Gross gains		5	81
Gross losses		—	(50)
Net gains on sales of investment securities AFS	\$ —	5 \$	31
For The Nine Months Ended September 30, 2022			
(Dollars in thousands)			
Proceeds from sales	\$ —	—	6,827
Proceeds from calls		502	502
Gross gains		—	81
Gross losses		—	(50)
Net gains on sales of investment securities AFS	\$ —	—	31

Note 6. Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their unpaid principal balances, adjusted for any charge-offs, the ACL, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Loan interest income is accrued daily on outstanding balances. The following accounting policies, related to accrual and nonaccrual loans, apply to all portfolio segments and loan classes, which the Company considers to be the same. The accrual of interest is normally discontinued when a loan is specifically determined to be impaired and/or management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. In general, loans that are 90 days or more past due are placed in nonaccrual, unless there are circumstances that cause management to believe the collection of interest is not doubtful. Generally, any unpaid

interest previously accrued on those loans is reversed against current period interest income. A loan may be restored to accrual status when its financial status has significantly improved and there is no principal or interest past due. A loan may also be restored to accrual status if the borrower makes six consecutive monthly payments or the lump sum equivalent. Income on nonaccrual loans is generally not recognized unless a loan is returned to accrual status or after all principal has been collected. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Delinquency status is determined based on contractual terms for all portfolio segments and loan classes. Loans past due 30 days or more are considered delinquent. Loans are considered in process of foreclosure when a judgment of foreclosure has been issued by the court.

Loan origination fees and direct loan origination costs are deferred and amortized as an adjustment of the related loan's yield using methods that approximate the interest method. The Company generally amortizes these amounts over the estimated average life of the related loans.

Effective with the adoption of CECL on January 1, 2023, the Company evaluates the risk characteristics of its loans based on regulatory call report code with segmentation based on the underlying collateral or purpose for certain loan types. Prior to the adoption of CECL, under the incurred loss model, the Company evaluated the risk characteristics of its loans based on the underlying collateral securing the loans.

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The composition of Net loans as of the balance sheet dates, by regulatory call report code segmentation based on underlying collateral or purpose for certain loan types, was as follows:

	Residential real estate	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
		(Dollars in thousands)				(Dollars in thousands)			
Residential real estate	Residential real estate					Residential real estate			
Non-revolving residential real estate	Non-revolving residential real estate	\$ 363,891		\$ 335,470		Non-revolving residential real estate	\$ 382,332		\$ 335,470
Revolving residential real estate	Revolving residential real estate		16,835		16,963	Revolving residential real estate		17,652	16,963
Construction real estate	Construction real estate					Construction real estate			
Commercial construction real estate	Commercial construction real estate		53,884		56,501	Commercial construction real estate		52,423	56,501
Residential construction real estate	Residential construction real estate		46,604		40,119	Residential construction real estate		49,826	40,119
Commercial real estate	Commercial real estate					Commercial real estate			
Non-residential commercial real estate	Non-residential commercial real estate		289,379		282,397	Non-residential commercial real estate		292,337	282,397
Multi-family residential real estate	Multi-family residential real estate		99,014		95,550	Multi-family residential real estate		102,855	95,550
Commercial	Commercial		41,252		40,973	Commercial		41,258	40,973
Consumer	Consumer		2,572		2,204	Consumer		2,289	2,204
Municipal	Municipal		22,105		87,980	Municipal		80,611	87,980
Gross loans	Gross loans		935,536		958,157	Gross loans		1,021,583	958,157
ACL on loans	ACL on loans		(6,780)		(8,339)	ACL on loans		(6,895)	(8,339)
Net deferred loan costs	Net deferred loan costs		1,556		1,336	Net deferred loan costs		1,700	1,336
Net loans	Net loans	\$ 930,312		\$ 951,154		Net loans	\$ 1,016,388		\$ 951,154

Qualifying residential first mortgage loans and certain commercial real estate loans with an aggregate carrying value of \$262.8 million \$350.4 million and \$272.9 million were pledged as collateral for borrowings from the FHLB under a blanket lien at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Accrued interest receivable on loans totaled \$2.4 million and \$3.2 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, and is excluded from the estimate of credit losses described in Note 7.

Note 7. Allowance for Credit Losses on Loans and Off-Balance Sheet Credit Exposures

Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported under the incurred loss model in accordance with previously applicable GAAP as described in the 2022 Annual Report.

The level of the ACL on loans represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date. For all loan classes, loan losses are charged against the ACL on loans when management believes the loan balance is uncollectible or in accordance with federal guidelines. Subsequent recoveries, if any, are credited to the ACL on loans.

Upon adoption of CECL on January 1, 2023, the Company replaced the incurred loss model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. The ACL on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. The ACL on loans is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial loans.

Risk characteristics relevant to each portfolio segment are as follows:

- *Residential real estate* - Loans in this segment are collateralized by owner-occupied 1-4 family residential real estate, second and vacation homes, 1-4 family investment properties, home equity and second mortgage loans. Repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, could have an effect on the credit quality of this segment.
- *Construction real estate* - Loans in this segment include residential and commercial construction properties, commercial real estate development loans (while in the construction phase of the projects), land and land development loans.

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Repayment is dependent on the credit quality of the individual borrower and/or the underlying cash flows generated by the properties being constructed. The overall health of the economy, including unemployment rates, housing prices, vacancy rates and material costs, could have an effect on the credit quality of this segment.

- *Commercial real estate* - Loans in this segment are primarily properties occupied by businesses or income-producing properties. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy as evidenced by a general slowdown in business or increased vacancy rates which, in turn, could have an effect on the credit quality of this segment. Management requests business financial statements at least annually and monitors the cash flows of these loans.
- *Commercial* - Loans in this segment are made to businesses and are generally secured by non-real estate assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer or business spending, could have an effect on the credit quality of this segment.
- *Consumer* - Loans in this segment are made to individuals for personal expenditures, such as an automobile purchase, and include unsecured loans. Repayment is primarily dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment, could have an effect on the credit quality of this segment.
- *Municipal* - Loans in this segment are made to municipalities located within the Company's service area. Repayment is primarily dependent on taxes or other funds collected by the municipalities. Management considers there to be minimal risk surrounding the credit quality of this segment.

Changes in the ACL on loans, by class of loans, for the three and six months ended June 30, 2023 September 30, 2023 were as follows:

For The Three Months Ended June 30, 2023	Balance, March 31, 2023			Credit Loss, Charge-Offs			Balance, June 30, 2023			For The Three Months Ended September 30, 2023		
	For The	Three	Months	Ended	Balance,	Charge-	Loss	Balance,	For The	Three	Months	Ended
September	2023	2023	30, 2023	June 30, 2023	Offs	Recoveries	(Benefit)	September	2023	2023	30, 2023	
(Dollars in thousands)												
Non-revolving residential real estate												
Non-revolving residential real estate	\$ 2,071	\$ —	—	\$ 121	\$ 2,192	Non-revolving residential real estate	\$ 2,192	\$ —	1	\$ 107	\$ 2,300	

Revolving residential real estate	Revolving residential real estate	143	—	—	1	144	Revolving residential real estate	144	—	—	6	150
Residential real estate	Residential real estate	2,214	—	—	122	2,336	Residential real estate	2,336	—	—	113	2,450
Commercial construction real estate	Commercial construction real estate	1,713	—	—	(188)	1,525	Commercial construction real estate	1,525	—	—	(60)	1,465
Residential construction real estate	Residential construction real estate	148	—	—	1	149	Residential construction real estate	149	—	—	10	159
Construction real estate	Construction real estate	1,861	—	—	(187)	1,674	Construction real estate	1,674	—	—	(50)	1,624
Non-residential commercial real estate	Non-residential commercial real estate	2,186	—	—	(34)	2,152	Non-residential commercial real estate	2,152	—	—	(3)	2,149
Multi-family residential real estate	Multi-family residential real estate	221	—	—	11	232	Multi-family residential real estate	232	—	—	7	239
Commercial real estate	Commercial real estate	2,407	—	—	(23)	2,384	Commercial real estate	2,384	—	—	4	2,388
Commercial	Commercial	368	—	—	(14)	354	Commercial	354	—	—	3	357
Consumer	Consumer	5	(4)	1	3	5	Consumer	5	(4)	2	2	5
Municipal	Municipal	79	—	—	(52)	27	Municipal	27	—	—	44	71
Total	Total	\$ 6,934	\$ (4)	\$ 1	\$ (151)	\$ 6,780	Total	\$ 6,780	\$ (4)	\$ 3	\$ 116	\$ 6,895

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For the Six Months Ended June 30, 2023	Impact of Adoption						Credit					
	Balance, December 31, 2022		of ASU No. 2016-13		Charge-offs		Loss Expense		Balance, June 30, 2023			
	For the Nine Months Ended September 30, 2023	(Dollars in thousands)	For the Nine Months Ended September 30, 2023	(Dollars in thousands)	For the Nine Months Ended September 30, 2023	(Dollars in thousands)	For the Nine Months Ended September 30, 2023	(Dollars in thousands)	For the Nine Months Ended September 30, 2023	(Dollars in thousands)	For the Nine Months Ended September 30, 2023	(Dollars in thousands)
Non-revolving residential real estate	Non-revolving residential real estate	\$ 2,294	\$ (270)	\$ —	\$ —	\$ 168	\$ 2,192	Non-revolving residential real estate	\$ 2,294	\$ (270)	\$ —	\$ 2,230
Revolving residential real estate	Revolving residential real estate	123	25	—	—	(4)	144	Revolving residential real estate	123	25	—	2
Residential real estate	Residential real estate	2,417	(245)	—	—	164	2,336	Residential real estate	2,417	(245)	—	2,245
Commercial construction real estate	Commercial construction real estate	611	982	—	—	(68)	1,525	Commercial construction real estate	611	982	—	(128)

Residential construction real estate	Residential construction real estate	421	(290)	—	—	18	149	Residential construction real estate	421	(290)	—	—	28	159
Construction real estate	Construction real estate	1,032	692	—	—	(50)	1,674	Construction real estate	1,032	692	—	—	(100)	1,624
Non-residential commercial real estate	Non-residential commercial real estate	2,931	(757)	—	—	(22)	2,152	Non-residential commercial real estate	2,931	(757)	—	—	(25)	2,149
Multi-family residential real estate	Multi-family residential real estate	1,004	(780)	—	—	8	232	Multi-family residential real estate	1,004	(780)	—	—	15	239
Commercial real estate	Commercial real estate	3,935	(1,537)	—	—	(14)	2,384	Commercial real estate	3,935	(1,537)	—	—	(10)	2,388
Commercial	Commercial	301	191	—	—	(138)	354	Commercial	301	191	—	—	(135)	357
Consumer	Consumer	10	(5)	(4)	1	3	5	Consumer	10	(5)	(8)	3	5	5
Municipal	Municipal	95	(42)	—	—	(26)	27	Municipal	95	(42)	—	—	18	71
Unallocated	Unallocated	549	(549)	—	—	—	—	Unallocated	549	(549)	—	—	—	—
Total	Total	\$ 8,339	\$ (1,495)	\$ (4)	\$ 1	\$ (61)	\$ 6,780	Total	\$ 8,339	\$ (1,495)	\$ (8)	\$ 4	\$ 55	\$ 6,895

Changes in the ACL on loans, by class of loans under the incurred loss methodology, for the three and six nine months ended June 30, 2022 September 30, 2022 were as follows:

For The Three Months Ended June 30, 2022	Balance, March 31, 2022		Credit Loss		Balance, June 30, 2022							
	Charge-Offs	Recoveries	Expense	(Benefit)	Charge-Offs	Recoveries						
For The Three Months Ended September 30, 2022												
Residential real estate	Residential real estate	\$ 2,224	\$ —	\$ 15	\$ 2,239	Residential real estate	\$ 2,239	\$ —	\$ —	\$ 7	\$ 2,246	
Construction real estate	Construction real estate	843	—	—	114	957	Construction real estate	957	—	—	151	1,108
Commercial real estate	Commercial real estate	3,997	—	—	7	4,004	Commercial real estate	4,004	—	—	(85)	3,919
Commercial	Commercial	289	(1)	2	28	318	Commercial	318	—	—	(8)	310
Consumer	Consumer	10	—	3	(3)	10	Consumer	10	—	—	—	10
Municipal	Municipal	88	—	—	(61)	27	Municipal	27	—	—	71	98
Unallocated	Unallocated	885	—	—	(100)	785	Unallocated	785	—	—	(136)	649
Total	Total	\$ 8,336	\$ (1)	\$ 5	\$ —	\$ 8,340	Total	\$ 8,340	\$ —	\$ —	\$ —	\$ 8,340

For the Six Months Ended June 30, 2022	Balance, December 31, 2021		Credit Loss		Balance, June 30, 2022						
	Charge-Offs	Recoveries	Expense	(Benefit)	Charge-Offs	Recoveries					
For the Nine Months Ended September 30, 2022											
Residential real estate	Residential real estate	\$ 2,068	\$ —	\$ 171	\$ 2,239	Residential real estate	\$ 2,068	\$ —	\$ —	\$ 178	\$ 2,246

Construction real estate	Construction real estate	837	—	—	120	957	Construction real estate	837	—	—	271	1,108
Commercial real estate	Commercial real estate	4,122	—	—	(118)	4,004	Commercial real estate	4,122	—	—	(203)	3,919
Commercial	Commercial	275	(1)	2	42	318	Commercial	275	(1)	2	34	310
Consumer	Consumer	11	(1)	4	(4)	10	Consumer	11	(1)	4	(4)	10
Municipal	Municipal	86	—	—	(59)	27	Municipal	86	—	—	12	98
Unallocated	Unallocated	937	—	—	(152)	785	Unallocated	937	—	—	(288)	649
Total	Total	\$ 8,336	\$ (2)	\$ 6	\$ —	\$ 8,340	Total	\$ 8,336	\$ (2)	\$ 6	\$ —	\$ 8,340

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The Company's ACL on off-balance sheet credit exposures is recognized as a liability within Accrued interest and other liabilities on the consolidated balance sheet, with adjustments to the ACL recognized in Credit loss expense in the consolidated statement of income. In accordance with previously applicable GAAP, there was no ACL on off-balance sheet credit exposures required during the three and **six** **nine** months ended **June 30, 2022** **September 30, 2022**. The Company's activity in the ACL on off-balance sheet credit exposures for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** was as follows:

ACL on Off-Balance Sheet	ACL on Off-Balance Sheet	For The Three Months Ended June 30, 2023		For the Six Months Ended June 30, 2023		For The Three Months Ended September 30, 2023		For the Nine Months Ended September 30, 2023	
		2023		2023		2023		2023	
		Credit	Exposures	(Dollars in thousands)	Credit	Exposures	(Dollars in thousands)	Credit	Exposures
Balance, Beginning of Period	Balance, Beginning of Period	\$ 1,442	\$ —		Balance, Beginning of Period	\$ 1,497	\$ —	Balance, Beginning of Period	\$ —
Impact of adoption of ASU No. 2016-13	Impact of adoption of ASU No. 2016-13	—	1,458		Impact of adoption of ASU No. 2016-13	—	1,458	Impact of adoption of ASU No. 2016-13	—
Credit loss expense		55	39		Credit loss expense		(255)	Credit loss expense	(216)
Balance, June 30, 2023		\$ 1,497	\$ 1,497		Balance, September 30, 2023	\$ 1,242	\$ 1,242	Balance, September 30, 2023	\$ 1,242

Risk and collateral ratings are assigned to loans and are subject to ongoing monitoring by lending and credit personnel, with such ratings updated annually or more frequently if warranted. The following is an overview of the Company's loan rating system:

1-3 Rating - Pass

Risk-rating grades "1" through "3" comprise those loans ranging from those with lower than average credit risk, defined as borrowers with high liquidity, excellent financial condition, strong management, favorable industry trends or loans secured by highly liquid assets, through those with marginal credit risk, defined as borrowers that, while creditworthy, exhibit some characteristics requiring special attention by the account officer.

4-4.5 Rating - Satisfactory/Monitor

Borrowers exhibit potential credit weaknesses or downward trends warranting management's attention. While potentially weak, these borrowers are currently marginally acceptable; no loss of principal or interest is envisioned. When warranted, these credits may be monitored on the watch list.

5-7 Rating - Substandard

Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. The loan may be inadequately protected by the net worth and paying capacity of the obligor and/or the underlying collateral is inadequate.

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The following table summarizes the Company's loans by year of origination and by loan ratings applied by management to the Company's loans by class as of **June 30, 2023** **September 30, 2023**:

		2023	2022	2021	2020	2019	Prior	Revolving	Total		2023	2022	2021
Residential Real Estate	Residential Real Estate									Residential Real Estate			
Pass	Pass	\$41,719	\$116,020	\$ 87,138	\$30,491	\$ 9,311	\$ 56,951	\$ —	\$341,630	Pass	\$ 65,172	\$114,096	\$ 84,88
Satisfactory/Monitor	Satisfactory/Monitor	654	7,073	5,782	2,328	251	5,752	—	21,840	Satisfactory/Monitor	2,479	6,864	5,77
Substandard	Substandard	—	—	—	35	—	386	—	421	Substandard	—	—	—
Non-revolving residential real estate	Non-revolving residential real estate	42,373	123,093	92,920	32,854	9,562	63,089	—	363,891	Non-revolving residential real estate	67,651	120,960	90,69
Pass	Pass	—	—	—	—	—	—	—	15,282	Pass	—	—	—
Satisfactory/Monitor	Satisfactory/Monitor	—	—	—	—	—	—	—	1,490	Satisfactory/Monitor	—	—	—
Substandard	Substandard	—	—	—	—	—	—	—	63	Substandard	—	—	—
Revolving residential real estate	Revolving residential real estate	—	—	—	—	—	—	—	16,835	Revolving residential real estate	—	—	—
Construction Real Estate	Construction Real Estate									Construction Real Estate			
Pass	Pass	2,052	5,801	2,936	676	1,976	1,064	—	14,505	Pass	4,739	5,433	2,87
Satisfactory/Monitor	Satisfactory/Monitor	5,146	10,975	22,449	292	283	234	—	39,379	Satisfactory/Monitor	4,058	9,569	23,22
Substandard	Substandard	—	—	—	—	—	—	—	—	Substandard	—	—	—
Commercial construction real estate	Commercial construction real estate	7,198	16,776	25,385	968	2,259	1,298	—	53,884	Commercial construction real estate	8,797	15,002	26,09
Pass	Pass	7,687	25,180	3,613	—	—	—	—	36,480	Pass	16,844	21,110	49
Satisfactory/Monitor	Satisfactory/Monitor	106	5,012	3,997	1,009	—	—	—	10,124	Satisfactory/Monitor	4,439	2,509	3,13
Substandard	Substandard	—	—	—	—	—	—	—	—	Substandard	—	—	—
Residential construction real estate	Residential construction real estate	7,793	30,192	7,610	1,009	—	—	—	46,604	Residential construction real estate	21,283	23,619	3,62
Commercial Real Estate	Commercial Real Estate									Commercial Real Estate			
Pass	Pass	1,808	40,628	37,853	17,945	24,368	63,187	16,256	202,045	Pass	5,957	38,657	36,97
Satisfactory/Monitor	Satisfactory/Monitor	10,062	34,564	2,613	6,469	6,957	20,776	1,462	82,903	Satisfactory/Monitor	11,564	34,891	2,94
Substandard	Substandard	—	—	—	1,837	—	2,474	120	4,431	Substandard	—	—	—
Non-residential commercial real estate	Non-residential commercial real estate	11,870	75,192	40,466	26,251	31,325	86,437	17,838	289,379	Non-residential commercial real estate	17,521	73,548	39,85
Pass	Pass	256	4,348	10,490	2,131	8,358	35,109	—	60,692	Pass	253	3,600	10,34
Satisfactory/Monitor	Satisfactory/Monitor	852	6,435	10,889	5,725	10,121	2,922	—	36,944	Satisfactory/Monitor	847	8,088	14,75
Substandard	Substandard	—	—	—	—	—	1,378	—	1,378	Substandard	—	—	—
Multi-family residential real estate	Multi-family residential real estate	1,108	10,783	21,379	7,856	18,479	39,409	—	99,014	Multi-family residential real estate	1,100	11,688	25,10
Pass	Pass	2,154	6,857	4,648	974	3,355	14,497	3,437	35,922	Pass	1,859	6,603	2,42
Satisfactory/Monitor	Satisfactory/Monitor	1,102	1,470	439	563	196	558	752	5,080	Satisfactory/Monitor	1,852	1,419	2,23
Substandard	Substandard	—	—	—	—	—	—	5	245	Substandard	—	—	—
Commercial	Commercial	3,256	8,327	5,087	1,537	3,551	15,060	4,434	41,252	Commercial	3,711	8,022	4,67
Pass	Pass	1,088	521	195	173	243	236	26	2,482	Pass	1,045	427	15
Satisfactory/Monitor	Satisfactory/Monitor	86	4	—	—	—	—	—	90	Satisfactory/Monitor	62	—	—
Substandard	Substandard	—	—	—	—	—	—	—	—	Substandard	—	—	—
Consumer	Consumer	1,174	525	195	173	243	236	26	2,572	Consumer	1,107	427	15
Pass	Pass	5,546	3,500	1,164	6,769	191	4,935	—	22,105	Pass	66,200	2,458	1,12

Satisfactory/Monitor	Satisfactory/Monitor	—	—	—	—	—	—	—	Satisfactory/Monitor	—	—		
Substandard	Substandard	—	—	—	—	—	—	—	Substandard	—	—		
Municipal	Municipal	5,546	3,500	1,164	6,769	191	4,935	—	22,105	Municipal	66,200	2,458	1,12
Total Loans	Total Loans	\$80,318	\$268,388	\$194,206	\$77,417	\$65,610	\$210,464	\$ 39,133	\$935,536	Total Loans	\$187,370	\$255,724	\$191,30

Gross charge-offs for the three and six months ended **June 30, 2023** **September 30, 2023** consisted of a one consumer loan totaling \$4 thousand consumer loan that was originated in 2022 and gross charge-offs for the nine months ended September 30, 2023 consisted of two consumer loans totaling \$8 thousand that were originated in 2022.

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The following table summarizes the loan ratings applied by management to the Company's loans by class, under the incurred loss methodology, as of December 31, 2022:

December 31, 2022	Residential Real		Construction Real		Commercial Real		(Dollars in thousands)	
	Estate		Estate		Estate			
	Commercial	Consumer	Municipal	Total				
Pass	\$ 328,885	\$ 47,356	\$ 258,175	\$ 36,338	\$ 2,197	\$ 87,980	\$ 760,931	
Satisfactory/Monitor	21,429	49,206	111,077	4,368	7	—	186,087	
Substandard	2,119	58	8,695	267	—	—	11,139	
Total	\$ 352,433	\$ 96,620	\$ 377,947	\$ 40,973	\$ 2,204	\$ 87,980	\$ 958,157	

A summary of current and past due loans as of **June 30, 2023** **September 30, 2023** follows:

June 30, 2023	90 Days Total						(Dollars in thousands)
	30-59 Days	60-89 Days	and Over	Past Due	Current	Total	
	September 30, 2023	30-59 Days	60-89 Days	and Over	Past Due	Current	Total
(Dollars in thousands)							
Residential real estate	Residential real estate						Residential real estate
Non-revolving residential real estate	Non-revolving residential real estate	\$ —	\$ 283	\$ 48	\$ 331	\$ 363,560	\$ 363,891
Revolving residential real estate	Revolving residential real estate	—	—	16	16	16,819	16,835
Construction real estate	Construction real estate						Construction real estate
Commercial construction real estate	Commercial construction real estate	—	—	—	—	53,884	53,884
Residential construction real estate	Residential construction real estate	—	—	—	—	46,604	46,604
Commercial real estate	Commercial real estate						Commercial real estate
Non-residential commercial real estate	Non-residential commercial real estate	—	—	120	120	289,259	289,379

Multi-family residential real estate	Multi-family residential real estate	—	—	—	99,014	99,014	Multi-family residential real estate	—	—	—	—	102,855	102,855													
Commercial	Commercial	—	—	—	41,252	41,252	Commercial	5	—	—	5	41,253	41,258													
Consumer	Consumer	—	3	—	3	2,569	2,572	Consumer	—	—	—	—	2,289	2,289												
Municipal	Municipal	—	—	—	22,105	22,105	Municipal	—	—	—	—	80,611	80,611													
Total	Total	\$	—	\$	286	\$	184	\$	470	\$	935,066	\$	935,536	Total	\$	5	\$	145	\$	245	\$	395	\$	1,021,188	\$	1,021,583

A summary of current and past due loans as of December 31, 2022, under the incurred loss methodology, follows:

December 31, 2022	30-59 Days		60-89 Days		90 Days and Over		Total Past Due		Current		Total	
	(Dollars in thousands)											
Residential real estate	\$	1,724	\$	79	\$	289	\$	2,092	\$	350,341	\$	352,433
Construction real estate		535		—		—		535		96,085		96,620
Commercial real estate		515		2,087		34		2,636		375,311		377,947
Commercial		7		160		—		167		40,806		40,973
Consumer		7		—		—		7		2,197		2,204
Municipal		—		—		—		—		87,980		87,980
Total	\$	2,788	\$	2,326	\$	323	\$	5,437	\$	952,720	\$	958,157

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A summary of nonaccrual loans as of June 30, 2023 September 30, 2023 follows:

June 30, 2023	Nonaccrual		Nonaccrual With No Allowance for Credit Losses		90 Days and Over and Accruing		September 30, 2023	Nonaccrual		Nonaccrual With No Allowance for Credit Losses		90 Days and Over and Accruing		
September 30, 2023							September 30, 2023							
Residential real estate	Residential real estate		(Dollars in thousands)				Residential real estate			(Dollars in thousands)				
Non-revolving residential real estate	Non-revolving residential real estate	\$	—	\$	—	\$	48			Non-revolving residential real estate	\$	—	\$	229
Revolving residential real estate	Revolving residential real estate		—		—		16			Revolving residential real estate	—	—	—	16
Commercial real estate	Commercial real estate						Commercial real estate							
Non-residential commercial real estate	Non-residential commercial real estate						Non-residential commercial real estate							
Total	Total	\$	1,957	\$	1,957	\$	64	Total	\$	1,882	\$	1,882	\$	245

A summary of nonaccrual loans as of December 31, 2022, under the incurred loss methodology, follows:

December 31, 2022	Nonaccrual		Nonaccrual With No Allowance for Credit Losses		90 Days and Over and Accruing	
Residential real estate					(Dollars in thousands)	
Construction real estate			\$	103	\$	—

Commercial real estate	2,102	—	—
Total	\$ 2,211	\$ 6	\$ 186

There was one residential real estate loan totaling \$40 thousand were no loans in process of foreclosure at June 30, 2023 September 30, 2023 and one residential real estate loan totaling \$28 thousand in process of foreclosure at December 31, 2022. Aggregate interest on nonaccrual loans not recognized was \$95 \$120 thousand as of June 30, 2023 September 30, 2023 and \$59 thousand as of December 31, 2022.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans that are individually evaluated and collateral dependent represent loans that the Company has determined foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the sale of the collateral. For these loans, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan at the measurement date.

The following table presents collateral dependent loans by loan class and collateral type as of the balance sheet dates:

	June 30, 2023	December 31, 2022
	Real Estate	Real Estate
	(Dollars in thousands)	
Non-residential commercial real estate	\$ 1,957	\$ 2,068
	September 30, 2023	December 31, 2022
	Real Estate	Real Estate
	(Dollars in thousands)	
Non-residential commercial real estate	\$ 1,882	\$ 2,068

For periods prior to the adoption of CECL, loans were evaluated for impairment and may have been classified as impaired when management believed it was probable that the Company would not collect all the contractual interest and principal payments as scheduled in the loan agreement. Under previously applicable GAAP, a specific reserve amount was allocated to the ACL for individual loans that had been classified as impaired based on management's estimate of the fair value of the collateral for collateral dependent loans, an observable market price, or the present value of anticipated future cash flows. The Company accounted for the change in present value attributable to the passage of time in the ACL. Large groups of smaller balance homogeneous loans were collectively evaluated for impairment. Accordingly, the Company did not separately identify individual consumer, real estate or small balance commercial loans for impairment evaluation, unless such loans were subject to a restructuring agreement or had been identified as impaired as part of a larger customer relationship. Based on an evaluation of the Company's historical loss experience on substandard commercial loans, management established the commercial loan threshold for individual impairment evaluation as commercial loan relationships with aggregate balances greater than \$500 thousand.

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The following table provides information with respect to impaired loans by class of loan as of and for the year ended December 31, 2022, prior to the adoption of CECL:

		For The Year Ended December 31, 2022					For The Year Ended December 31, 2022				
		Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
		(1)	(1)				(1)	(1)			
(Dollars in thousands)											
Residential real estate	Residential real estate	\$ 190	\$ 200	\$ 21			Residential real estate	\$ 190	\$ 200	\$ 21	
Commercial real estate	Commercial real estate	2,068	2,068	9			Commercial real estate	2,068	2,068	9	
With an allowance recorded	With an allowance recorded	2,258	2,268	30			With an allowance recorded	2,258	2,268	30	
Residential real estate	Residential real estate	1,283	1,787	—			Residential real estate	1,283	1,787	—	
Construction real estate	Construction real estate	58	83	—			Construction real estate	58	83	—	

Commercial real estate	Commercial real estate	5,865	6,403	—		Commercial real estate	5,865	6,403	—
Commercial	Commercial	7	7	—		Commercial	7	7	—
With no allowance recorded	With no allowance recorded	7,213	8,280	—		With no allowance recorded	7,213	8,280	—
Residential real estate	Residential real estate	1,473	1,987	21	1,570	101	Residential real estate	1,473	1,987
Construction real estate	Construction real estate	58	83	—	116	27	Construction real estate	58	83
Commercial real estate	Commercial real estate	7,933	8,471	9	5,822	185	Commercial real estate	7,933	8,471
Commercial	Commercial	7	7	—	8	1	Commercial	7	7
Total	Total	\$ 9,471	\$ 10,548	\$ 30	\$ 7,516	\$ 314	Total	\$ 9,471	\$ 10,548
									\$ 30
									\$ 7,516
									\$ 314

(1) Does not reflect government guaranties on impaired loans as of December 31, 2022 totaling \$423 thousand.

Occasionally, the Company modifies loans to borrowers experiencing financial difficulty by providing interest rate reductions, term extensions, payment deferrals or principal forgiveness. When principal forgiveness is provided, the amount of forgiveness is charged off against the ACL on loans. There were no new loan modifications to borrowers experiencing financial difficulty during the three months ended September 30, 2023. The following tables summarize loan modifications to borrowers experiencing financial difficulty by loan class, type of modification and the financial effect of the modifications as of and for the three and six nine months ended June 30, 2023 September 30, 2023:

Interest Rate Reduction										Interest Rate Reduction									
Three Months Ended June 30, 2023					Six Months Ended June 30, 2023					Three Months Ended June 30, 2023					Six Months Ended June 30, 2023				
		Amortized Cost Basis	% of Loan Class		Amortized Cost Basis	% of Loan Class		Financial Effect			Amortized Cost Basis	% of Loan Class		Financial Effect					
(Dollars in thousands)																			
Non-residential commercial real estate	Non-residential commercial real estate	\$ —	— %	\$ 413	0.14	% 6.85%	Reduced weighted average contractual interest rate from 8.75% to	Non-residential commercial real estate	\$ 404	0.14	% 6.85%	Reduced weighted average contractual interest rate from 8.75% to							
Multi-family residential real estate	Multi-family residential real estate	—	— %	446	0.45	% 7.75%	Reduced weighted average contractual interest rate from 9.25% to	Multi-family residential real estate	443	0.43	% 7.75%	Reduced weighted average contractual interest rate from 9.25% to							

Payment Delay									
Three Months Ended June 30, 2023					Six Months Ended June 30, 2023				
		Amortized Cost Basis	% of Loan Class		Amortized Cost Basis	% of Loan Class		Financial Effect	
(Dollars in thousands)									
Non-residential commercial real estate		\$ 3,383	1.17 %	\$ 3,383			Modification allowed for 7 months of interest only payments with 1.17 % remaining balances due at maturity.		

Payment Delay									
Amortized Cost Basis					% of Loan Class			Financial Effect	
(Dollars in thousands)									
Non-residential commercial real estate		\$ 3,383						Modification allowed for 7 months of interest only payments with 1.16 % remaining balances due at maturity.	

The following table presents the performance of loans as of **June 30, 2023** **September 30, 2023** that have been modified in the last twelve months:

June September 30, 2023	Current	Past Due	Past Due 90 Days and
		30-89 Days	Over
Non-residential commercial real estate	\$ 3,796	\$ 3,787	— \$ —
Multi-family residential real estate	446	443	— —

(Dollars in thousands)

There were no loans to borrowers experiencing financial difficulty that were modified within the previous twelve months that had subsequently defaulted during the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023**. Loans are considered defaulted at 90 days past due.

At **June 30, 2023** **September 30, 2023**, the Company was not committed to lend any additional funds to borrowers experiencing financial difficulty for which the Company modified the terms of the loans in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension.

Note 8. Stock Based Compensation

Under the Union Bankshares, Inc. 2014 Equity Incentive Plan, as amended in May 2022, a total of 150,000 shares of the Company's common stock have been reserved since inception of the Plan for equity awards of incentive stock options, nonqualified stock options, restricted stock and RSUs to eligible officers and (except for awards of incentive stock options) nonemployee directors. Shares available for issuance of awards under the 2014 Equity Plan consist of unissued shares of the Company's common stock and/or shares held in treasury. As of **June 30, 2023** **September 30, 2023**, there were outstanding grants of RSUs under the 2014 Equity Plan as noted in the table below.

RSUs. Each outstanding RSU represents the right to receive one share of the Company's common stock upon satisfaction of applicable vesting conditions. The general terms of the awards are described in the Company's 2022 Annual Report. Prior to vesting, the RSUs do not earn dividends or dividend equivalents, nor do they bear any voting rights.

The following table summarizes the RSUs awarded to Company executives in 2021, 2022 and 2023, and the number of such RSUs remaining unvested as of **June 30, 2023** **September 30, 2023**:

	Number of RSUs Granted	Weighted Average Grant Date Fair Value	Number of Unvested RSUs
2021 Award	17,685	\$ 26.73	1,745
2022 Award	15,705	31.99	7,593
2023 Award	19,282	26.90	18,788
Total	52,672		28,126

Unrecognized compensation expense related to the unvested RSUs as of **June 30, 2023** **September 30, 2023** and 2022 was **\$397** **\$461** thousand and \$372 thousand, respectively, and \$297 thousand as of December 31, 2022.

On May 17, 2023, the Company's board of directors, as a component of total director compensation, granted an aggregate of 3,872 RSUs to the Company's non-employee directors. Each RSU represents the right to receive one share of the Company's common stock upon satisfaction of applicable vesting conditions. The RSUs will vest in May 2024, subject to continued board service through the vesting date, other than in the case of the director's death or disability. Prior to vesting, the RSUs do not earn dividends or dividend equivalents, nor do they bear any voting rights. Unrecognized director compensation expense related to the unvested RSUs as of **June 30, 2023** **September 30, 2023** was **\$73** **\$53** thousand.

Note 9. Subordinated Notes

In August 2021, the Company completed the private placement of \$16.5 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2031 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes initially bear interest, payable semi-annually, at the rate of 3.25% per annum, until September 1, 2026. From and including September 1, 2026, the interest rate applicable to the outstanding principal amount due will reset quarterly to the then current three-month secured overnight financing rate (SOFR) plus 263 basis points. At its option, the Company may redeem the Notes, in whole or in part, beginning with the interest payment date of September 1, 2026 but not generally prior thereto, and on any scheduled interest payment date thereafter. The Notes qualify as Tier 2 capital instruments for the Company under bank holding company regulatory capital guidelines.

The Company used the proceeds primarily to provide additional Tier 1 capital to the Company's wholly-owned subsidiary, Union Bank, to support its growth and for other general corporate purposes.

The unamortized issuance costs of the Notes were \$278 thousand and \$295 thousand at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The Company recorded \$8 thousand and \$17 thousand of issuance costs in interest expense for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The Notes are presented net of unamortized issuance costs in the consolidated balance sheets.

Note 10. 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 AFS that have not been recorded through an ACL are not reflected in the consolidated statements of income. The cumulative effect of such items, net of tax effect, is reported as a separate component of the equity section of the consolidated balance sheets (Accumulated OCI). OCI, along with net income, comprises the Company's total comprehensive income or loss.

As of the balance sheet dates, the components of Accumulated OCI, net of tax, were:

	June 30, 2023	December 31, 2022
	(Dollars in thousands)	
Net unrealized losses on investment securities AFS	\$ (36,251)	\$ (37,419)
September 30, 2023 December 31, 2022		
	(Dollars in thousands)	
Net unrealized losses on investment securities AFS	\$ (47,063)	\$ (37,419)

The following tables disclose the tax effects allocated to each component of OCI for the three and six nine months ended June September 30:

		Three Months Ended						Three Months Ended					
		June 30, 2023			June 30, 2022			September 30, 2023			September 30, 2022		
		Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit
Investment securities AFS:	Investment securities AFS:												
		(Dollars in thousands)						(Dollars in thousands)					
Net unrealized holding losses arising during the period on investment securities AFS	Net unrealized holding losses arising during the period on investment securities AFS	\$ (3,465)	\$ 728	\$ (2,737)	\$ (13,885)	\$ 2,916	\$ (10,969)	\$ (13,686)	\$ 2,874	\$ (10,812)	\$ (15,872)	\$ 3,333	\$ (12,539)
Reclassification adjustment for net gains on investment securities AFS realized in net income		—	—	—	(5)	1	(4)						
Total other comprehensive loss	Total other comprehensive loss	\$ (3,465)	\$ 728	\$ (2,737)	\$ (13,890)	\$ 2,917	\$ (10,973)	\$ (13,686)	\$ 2,874	\$ (10,812)	\$ (15,872)	\$ 3,333	\$ (12,539)
		Six Months Ended						Nine Months Ended					
		June 30, 2023			June 30, 2022			September 30, 2023			September 30, 2022		
		Before-Tax Amount	Net-of-Tax Expense	Before-Tax Amount	Net-of-Tax Expense	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit	Before-Tax Amount	Net-of-Tax Benefit
Investment securities AFS:	Investment securities AFS:												
		(Dollars in thousands)						(Dollars in thousands)					
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Net unrealized holding gains (losses) arising during the period on investment securities AFS	\$ 1,478	\$ (310)	\$ 1,168	\$ (33,952)	\$ 7,130	\$ (26,822)					
Net unrealized holding losses arising during the period on investment securities AFS					Net unrealized holding losses arising during the period on investment securities AFS						
Reclassification adjustment for net gains on investment securities AFS realized in net income	Reclassification adjustment for net gains on investment securities AFS realized in net income	—	—	—	(31)	6	(25)				
Total other comprehensive income (loss)		\$ 1,478	\$ (310)	\$ 1,168	\$ (33,983)	\$ 7,136	\$ (26,847)				
Total other comprehensive loss					Total other comprehensive loss	\$ (12,208)	\$ 2,564	\$ (9,644)	\$ (49,824)	\$ 10,463	\$ (39,324)

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There were no reclassification adjustments from OCI for the three months ended September 30, 2023 and 2022. The following table discloses information concerning reclassification adjustments from OCI for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

Reclassification Adjustment Description	Three Months Ended		Six Months Ended		Affected Line Item in Consolidated Statement of Income			
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022				
	(Dollars in thousands)							
Investment securities AFS:								
Net gains on investment securities AFS	\$ —	\$ (5)	\$ —	\$ (31)	Net gains on sales of investment securities (31) available-for-sale			
Tax expense	—	1	—	6	Provision for income taxes			
Total reclassifications	\$ —	\$ (4)	\$ —	\$ (25)	Net income			
Nine Months Ended								
Reclassification Adjustment Description	September 30, 2023		September 30, 2022		Affected Line Item in Consolidated Statement of Income			
	(Dollars in thousands)							
Investment securities AFS:								
Net gains on investment securities AFS	\$ —	\$ (31)	\$ —	\$ (31)	Net gains on sales of investment securities AFS			
Tax expense	—	—	—	6	Provision for income taxes			
Total reclassifications	\$ —	\$ (25)	\$ —	\$ (25)	Net income			

Note 11. Fair Value Measurement

The Company utilizes FASB ASC Topic 820, *Fair Value Measurement*, 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 assets that are measured on a recurring basis at estimated fair value:

Investment securities AFS: Certain U.S. Treasury notes 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 AFS 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.

Mutual funds: Mutual funds have been valued using unadjusted quoted prices from active markets and therefore have been classified as Level 1.

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Assets measured at fair value on a recurring basis at **June 30, 2023**, **September 30, 2023** and **December 31, 2022**, segregated by fair value hierarchy level, are summarized below:

		Fair Value Measurements			Fair Value Measurements					
		Quoted Prices in Active Markets	Significant for Identical Assets	Significant Other Inputs	Significant Unobservable Inputs	Quoted Prices in Active Markets	Significant for Identical Assets	Significant Other Inputs	Significant Unobservable Inputs	
		Fair Value	(Level 1)	(Level 2)	(Level 3)	Fair Value	(Level 1)	(Level 2)	(Level 3)	
June 30, 2023:		(Dollars in thousands)								
September 30, 2023:		September 30, 2023: (Dollars in thousands)								
Debt securities AFS:	Debt securities AFS:									
U.S. Government- sponsored enterprises	U.S. Government- sponsored enterprises	\$ 38,868	\$ 36,299	\$ 2,569	\$ —	U.S. Government- sponsored enterprises	\$ 37,938	\$ 35,395	\$ —	
Agency mortgage- backed	Agency mortgage- backed	157,340	—	157,340	—	Agency mortgage- backed	146,133	146,133	—	
State and political subdivisions	State and political subdivisions	65,229	—	65,229	—	State and political subdivisions	58,819	58,819	—	
Corporate	Corporate	6,100	—	6,100	—	Corporate	6,107	6,107	—	
Total debt securities	Total debt securities	\$ 267,537	\$ 2,569	\$ 264,968	\$ —	Total debt securities	\$ 248,997	\$ 2,543	\$ 246,454	\$ —
Other investments:	Other investments:									
Mutual funds	Mutual funds	\$ 1,378	\$ 1,378	\$ —	\$ —	Mutual funds	\$ 1,340	\$ 1,340	\$ —	\$ —
December 31, 2022:		December 31, 2022: December 31, 2022:								
Debt securities AFS:	Debt securities AFS:									

U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	\$ 39,245	\$ 2,551	\$ 36,694	\$ —	U.S. Government-sponsored enterprises	\$ 39,245	\$ 2,551	\$ 36,694	\$ —
Agency mortgage-backed	Agency mortgage-backed	164,432	—	164,432	—	Agency mortgage-backed	164,432	—	164,432	—
State and political subdivisions	State and political subdivisions	40,466	—	40,466	—	State and political subdivisions	40,466	—	40,466	—
Corporate	Corporate	6,124	—	6,124	—	Corporate	6,124	—	6,124	—
Total debt securities	Total debt securities	\$ 250,267	\$ 2,551	\$ 247,716	\$ —	Total debt securities	\$ 250,267	\$ 2,551	\$ 247,716	\$ —
Other investments:	Other investments:					Other investments:				
Mutual funds	Mutual funds	\$ 1,264	\$ 1,264	\$ —	\$ —	Mutual funds	\$ 1,264	\$ 1,264	\$ —	\$ —

There were no transfers in or out of Levels 1 and 2 during the three and **six** months ended **June 30, 2023** **September 30, 2023** or the year ended December 31, 2022, nor were there any Level 3 assets at any time during these periods. 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 in periods after initial recognition, such as collateral dependent individually evaluated loans, MSRs and OREO, were not considered material at **June 30, 2023** **September 30, 2023** or December 31, 2022. The Company has not elected to apply the fair value method 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 and all nonfinancial instruments may be excluded from disclosure requirements. Thus, the aggregate fair value amounts presented may not necessarily represent the actual underlying fair value of such instruments of the Company.

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

	June 30, 2023					September 30, 2023				
	Fair Value Measurements					Fair Value Measurements				
	Quoted Prices in Active Markets Significant for Other Significant Estimated Identical Observable Unobservable					Quoted Prices in Active Markets Significant for Other Significant Estimated Identical Observable Unobservable				
	Carrying Amount	Fair Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Carrying Amount	Fair Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
(Dollars in thousands)										
Financial assets	Financial assets					Financial assets				
Cash and cash equivalents	Cash and cash equivalents	\$ 35,803	\$ 35,803	\$ 35,803	\$ —	Cash and cash equivalents	\$ 21,330	\$ 21,330	\$ 21,330	\$ —
Interest bearing deposits in banks	Interest bearing deposits in banks	15,183	15,183	—	15,183	Interest bearing deposits in banks	14,436	14,436	—	14,436

Investment securities	Investment securities	268,915	268,915	3,947	264,968	—	Investment securities	250,337	250,337	3,883	246,454	—
Loans held for sale	Loans held for sale	3,145	3,192	—	3,192	—	Loans held for sale	6,452	6,519	—	6,519	—
Loans, net	Loans, net						Loans, net					
Residential real estate	Residential real estate	379,023	343,012	—	—	343,012	Residential real estate	398,200	353,150	—	—	353,150
Construction real estate	Construction real estate	98,981	96,915	—	—	96,915	Construction real estate	100,795	97,556	—	—	97,556
Commercial real estate	Commercial real estate	386,655	361,177	—	—	361,177	Commercial real estate	393,462	366,811	—	—	366,811
Commercial	Commercial	40,967	37,776	—	—	37,776	Commercial	40,970	37,913	—	—	37,913
Consumer	Consumer	2,571	2,522	—	—	2,522	Consumer	2,287	2,243	—	—	2,243
Municipal	Municipal	22,115	20,801	—	—	20,801	Municipal	80,674	77,726	—	—	77,726
Accrued interest receivable	Accrued interest receivable	3,801	3,801	—	1,385	2,416	Accrued interest receivable	4,321	4,321	—	1,146	3,175
Nonmarketable equity securities	Nonmarketable equity securities	5,694				N/A	Nonmarketable equity securities	4,637				N/A
Financial liabilities	Financial liabilities						Financial liabilities					
Deposits	Deposits						Deposits					
Noninterest bearing	Noninterest bearing	\$ 238,636	\$ 238,636	\$ 238,636	\$ —	\$ —	Noninterest bearing	\$ 229,101	\$ 229,101	\$ 229,101	\$ —	\$ —
Interest bearing	Interest bearing	633,019	633,019	633,019	—	—	Interest bearing	707,872	707,872	707,872	—	—
Time	Time	252,031	248,386	—	248,386	—	Time	285,315	282,162	—	282,162	—
Borrowed funds												
Short-term		25,200	25,114	—	25,114	—						
Long-term		95,349	95,028	—	95,028	—						
Long-term borrowed funds												
Subordinated notes	Subordinated notes	16,222	13,951	—	13,951	—	Long-term borrowed funds	90,696	90,282	—	90,282	—
Accrued interest payable	Accrued interest payable	977	977	—	977	—	Subordinated notes	16,230	13,455	—	13,455	—
							Accrued interest payable	1,518	1,518	—	1,518	—

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December 31, 2022																						
Fair Value Measurements																						
Quoted Prices in Active Markets for Identical Assets (Level 1) Significant Other Observable Inputs (Level 2) Significant Unobservable Inputs (Level 3)																						
Carrying Amount			Estimated Fair Value					Assets (Level 1)														
(Dollars in thousands)																						
Financial assets																						
Cash and cash equivalents		\$	37,885	\$	37,885	\$	37,885	\$	37,885	\$	—	\$										

Interest bearing deposits in banks	16,428	16,428	—	16,428	—
Investment securities	251,531	251,531	3,815	247,716	—
Loans held for sale	1,178	1,202	—	1,202	—
Loans, net					
Residential real estate	350,507	319,066	—	—	319,066
Construction real estate	95,723	94,231	—	—	94,231
Commercial real estate	373,990	358,897	—	—	358,897
Commercial	40,729	38,588	—	—	38,588
Consumer	2,197	2,161	—	—	2,161
Municipal	88,008	86,306	—	—	86,306
Accrued interest receivable	4,163	4,163	—	1,014	3,149
Nonmarketable equity securities	2,816	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits					
Noninterest bearing	\$ 286,145	\$ 286,145	\$ 286,145	— \$	—
Interest bearing	762,722	762,722	762,722	—	—
Time	153,045	149,166	—	149,166	—
Short-term borrowed funds	50,000	49,997	—	49,997	—
Subordinated notes	16,205	14,037	—	14,037	—
Accrued interest payable	354	354	—	354	—

The carrying amounts in the preceding tables are included in the consolidated balance sheets under the applicable captions. Accrued interest receivable and nonmarketable equity securities are included in Other assets in the consolidated balance sheets.

Note 12. 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 **June 30, 2023** **September 30, 2023** have been evaluated as to their potential impact to the consolidated financial statements.

On **July 19, 2023** **October 18, 2023**, the Company declared a regular quarterly cash dividend of \$0.36 per share, payable **August 3, 2023** **November 2, 2023**, to stockholders of record on **July 29, 2023** **October 28, 2023**.

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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 focuses on those factors that, in management's view, had a material effect on the financial position of the Company as of **June 30, 2023** **September 30, 2023** and December 31, 2022, and its results of operations for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022. 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 2022 Annual Report. In the opinion of the Company's management, the interim unaudited consolidated financial statements reflect 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 **June 30, 2023** **September 30, 2023** which would materially affect the information presented.

Please refer to Note 1 in the Company's unaudited interim consolidated financial statements at Part I, Item 1 of this Report for definitions of acronyms, abbreviations and capitalized terms used throughout the following discussion and analysis.

CAUTIONARY ADVICE ABOUT FORWARD LOOKING STATEMENTS

The Company, "we," "us," "our," 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 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 are based on the current assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and the financial condition, results of operations, future performance and business are only expectations of future results. Although the Company believes that the expectations reflected in the Company's forward-looking statements are reasonable when made, the Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, changes in interest rates; competitive pressures from other financial institutions; general economic conditions on a national basis or in the local markets in which the Company operates; downgrades of U.S. government securities; eroding public confidence in the banking system; changes in consumer behavior due to changing political, business and economic conditions, including concerns about inflation, or legislative or regulatory initiatives; changes in the value of securities and other assets in the Company's investment portfolio; increases in loan and lease default and charge-off rates; the adequacy of the ACL; decreases in deposit levels that necessitate increases in borrowing to fund loans and investments; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; changes in regulation, war, terrorism, civil unrest; changes in economic assumptions and adverse economic developments; the risk that goodwill and intangibles recorded in the Company's financial statements will become impaired; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's 2022 Annual Report.

In addition to the uncertainties detailed in the Company's 2022 Annual Report the **turmoil** banking industry has experienced significant volatility during 2023 with industry concerns related to liquidity, deposit outflows, unrealized securities losses, and volatility in the financial services industry, including failures of other depository institutions could affect the ability of other depository institutions, including Union, to attract and retain depositors, and could affect the ability of financial service providers, including the Company, to borrow or raise capital. **interest rates.**

When evaluating forward-looking statements to make decisions about the Company and our stock, investors and others are cautioned to consider these and other risks and uncertainties, and are reminded not to place undue reliance on such statements. Investors should not consider the foregoing list of factors to be a complete list of risks or uncertainties. 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.

Non-GAAP Financial Measures

Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company's reasons for utilizing the non-GAAP financial measure. The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. However, two non-GAAP financial

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measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest

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margin (as presented in the tables in the section labeled Yields Earned and Rates Paid), have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G. Management believes that these non-GAAP financial measures are useful in evaluating the Company's financial performance and facilitate comparisons with the performance of other financial institutions. However, that information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

CRITICAL ACCOUNTING POLICIES

The Company has established various accounting policies which govern the application of GAAP in the preparation of the Company's consolidated financial statements. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the reported amount of assets, liabilities, capital, revenues and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require management to make its most difficult and subjective judgments, often as a result of the need to make estimates on matters that are inherently uncertain. Based on this definition, management has identified the accounting policies and judgments most critical to the Company. They include establishing the amount of ACL and valuing our intangible assets. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from estimates and have a material impact on the carrying value of assets, liabilities, or capital, and/or the results of operations of the Company.

Please refer to the Company's 2022 Annual Report and the Summary of Significant Accounting Policies in Note 1 to the unaudited consolidated financial statements contained in this report for a more in-depth discussion of the Company's critical accounting policies and adoption of CECL. There have been no changes to the Company's critical accounting policies, other than those described in Note 1 to the unaudited interim consolidated financial statements since the filing of the 2022 Annual Report.

OVERVIEW

The **banking industry** Company, like others, has experienced earnings pressure due to the prolonged and steep yield curve inversion. The sharp increases in short term rates has had a significant volatility during impact on the first six months Company's funding costs due to customer expectation of 2023 with three high-profile bank failures higher rates on deposit accounts and industry wide concerns related to liquidity, deposit outflows, unrealized securities losses and eroding consumer confidence in the banking system. Despite these negative industry developments, the increased utilization of wholesale funding at higher costs. The Company's financial position remains strong, supported by a diverse

deposit base, a strong liquidity position, excellent asset quality, and regulatory capital in excess of all required levels. The Company continues to focus on gathering deposits, optimization of the net interest margin and maintaining strong asset quality.

Despite As was previously reported, Union's Jeffersonville and Johnson branch offices suffered flood damage during extreme weather in July of 2023. The Jeffersonville branch has been restored and is operational while we are choosing to upgrade the strong Johnson facility to improve customer access as well as operational and energy efficiency. While customers and our community have lingering impacts from the extensive flooding, the Company has not suffered material financial footing discussed above, impacts. Some Vermont communities, notably Montpelier, the capital city of Vermont, will require years to fully recover.

Union opened a commercial loan production office in North Conway, New Hampshire in 2019. Since that time, we have originated approximately \$115 million in commercial loans in the White Mountain Valley region. This success encouraged management to develop a full-service banking office to support the loan origination side of the business with deposit services. A new full-service bank branch located on the North South Road in North Conway opened at the end of October 2023.

The Company's earnings have been impacted by the inverted yield curve, as deposit and funding costs have risen at a faster pace than assets have repriced, which has resulted in compression of the net interest margin. margin and spread. The net interest margin was 3.05% 2.95% for the six nine months ended June 30, 2023 September 30, 2023 compared to 3.23% 3.29% for the six nine months ended June 30, 2022 September 30, 2022, while the net interest spreads for the same periods were 2.59% and 3.18%, respectively. We have taken, and continue to take, actions to manage the net interest margin including but not limited to, and spread, by remaining price disciplined on loan and deposit pricing, the use of utilizing brokered and retail CDs when appropriate to reduce our exposure to rising high short-term interest rates, and maximizing our balance sheet collateral (i.e. loans and investment securities) to obtain wholesale funding in a cost effective way to fund loan growth.

Concerns over interest rate levels, energy prices, domestic and global policy issues, Consolidated net income decreased \$1.2 million, or 32.6%, to \$2.5 million for the recent downgrade third quarter of U.S. treasury securities, trade policy in 2023 compared to \$3.8 million for the U.S. and geopolitical events, as well as the implications third quarter of those events on the markets in general, add 2022 due to the global uncertainty. These items combined effects of a decrease of \$1.3 million in combination with global economic conditions, fiscal net interest income, a decrease of \$73 thousand in noninterest income, and monetary policy an increase of \$487 thousand in noninterest expenses, partially offset by \$139 thousand of credit loss benefit, and the level a decrease of regulatory and government scrutiny of financial institutions, will continue to impact our results \$487 thousand in 2023 and beyond.

In addition to the global issues, the State of Vermont suffered a historical flood from July 7-12, 2023. Many towns impacted are located in the communities served by Union Bank. This flood has devastated many businesses, individuals, and municipalities. While clean up and recovery have begun and progress is being made, it will be quite some time before many of the affected homes, businesses, and infrastructure are repaired. Union has proactively reached out to customers affected by the flood to assess the impact to borrowers and provide necessary resources where needed. To date, approximately 20 customers have indicated they have been impacted by the storms and/or floods. These customers are in the early stages of assessing the impact to their homes or businesses. We are not aware of any significant loan loss to the Company resulting from the flooding. The Company sustained water damage at two branch locations, located in Jeffersonville and Johnson, Vermont. The Jeffersonville branch has re-opened to serve customers, and the Johnson branch has re-opened the drive up window while the lobby remains closed to continue clean up and repair efforts. The clean up and repair of these two locations is not expected to have a significant financial impact on the Company as both locations were sufficiently insured. A major disaster declaration request was made by Vermont's Governor and approved by the President which will provide funding under various federal public assistance and individual assistance programs. income tax expense.

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Consolidated net income decreased \$232 \$963 thousand, or 7.9% 10.5%, to \$2.7 million \$8.2 million for the second quarter of 2023 nine months ended September 30, 2023 compared to \$2.9 million \$9.2 million for the second quarter of 2022 nine months ended September 30, 2022 due to the combined effects of a decrease of \$53 thousand in net interest income and an increase of \$654 thousand in noninterest expenses, partially offset by a decrease of \$96 thousand in credit loss expense, an increase of \$204 thousand in noninterest income, and a decrease of \$175 thousand in income tax expense.

Consolidated net income increased \$263 thousand, or 4.9%, to \$5.7 million for the six months ended June 30, 2023 compared to \$5.4 million for the six months ended June 30, 2022 due to the combined effects of increases in net interest income of \$1.0 million and noninterest income of \$259 \$333 thousand and decreases in credit loss expense noninterest expenses of \$22 thousand and income tax expense of \$138 thousand, \$1.6 million, partially offset by an increase in noninterest expenses income of \$1.1 million, \$186 thousand, a credit loss benefit of \$161 thousand and a reduction in income tax expense of \$625 thousand.

At June 30, 2023 September 30, 2023, the Company had total consolidated assets of \$1.33 billion \$1.40 billion, including gross loans and loans held for sale (total loans) of \$938.7 million \$1.03 billion, deposits of \$1.12 billion \$1.22 billion, borrowed funds of \$120.5 million \$90.7 million, subordinated debt notes of \$16.2 million and stockholders' equity of \$59.1 million \$49.2 million.

The Company's total capital increased decreased to \$59.1 million \$49.2 million at June 30, 2023 September 30, 2023 from \$55.2 million at December 31, 2022. This increase decrease primarily reflects a decrease in the fair market value of \$5.7 million, partially offset by the Company's AFS investment securities, regular cash dividends declared of \$3.2 million \$4.9 million, partially offset by net income of \$8.2 million for the first six nine months of 2023. (See Capital Resources on page 46.) These changes also resulted in an increase decrease in the Company's book value per share to \$13.10 \$10.92 at June 30, 2023 September 30, 2023 from \$12.25 as of December 31, 2022.

The following unaudited per share information and key ratios depict several measurements of performance or financial condition at or for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively:

Return on average assets (1)	Return on average assets (1)	Three Months Ended or At June 30,				Six Months Ended or At June 30,				Three Months Ended or At September 30,				Nine Months Ended or At September 30,			
		2023		2022		2023		2022		2023		2022		2023		2022	
		0.79	%	0.94	%	0.84	%	0.88	%	0.73	%	1.18	%	0.80	%	0.98	%

Return on average equity (1)	Return on average equity (1)	17.98 %	18.30 %	19.40 %	15.01 %	Return on average equity (1)	17.65 %	24.19 %	18.82 %	17.78 %
Net interest margin (1)(2)	Net interest margin (1)(2)	2.96 %	3.28 %	3.05 %	3.23 %	Net interest margin (1)(2)	2.76 %	3.40 %	2.95 %	3.29 %
Efficiency ratio (3)	Efficiency ratio (3)	73.78 %	69.48 %	72.11 %	71.21 %	Efficiency ratio (3)	75.37 %	64.14 %	73.17 %	68.65 %
Net interest spread (4)	Net interest spread (4)	2.62 %	3.18 %	2.72 %	3.13 %	Net interest spread (4)	2.34 %	3.26 %	2.59 %	3.18 %
Loan to deposit ratio	Loan to deposit ratio	83.54 %	74.50 %	83.54 %	74.50 %	Loan to deposit ratio	84.11 %	78.67 %	84.11 %	78.67 %
Net loan charge-offs to average loans not held for sale (1)	Net loan charge-offs to average loans not held for sale (1)	— %	— %	— %	— %	Net loan charge-offs to average loans not held for sale (1)	— %	— %	— %	— %
ACL on loans to loans not held for sale	ACL on loans to loans not held for sale	0.72 %	1.02 %	0.72 %	1.02 %	ACL on loans to loans not held for sale	0.67 %	0.89 %	0.67 %	0.89 %
Nonperforming assets to total assets (5)	Nonperforming assets to total assets (5)	0.15 %	0.13 %	0.15 %	0.13 %	Nonperforming assets to total assets (5)	0.15 %	0.13 %	0.15 %	0.13 %
Equity to assets	Equity to assets	4.42 %	5.03 %	4.42 %	5.03 %	Equity to assets	3.53 %	3.82 %	3.53 %	3.82 %
Total capital to risk weighted assets	Total capital to risk weighted assets	13.48 %	14.33 %	13.48 %	14.33 %	Total capital to risk weighted assets	13.19 %	13.69 %	13.19 %	13.69 %
Book value per share	Book value per share	\$ 13.10	\$ 13.34	\$ 13.10	\$ 13.34	Book value per share	\$ 10.92	\$ 11.06	\$ 10.92	\$ 11.06
Basic earnings per share	Basic earnings per share	\$ 0.60	\$ 0.65	\$ 1.26	\$ 1.20	Basic earnings per share	\$ 0.56	\$ 0.84	\$ 1.82	\$ 2.04
Diluted earnings per share	Diluted earnings per share	\$ 0.60	\$ 0.65	\$ 1.26	\$ 1.20	Diluted earnings per share	\$ 0.55	\$ 0.83	\$ 1.81	\$ 2.03
Dividends paid per share	Dividends paid per share	\$ 0.36	\$ 0.35	\$ 0.72	\$ 0.70	Dividends paid per share	\$ 0.36	\$ 0.35	\$ 1.08	\$ 1.05
Dividend payout ratio (6)	Dividend payout ratio (6)	60.00 %	53.85 %	57.14 %	58.33 %	Dividend payout ratio (6)	64.29 %	41.67 %	59.34 %	51.47 %

(1) Annualized.

(2) The ratio of tax equivalent net interest income to average earning assets. See pages 33 and 34 for more information.

(3) The ratio of noninterest expense to tax equivalent net interest income and noninterest income, excluding securities gains (losses).

(4) The difference between the average yield on earning assets and the average rate paid on interest bearing liabilities. See pages 33 and 34 for more information.

(5) Nonperforming assets are loans or investment securities that are in nonaccrual or 90 or more days past due as well as OREO or OAO.

(6) Cash dividends declared and paid per share divided by consolidated net income per share.

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RESULTS OF OPERATIONS

Net Interest Income. The largest component of the Company's operating income is net interest income, which is the difference between interest and dividend income received from earning assets and interest expense paid on interest bearing liabilities. Net interest income is affected by various factors including, but not limited to changes in interest rates, loan and deposit pricing strategies, funding strategies, the volume and mix of interest earning assets and interest bearing liabilities, and the level of

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nonperforming assets. Net interest margin is calculated as the net interest income on a fully tax equivalent basis as a percentage of average earning assets.

Interest earned on average earning assets for the three months ended June 30, 2023 September 30, 2023 was \$13.8 million \$14.8 million compared to \$10.4 million \$11.5 million for the three months ended June 30, 2022 September 30, 2022, an increase of \$3.4 million, or 32.7% 29.5%. The average earning asset base increased \$136.2 million \$117.5 million between periods and the average yield on average earning assets increased 68 70 bps to 4.21% 4.43% for the three months ended June 30, 2023 September 30, 2023 compared to 3.53% 3.73% for the three months ended June 30, 2022 September 30, 2022.

The average yield on federal funds sold and overnight deposits increased 284 207 bps between the three month comparison periods due to an increase in the interest rate paid on balances maintained in Union's master account at the FRB. Interest income on investment securities increased \$409 \$347 thousand between the three month comparison periods due to an increase of \$24.1 million \$16.9 million in the average balance of the portfolio and an increase of 44 41 bps in the average yield.

Interest income on loans increased \$2.9 million \$2.8 million between the three month comparison periods due to an increase in the average volume of loans outstanding of \$146.2 million \$90.7 million and an increase of 54 72 bps in the average yield. Loan demand has remained strong stable during 2023 despite increases in interest rates and low housing inventory.

Average interest bearing liabilities increased \$207.1 million \$214.5 million between the three month comparison periods due to growth in customer time deposit balances, utilization of brokered deposits included in time deposits, and an increase in borrowed funds. The average rate paid on interest bearing liabilities increased 124 162 bps to 1.59% 2.09% for the second third quarter of 2023 compared to 0.35% 0.47% for the second third quarter of 2022. Interest expense increased \$3.5 million \$4.7 million, to \$4.2 million \$5.7 million the three months ended June 30, 2023 September 30, 2023 compared to \$733 thousand \$1.0 million the three months ended June 30, 2022 September 30, 2022. Higher rates paid on customer deposit accounts and utilization of higher cost funding of brokered deposits and advances from the FHLB were drivers of the increase in interest expense.

The net interest spread decreased 56 92 bps to 2.62% 2.34% for the second third quarter of 2023, from 3.18% 3.26% for the same period last year, reflecting the net effect of the 124 162 bps increase in the average rate paid on interest bearing liabilities, which was only partially offset by the 68 70 bps increase in the average yield earned on interest earning assets between periods. The net interest margin decreased 32 64 bps during the second third quarter of 2023 compared to the same period last year as a result of the changes discussed above.

Net interest income was \$19.6 million \$28.7 million, on a fully tax equivalent basis for the six nine months ended June 30, 2023 September 30, 2023 compared to \$18.6 million \$29.1 million for the six nine months ended June 30, 2022 September 30, 2022, an increase a decrease of \$959 \$333 thousand, or 5.15% 1.15%. The average volume of earning assets increased \$143.1 million \$134.4 million and the average yield on earning assets increased 66 68 bps to 4.15% 4.25% compared to 3.49% 3.57% for the comparison period. Interest income on investment securities increased \$802 thousand \$1.1 million between the six nine month comparison periods due to an increase of \$23.7 million \$21.4 million in the average balance of the portfolio and an increase of 43 42 bps in the average yield. Average loans increased \$151.8 million \$131.2 million, or 18.50% 15.42%, to \$972.3 million \$982.1 million for the six nine months ended June 30, 2023 September 30, 2023. The increases in average loan volume and average yield resulted in a \$5.6 million \$8.4 million increase in interest income on loans between periods.

The average cost of funds increased 107 127 bps to 1.43% 1.66% for the six nine months ended June 30, 2023 September 30, 2023 compared to 0.36% 0.39% for the six nine months ended June 30, 2022 September 30, 2022. Interest expense increased \$5.8 million \$10.4 million, to \$7.3 million \$13.0 million for the six nine months ended June 30, 2023 September 30, 2023 compared to \$1.5 million \$2.5 million for the six nine months ended June 30, 2022 September 30, 2022. The increases in the average cost of funds and in interest expense were due to an increase of \$178.1 million \$190.4 million in the average balance of interest bearing liabilities and increases in average rates paid in all liability categories between periods, with the exception of the Company's subordinated notes, periods. Management expects the average cost of funds to continue to increase over the next quarter as customers may continue to expect higher rates on their deposit accounts in light of the recent increases in prevailing interest rates, and as the Company continues to rely on higher cost wholesale funding.

During the first six nine months of 2023, Union, like many other financial institutions, offered higher rate paying time deposit specials to attract new deposit dollars and retain existing customer deposits. Although some new money was obtained, a shift of funds from non-maturity deposits to time deposit specials occurred. Interest expense on time deposits increased \$3.1 million \$5.4 million to \$3.4 million \$5.9 million for the six nine months ended June 30, 2023 September 30, 2023 compared to \$230 \$497 thousand for the six nine months ended June 30, 2022 September 30, 2022 due to increases in the average volume of \$120.8 million \$132.5 million and 256 263 bps in the average rate paid. Despite a decrease of \$56.6 million \$40.8 million in the average balance of savings/money market accounts, interest expense increased \$639 thousand \$1.5 million between the six nine month comparison periods due to an increase of 34 53 bps in the average rate paid.

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The net interest spread decreased 41 59 bps to 2.72% 2.59% for the six nine months ended June 30, 2023 September 30, 2023, from 3.13% 3.18% for the same period last year, reflecting the net effect of the 107 127 bps increase in the average rate paid on interest bearing liabilities, partially offset by the 66 68 bps increase in the average yield earned on interest earning assets between periods. The net interest margin decreased 18 34 bps for the six nine months ended June 30, 2023 September 30, 2023 compared to the same period last year as a result of the changes discussed above.

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The following tables show for the periods indicated the total amount of tax equivalent interest income recorded from average interest earning assets, the related average tax equivalent yields, the tax equivalent interest expense associated with average interest bearing liabilities, the related tax equivalent average rates paid, and the resulting tax equivalent net interest spread and margin.

Three Months Ended June 30,	Three Months Ended September 30,
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	2023						2022						2023						2022																
	Average Balance (1)		Interest Earned/ Paid		Average Yield/ Rate		Average Balance (1)		Interest Earned/ Paid		Average Yield/ Rate		Average Balance (1)		Interest Earned/ Paid		Average Yield/ Rate		2022																
	(Dollars in thousands)						(Dollars in thousands)						(Dollars in thousands)						(Dollars in thousands)																
Average Assets:	Average Assets:						Average Assets:						Average Assets:						(Dollars in thousands)																
Federal funds sold and overnight deposits	Federal funds sold and overnight deposits	\$ 12,201	\$ 110	3.56 %	\$ 51,835	\$ 94	0.72 %	Federal funds sold and overnight deposits	\$ 18,188	\$ 153	3.30 %	\$ 12,850	\$ 41	1.23 %	Interest bearing deposits in banks	14,826	95	2.54 %	14,016	43	1.24 %														
Interest bearing deposits in banks	Interest bearing deposits in banks	16,061	102	2.56 %	13,705	37	1.07 %	Investment securities (2), (3)	312,074	1,645	2.23 %	295,197	1,298	1.82 %	Investment securities (2), (3)	316,561	1,668	2.23 %	292,483	1,259	1.79 %														
Investment securities (2), (3)	Investment securities (2), (3)	316,561	1,668	2.23 %	292,483	1,259	1.79 %	Loans, net (2), (4)	1,001,353	12,874	5.15 %	910,614	10,074	4.43 %	Loans, net (2), (4)	981,910	11,876	4.89 %	835,760	9,010	4.35 %														
Nonmarketable equity securities	Nonmarketable equity securities	4,089	47	4.58 %	888	4	2.00 %	Nonmarketable equity securities	4,657	80	6.80 %	939	7	3.06 %	Total interest earning assets (2)	1,330,822	13,803	4.21 %	1,194,671	10,404	3.53 %														
Total interest earning assets (2)	Total interest earning assets (2)	1,330,822	13,803	4.21 %	1,194,671	10,404	3.53 %	Total interest earning assets (2)	1,351,098	14,847	4.43 %	1,233,616	11,463	3.73 %	Cash and due from banks	4,401			4,321			Cash and due from banks	4,846			4,724									
Premises and equipment	Premises and equipment	20,186			21,200			Premises and equipment	20,216			20,938			Other assets	12,060			22,763			Other assets	11,459			18,336									
Total assets	Total assets	\$ 1,367,469			\$ 1,242,955			Total assets	\$ 1,387,619			\$ 1,277,614			Average Liabilities and Stockholders' Equity:	Average Liabilities and Stockholders' Equity:						Average Liabilities and Stockholders' Equity:													
Average Liabilities and Stockholders' Equity:	Interest bearing checking accounts	\$ 316,462	564	0.71 %	\$ 282,679	154	0.22 %	Interest bearing checking accounts	\$ 317,918	1,043	1.30 %	\$ 299,180	251	0.33 %	Savings/money market accounts	385,689	623	0.65 %	442,304	326	0.30 %	Savings/money market accounts	376,878	1,169	1.23 %	425,629	350	0.33 %							
Interest bearing checking accounts	Interest bearing checking accounts	\$ 316,462	564	0.71 %	\$ 282,679	154	0.22 %	Time deposits	255,211	2,112	3.32 %	103,386	111	0.43 %	Time deposits	279,288	2,531	3.60 %	123,660	267	0.86 %														
Savings/money market accounts	Savings/money market accounts	385,689	623	0.65 %	442,304	326	0.30 %	Borrowed funds and other liabilities	78,053	743	3.77 %	6	—	0.47 %	Borrowed funds and other liabilities	91,403	814	3.48 %	2,503	14	2.22 %														
Time deposits	Time deposits	255,211	2,112	3.32 %	103,386	111	0.43 %	Subordinated notes	16,218	143	3.53 %	16,184	142	3.52 %	Subordinated notes	16,226	142	3.49 %	16,192	141	3.47 %														
Borrowed funds and other liabilities	Borrowed funds and other liabilities	78,053	743	3.77 %	6	—	0.47 %	Total interest bearing liabilities	1,051,633	4,185	1.59 %	844,559	733	0.35 %	Total interest bearing liabilities	1,081,713	5,699	2.09 %	867,164	1,023	0.47 %														
Subordinated notes	Subordinated notes	16,218	143	3.53 %	16,184	142	3.52 %	Noninterest bearing deposits	240,882			320,828			Noninterest bearing deposits	230,557			334,523																
Total interest bearing liabilities	Total interest bearing liabilities	1,051,633	4,185	1.59 %	844,559	733	0.35 %	Other liabilities	14,920			13,491			Other liabilities	17,979			13,789																
Noninterest bearing deposits	Noninterest bearing deposits	240,882			320,828			Total liabilities	1,307,435			1,178,878			Total liabilities	1,330,249			1,215,476																
Other liabilities	Other liabilities	14,920			13,491			Stockholders' equity	60,034			64,077			Stockholders' equity	57,370			62,138																
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	\$ 1,367,469			\$ 1,242,955			Total liabilities and stockholders' equity	\$ 1,387,619			\$ 1,277,614																							

Net interest income	Net interest income	<u><u>\$ 9,618</u></u>	<u><u>\$ 9,671</u></u>	Net interest income	<u><u>\$ 9,148</u></u>	<u><u>\$ 10,440</u></u>
Net interest spread (2)	Net interest spread (2)	<u><u>2.62 %</u></u>	<u><u>3.18 %</u></u>	Net interest spread (2)	<u><u>2.34 %</u></u>	<u><u>3.26 %</u></u>
Net interest margin (2)	Net interest margin (2)	<u><u>2.96 %</u></u>	<u><u>3.28 %</u></u>	Net interest margin (2)	<u><u>2.76 %</u></u>	<u><u>3.40 %</u></u>

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	Six Months Ended June 30,						Nine Months Ended September 30,							
	2023			2022			2023			2022				
	Average Balance (1)	Interest Earned/ Paid	Average Yield/ Rate	Average Balance (1)	Interest Earned/ Paid	Average Yield/ Rate	Average Balance (1)	Interest Earned/ Paid	Average Yield/ Rate	Average Balance (1)	Interest Earned/ Paid	Average Yield/ Rate		
	(Dollars in thousands)													
Average Assets:	Average Assets:													
Federal funds sold and overnight deposits	Federal funds sold and overnight deposits	\$ 13,597	\$ 214	3.13 %	\$ 51,493	\$ 113	0.44 %	\$ 15,144	\$ 367	3.20 %	\$ 38,470	\$ 154	0.53 %	
Interest bearing deposits in banks	Interest bearing deposits in banks	16,589	209	2.54 %	13,532	70	1.04 %	15,995	304	2.54 %	13,695	113	1.11 %	
Investment securities (2), (3)	Investment securities (2), (3)	313,444	3,255	2.19 %	289,764	2,453	1.76 %	312,982	4,900	2.20 %	291,595	3,751	1.78 %	
Loans, net (2), (4)	Loans, net (2), (4)	972,271	23,081	4.82 %	820,502	17,484	4.33 %	982,071	35,955	4.94 %	850,869	27,558	4.36 %	
Nonmarketable equity securities	Nonmarketable equity securities	3,338	88	5.31 %	891	10	2.24 %	3,783	168	5.93 %	907	17	2.53 %	
Total interest earning assets (2)	Total interest earning assets (2)	1,319,239	26,847	4.15 %	1,176,182	20,130	3.49 %	Total interest earning assets (2)	1,329,975	41,694	4.25 %	1,195,536	31,593	3.57 %
Cash and due from banks	Cash and due from banks	4,519			4,506			Cash and due from banks	4,629					4,580
Premises and equipment	Premises and equipment	20,295			21,358			Premises and equipment	20,268					21,216
Other assets	Other assets	10,838			29,329			Other assets	11,054					25,617
Total assets	Total assets	\$1,354,891			\$1,231,375			Total assets	\$1,365,926					\$1,246,949
Average Liabilities and Stockholders' Equity:	Average Liabilities and Stockholders' Equity:													
Interest bearing checking accounts	Interest bearing checking accounts	\$ 315,315	1,070	0.68 %	\$ 281,256	302	0.22 %	Interest bearing checking accounts	\$ 316,193	2,113	0.89 %	\$ 287,296	553	0.26 %
Savings/money market accounts	Savings/money market accounts	406,946	1,319	0.65 %	443,664	680	0.31 %	Savings/money market accounts	396,813	2,489	0.84 %	437,586	1,030	0.31 %
Time deposits	Time deposits	225,655	3,353	3.00 %	104,869	230	0.44 %	Time deposits	243,730	5,883	3.23 %	111,202	497	0.60 %
Borrowed funds and other liabilities	Borrowed funds and other liabilities	59,894	1,227	4.08 %	3	—	0.47 %	Borrowed funds and other liabilities	70,512	2,041	3.82 %	845	14	2.21 %
Subordinated notes	Subordinated notes	16,213	285	3.54 %	16,179	284	3.54 %	Subordinated notes	16,218	427	3.52 %	16,184	425	3.51 %

Total interest bearing liabilities	Total interest bearing liabilities	1,024,023	7,254	1.43 %	845,971	1,496	0.36 %	Total interest bearing liabilities	1,043,466	12,953	1.66 %	853,113	2,519	0.39 %
Noninterest bearing deposits	Noninterest bearing deposits	257,269			301,123			Noninterest bearing deposits	248,222			312,331		
Other liabilities	Other liabilities	15,073			12,162			Other liabilities	16,086			12,748		
Total liabilities	Total liabilities	1,296,365			1,159,256			Total liabilities	1,307,774			1,178,192		
Stockholders' equity	Stockholders' equity	58,526			72,119			Stockholders' equity	58,152			68,757		
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	\$1,354,891			\$1,231,375			Total liabilities and stockholders' equity	\$1,365,926			\$1,246,949		
Net interest income	Net interest income	\$ 19,593			\$ 18,634			Net interest income	\$ 28,741			\$ 29,074		
Net interest spread (2)	Net interest spread (2)	2.72 %			3.13 %			Net interest spread (2)	2.59 %			3.18 %		
Net interest margin (2)	Net interest margin (2)	3.05 %			3.23 %			Net interest margin (2)	2.95 %			3.29 %		

(1) Average balances are calculated based on a daily averaging method.

(2) Average yields reported on a tax equivalent basis using a marginal federal corporate income tax rate of 21%.

(3) Average balances of investment securities are calculated on the amortized cost basis and include nonaccrual securities, if applicable.

(4) Includes loans held for sale as well as nonaccrual loans, unamortized costs and unamortized premiums and is net of the ACL on loans.

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Tax exempt interest income amounted to \$966 thousand \$1.2 million and \$493 \$623 thousand for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$1.8 million \$3.0 million and \$95 thousand \$1.6 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The following table presents the effect of tax exempt income on the calculation of net interest income, using a marginal federal corporate income tax rate of 21% for the 2023 and 2022 three and six nine month comparison periods:

		For the Three Months Ended June 30,				For the Six Months Ended June 30,				For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
		2023		2022		2023		2022		2023		2022		2023		2022	
		(Dollars in thousands)								(Dollars in thousands)							
Net interest income, as presented	Net interest income, as presented	\$ 9,618	\$ 9,671	\$ 19,593	\$ 18,634	Net interest income, as presented	\$ 9,148	\$ 10,440	\$ 28,741	\$ 29,074							
Effect of tax-exempt interest	Effect of tax-exempt interest	98	49	176	98	Effect of tax-exempt interest	98	48	274	146							
Investment securities	Investment securities	85	60	165	122	Investment securities	130	88	295	210							
Loans	Loans	\$ 9,801	\$ 9,780	\$ 19,934	\$ 18,854	Net interest income, tax equivalent	\$ 9,376	\$ 10,576	\$ 29,310	\$ 29,430							

Rate/Volume Analysis. The following table describes the extent to which changes in average interest rates earned and paid (on a fully tax-equivalent basis) and changes in volume of average interest earning assets and interest bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. For each category of interest earning assets and interest bearing liabilities, information is provided on changes attributable to:

- changes in volume (change in volume multiplied by prior rate);
- changes in rate (change in rate multiplied by prior volume); and
- total change in rate and volume.

Changes attributable to both rate and volume have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended June 30, 2023						Six Months Ended June 30, 2023						Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023												
	Compared to Three Months Ended June 30, 2022			Compared to Six Months Ended June 30, 2022			Compared to Three Months Ended September 30, 2022			Compared to Nine Months Ended September 30, 2022																		
	Increase/(Decrease) Due to Change In Volume			Increase/(Decrease) Due to Change In Rate			Increase/(Decrease) Due to Change In Volume			Increase/(Decrease) Due to Change In Rate			Increase/(Decrease) Due to Increase/(Decrease) Due to Change In Volume															
	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net	Volume	Rate	Net										
(Dollars in thousands)																(Dollars in thousands)												
Interest earning assets:	Interest earning assets:															Interest earning assets:												
Federal funds sold and overnight deposits	Federal funds sold and overnight deposits	\$ (119)	\$ 135	\$ 16	\$ (140)	\$ 241	\$ 101	Federal funds sold and overnight deposits	\$ 23	\$ 89	\$ 112	\$ (146)	\$ 359	\$ 213	Interest bearing deposits in banks	3	49	52	21	170	191							
Interest bearing deposits in banks	Interest bearing deposits in banks	6	59	65	18	121	139	Interest bearing deposits in banks	3	49	52	21	170	191	Investment securities	53	294	347	234	915	1,149							
Investment securities	Investment securities	88	321	409	181	621	802	Investment securities	53	294	347	234	915	1,149	Loans, net	1,055	1,745	2,800	4,543	3,854	8,397							
Loans, net	Loans, net	1,688	1,178	2,866	3,465	2,132	5,597	Loans, net	1,055	1,745	2,800	4,543	3,854	8,397	Nonmarketable equity securities	56	17	73	106	45	151							
Nonmarketable equity securities	Nonmarketable equity securities	31	12	43	51	27	78	Nonmarketable equity securities	56	17	73	106	45	151	Total interest earning assets	\$ 1,694	\$ 1,705	\$ 3,399	\$ 3,575	\$ 3,142	\$ 6,717	Total interest earning assets	\$ 1,190	\$ 2,194	\$ 3,384	\$ 4,758	\$ 5,343	\$ 10,101
Total interest earning assets	Total interest earning assets							Total interest earning assets																				
Interest bearing liabilities:	Interest bearing liabilities:															Interest bearing liabilities:												
Interest bearing checking accounts	Interest bearing checking accounts	\$ 20	\$ 390	\$ 410	\$ 40	\$ 728	\$ 768	Interest bearing checking accounts	\$ 17	\$ 775	\$ 792	\$ 60	\$ 1,500	\$ 1,560	Savings/money market accounts	(47)	344	297	(60)	699	639							
Savings/money market accounts	Savings/money market accounts							Savings/money market accounts							Savings/money market accounts	(44)	863	819	(104)	1,563	1,459							
Time deposits	Time deposits	359	1,642	2,001	514	2,609	3,123	Time deposits	643	1,621	2,264	1,146	4,240	5,386	Borrowed funds	743	—	743	1,227	—	1,227							
Borrowed funds	Borrowed funds	743	—	743	1,227	—	1,227	Borrowed funds	781	19	800	1,997	30	2,027	Subordinated notes	1	—	1	1	1	2							
Subordinated notes	Subordinated notes	1	—	1	1	—	1	Subordinated notes	—	1	1	1	1	2	Total interest bearing liabilities	\$ 1,076	\$ 2,376	\$ 3,452	\$ 1,722	\$ 4,036	\$ 5,758	Total interest bearing liabilities	\$ 1,397	\$ 3,279	\$ 4,676	\$ 3,100	\$ 7,334	\$ 10,434
Net change in net interest income	Net change in net interest income	\$ 618	\$ (671)	\$ (53)	\$ 1,853	\$ (894)	\$ 959	Net change in net interest income	\$ (207)	\$ (1,085)	\$ (1,292)	\$ 1,658	\$ (1,991)	\$ (333)														

Credit Loss Expense (Benefit). The Company adopted ASU No. 2016-13 to account for the ACL, effective January 1, 2023. As such, ACL and credit loss expense as of and for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** were accounted for under CECL in accordance with the ASU. In accordance with previously applicable GAAP, the ACL and credit loss expense as of and for the three and **six** **nine** months ended **June 30, 2022** **September 30, 2022** were accounted for under the incurred loss methodology. Refer to Note 1, Summary of Significant Accounting Policies for a description of the Company's accounting policies for the ACL.

Credit loss (benefit) expense was made up of the following components for the following periods:

	For The Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023 (CECL)	2022 (Incurred Loss)	2023 (CECL)	2022 (Incurred Loss)
	(Dollars in thousands)			
Credit loss benefit for loans	\$ (151)	\$ —	\$ (61)	\$ —
Credit loss expense for off-balance sheet credit exposures	55	—	39	—
Credit loss benefit, net	\$ (96)	\$ —	\$ (22)	\$ —

	For The Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023 (CECL)	2022 (Incurred Loss)	2023 (CECL)	2022 (Incurred Loss)
	(Dollars in thousands)			
Credit loss expense for loans	\$ 116	\$ —	\$ 55	\$ —
Credit loss benefit for off-balance sheet credit exposures	(255)	—	(216)	—
Credit loss benefit, net	\$ (139)	\$ —	\$ (161)	\$ —

Noninterest Income. The following table sets forth the components of noninterest income and changes between the three and **six nine** month comparison periods of 2023 and 2022:

	For The Three Months Ended June 30,						For the Six Months Ended June 30,						For The Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance
(Dollars in thousands)																								
Wealth management income	Wealth management income	\$ 240	\$ 217	\$ 23	10.6	\$ 451	\$ 426	\$ 25	5.9	Wealth management income	\$ 244	\$ 203	\$ 41	20.2	\$ 695	\$ 629	\$							
Service fees	Service fees	1,740	1,738	2	0.1	3,434	3,373	61	1.8	Service fees	1,785	1,803	(18)	(1.0)	5,219	5,176								
Net gains on sales of loans held for sale	Net gains on sales of loans held for sale	306	286	20	7.0	500	300	200	66.7	Net gains on sales of loans held for sale	336	448	(112)	(25.0)	836	748								
Income from Company-owned life insurance	Income from Company-owned life insurance	109	107	2	1.9	216	289	(73)	(25.3)	Income from Company-owned life insurance	118	112	6	5.4	334	401								
Other income	Other income	32	68	(36)	(52.9)	65	150	(85)	(56.7)	Other income	25	34	(9)	(26.5)	90	184								
Net gains (losses) on other investments		56	(142)	198	(139.4)	102	(60)	162	(270.0)															
Net (losses) gains on other investments										Net (losses) gains on other investments														
Net gains on sales of investment securities AFS	Net gains on sales of investment securities AFS	—	5	(5)	(100.0)	—	31	(31)	(100.0)	Net gains on sales of investment securities AFS	—	—	—	—	—	—	—	—	—	—	—	—	31	
Total noninterest income	Total noninterest income	\$ 2,483	\$ 2,279	\$ 204	9.0	\$ 4,768	\$ 4,509	\$ 259	5.7	Total noninterest income	\$ 2,467	\$ 2,540	\$ (73)	(2.9)	\$ 7,235	\$ 7,049	\$							

The significant changes in noninterest income for the three and **six nine** months ended **June 30, 2023** **September 30, 2023** compared to the same periods of 2022 are described below:

- Wealth management income:** Wealth management income increased as managed fiduciary accounts grew between **June 30, 2023** **September 30, 2023** and 2022, as did the value of assets within those accounts.

- **Service fees.** Service fees increased \$61 \$43 thousand for the **six nine** months ended **June 30, 2023** **September 30, 2023**, compared to the same period in 2022 primarily due to increases of \$17 \$38 thousand in ATM network fees, \$19 thousand in service charge income, and \$14 thousand in overdraft fee income, \$13 partially offset by a \$29 thousand decrease in merchant program fees. Service fees decreased \$18 thousand for the three months ended September 30, 2023, compared to 2022 primarily due to decreases in loan servicing fee income, fees and \$31 thousand in ATM network merchant program fees.
- **Net gains on sales of loans held for sale.** Residential mortgage loans totaling \$17.8 million \$24.7 million and \$29.6 million \$54.2 million were sold during the three and **six nine** months ended **June 30, 2023** **September 30, 2023**, respectively, compared to sales of \$18.0 million \$25.8 million and \$34.4 million \$60.2 million during the same periods in 2022, respectively. The **increases** decrease of \$20 \$112 thousand in net gains on sales of loans held for sale for the three months ended September 30, 2023, compared to 2022 reflects the lower sales volume and \$200 lower premiums obtained on sales during the three months ended September 30, 2023. In addition, there was \$10 thousand of fees and gain recapture recorded in the third quarter of 2023 due to early payment default of two loans that were sold in 2022. The increase of \$88 thousand in net gains on sales of loans held for sale despite the lower sales volumes for the **three and six nine** months ended **June 30, 2023**, respectively, **September 30, 2023** compared to the same **periods** period in 2022 **reflects** higher premiums obtained on sales in the first half of 2023 and \$31 thousand of recapture on gains from 2021 recorded in the first quarter of 2022 that did not recur in 2023.
- **Income from Company-owned life insurance.** Death benefit proceeds of \$77 thousand were received in the first quarter of 2022 that did not repeat in 2023.

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- **Other income.** The decrease in **Other other income** during **between** the **three and six nine** month comparison periods primarily reflects \$42 thousand and \$86 \$90 thousand in prepayment penalties **for** received from the **three and six** early payoff of loans during the **nine** months ended **June 30, 2022** **September 30, 2022** that did not recur for the same **periods** period in 2023.
- **Net (losses) gains (losses) on other investments.** Participants in the 2020 Amended and Restated Nonqualified Excess Plan elect to defer receipt of current compensation from the Company or its subsidiary and select designated reference investments consisting of investment funds. The performance of those funds, over which the Company has no control, resulted in net

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losses of \$41 thousand and net gains of \$56 thousand and \$102 \$61 thousand for the three and **six nine** months ended **June 30, 2023** **September 30, 2023**, respectively, and net losses of \$142 \$60 thousand and \$60 \$120 thousand for the three and **six nine** months ended **June 30, 2022** **September 30, 2022**, respectively.

Noninterest Expense, Expenses. The following table sets forth the components of noninterest **expense** **expenses** and changes between the three and **six nine** month comparison periods ended **June 30, 2023** **September 30, 2023** and 2022:

		For The Three Months Ended						For The Three Months Ended				For the Nine Months Ended				
		June 30,			For the Six Months Ended June 30,			September 30,			September 30,		September 30,			
		2023	2022	Variance	2023	2022	Variance	2023	2022	Variance	2023	2022	Variance			
(Dollars in thousands)																
Salaries and wages	Salaries and wages	\$3,673	\$3,520	\$ 153	4.3	\$ 7,175	\$ 6,930	\$ 245	3.5	\$ 3,720	\$ 3,575	\$ 145	4.1	\$ 10,895	\$ 10,505	
Employee benefits	Employee benefits	1,471	1,295	176	13.6	2,848	2,600	248	9.5	1,217	1,154	63	5.5	4,065	3,754	
Occupancy expense, net	Occupancy expense, net	482	462	20	4.3	1,060	989	71	7.2	459	448	11	2.5	1,519	1,437	
Equipment expense	Equipment expense	882	934	(52)	(5.6)	1,779	1,850	(71)	(3.8)	935	948	(13)	(1.4)	2,714	2,798	
Professional fees		250	217	33	15.2	519	433	86	19.9	(Dollars in thousands)						
FDIC insurance assessment	FDIC insurance assessment	283	146	137	93.8	467	273	194	71.1	267	179	88	49.2	734	452	
Advertising and public relations		192	170	22	12.9	335	278	57	20.5	(Dollars in thousands)						
Vermont franchise tax		289	268	21	7.8	578	529	49	9.3	Training and development	53	29	24	82.8	172	108
Training and development	Training and development	69	24	45	187.5	119	79	40	50.6							

Communication expense	Communication expense	104	78	26	33.3	190	156	34	21.8	Communication expense	105	73	32	43.8	295	229
Amortization of MSRs, net	Amortization of MSRs, net	77	114	(37)	(32.5)	201	289	(88)	(30.4)	Amortization of MSRs, net	47	73	(26)	(35.6)	248	362
ATM and debit card expense	ATM and debit card expense	261	254	7	2.8	534	457	77	16.8	ATM and debit card expense	283	260	23	8.8	817	717
Other losses	Other losses	51	8	43	537.5	90	19	71	373.7	Other losses	37	17	20	117.6	127	36
Board related expenses	Board related expenses	122	156	(34)	(21.8)	236	291	(55)	(18.9)							
Donations										Donations	135	38	97	255.3	238	139
Loan related expense										Loan related expense	158	119	39	32.8	355	289
Other expenses	Other expenses	857	763	94	12.3	1,682	1,525	157	10.3	Other expenses	1,510	1,526	(16)	(1.0)	4,560	4,311
Total noninterest expense	Total noninterest expense	\$9,063	\$8,409	\$ 654	7.8	\$17,813	\$16,698	\$ 1,115	6.7	Total noninterest expenses	\$8,926	\$8,439	\$ 487	5.8	\$26,739	\$25,137

The significant changes in noninterest **expense** expenses for the three and **six nine** months ended **June 30, 2023** **September 30, 2023** compared to the same periods in 2022 are described below:

- Salaries and wages.** Salaries and wages increased **\$153** **\$145** thousand and **\$245** **\$390** thousand for the three and **six nine** months ended **June 30, 2023** **September 30, 2023**, respectively, compared to the same periods in 2022 primarily due to annual salary adjustments for the 2023 fiscal year.
- Employee benefits.** Employee benefit expense increased **\$176** **\$63** thousand for the three months ended **June 30, 2023** **September 30, 2023** compared to the same period in 2022 due primarily to increases of **\$16** **\$23** thousand in payroll taxes, and **\$201** **\$401** contributions, **\$22** thousand in the Company's deferred compensation plans, partially offset by a decrease of **\$48** and **\$13** thousand in premium expense for the Company's medical and dental plans, payroll taxes. The increase of **\$248** **\$311** thousand for the **six nine** months ended **June 30, 2023** **September 30, 2023** compared to the same period in 2022 was primarily due to increases of **\$138** **\$161** thousand in employee benefits related to the Company's deferred compensation plans and **\$136** **\$141** thousand in premium expense for the Company's medical and dental plans between periods, partially offset by a decrease of **\$19** thousand in retirement plan contributions periods.
- Occupancy expense, net.** The increase in occupancy expense for the three and **six nine** month comparison periods is due to increases in utilities and **taxes**, partially offset by a decrease in repair and maintenance expenses. Also, lease expense increased **\$14** thousand and **\$41** **\$55** thousand, **during** respectively for the three and **six nine** month comparison periods respectively, ended **September 30, 2023** compared to the same periods last year, primarily due to a new lease for a full service branch location in North Conway, NH.
- Equipment expense.** Equipment expenses decreased between periods primarily due to a **decrease** **decreases** of **\$58** **\$51** thousand and **\$108** **\$159** thousand in office equipment and ATM depreciation expense **during** for the three and **six nine** month comparison periods,

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respectively, related to the timing of ATM and equipment replacement purchases. These decreases were partially offset by increases in software license and maintenance costs.

- Professional fees.** Professional fees increased **\$33** thousand and **\$86** thousand for the three and **six** month comparison periods, respectively, due to annual increases in engagement fees and payment for additional tax consulting services and internal audit expenses.

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- FDIC insurance assessment.** The FDIC insurance assessment increased by **\$137** **\$88** thousand and **\$194** **\$282** thousand, respectively, during the three and **six nine** month comparison periods respectively, ended **September 30, 2023** compared to the same periods in 2022, primarily due to an increase in the assessment rate as well as overall growth in net assets.
- Advertising and public relations.** The increase in advertising and public relations costs primarily related to advertising campaigns and product specific advertising in 2023 that did not occur in 2022.
- Vermont franchise tax.** The increase in expense between the three and **six** month comparison periods was due to the increase in average deposit balances for customer accounts allocated to Vermont.

- **Training and development.** Training and development events that were suspended or held as virtual events in the prior year due to the impacts of COVID-19 have resumed in-person, resulting in increased expense of \$45 thousand and \$40 thousand for the three and six month comparison periods, respectively.
- **Communication expense.** The increase in expense between the three and six month comparison periods was due to the increase in remote ATM telecommunication expense.
- **Amortization from MSRs net.** Income from MSRs is derived from servicing rights acquired through the sale of loans where servicing is retained. Capitalized servicing rights are initially recorded at fair value and amortized in proportion to, and over the period of, the estimated future servicing period of the underlying mortgages. The amortization of MSRs exceeded new capitalized MSRs which resulted in net expense of \$77 thousand and \$201 thousand for the three and six months ended June 30, 2023 September 30, 2023, respectively, and \$114 thousand and \$289 thousand for the three and six months ended June 30, 2022 September 30, 2022, respectively.
- **ATM and debit card expenses.** The increase in expense between the three and nine month comparison periods relates to increases in the volume of ATM and debit card transactions and new card issuance costs.
- **Other losses.** Other losses primarily consists of debit card fraud on customers accounts, and charged off checking accounts, accounts, and fraudulent check cashing schemes. Hackers continue to become more sophisticated and are being more successful in hacking customer debit cards, resulting in an increase in losses sustained by the Company. New debit cards are issued to customers whose accounts have been compromised.
- **Board related expenses Donations.** The decrease in board related expenses Charitable donations are made as part of the Company's on-going commitment to enhancing the economic vitality and social welfare of our communities. Donations increased for the three and six month comparison periods was due to a reduction contributions made to assist communities with recovery efforts related to the July 2023 historic flood that occurred in the number State of board members from ten to Vermont.
- **Loan related expense.** There was an increase in the costs incurred for originating and servicing loans during the three and nine as a result of the retirement of two directors in May 2022 and one replacement elected months ended September 30, 2023, compared to the Company's Board of Directors same periods in May 2023, 2022. These costs include insurance and property tax tracking expenses, credit report fees, and other real estate closing costs.

Provision for Income Taxes. The Company has provided for current and deferred federal income taxes for the three and six months ended June 30, 2023 September 30, 2023 and 2022. The Company's net provision for income taxes was \$435 thousand and \$894 thousand, \$1.2 million for the three and six months ended June 30, 2023 September 30, 2023, respectively, compared to \$610 thousand and \$1.0 million \$1.8 million for the same periods in 2022, 2022, respectively. The Company's effective federal corporate income tax rate was 13.1% 10.8% and 13.8% 12.9% for the three and six months ended June 30, 2023 September 30, 2023 compared to 16.5% 16.6% and 15.7% 16.1% for the same period in 2022, 2022, respectively.

Amortization expense related to limited partnership investments is included as a component of income tax expense and amounted to \$330 thousand and \$661 thousand \$1.0 million for the three and six months ended June 30, 2023 September 30, 2023, respectively, compared to \$292 thousand and \$548 thousand for the same periods in 2022, respectively. These investments provide tax benefits, including tax credits. Low income housing and rehabilitation tax credits with respect to limited partnership investments are also included as a component of income tax expense and amounted to \$347 thousand and \$694 \$1.1 million for the three and nine months ended September 30, 2023, respectively, and \$310 thousand and \$833 thousand for the three and six months ended June 30, 2023, respectively, and \$272 thousand and \$523 thousand for the three and six months ended June 30, 2022 September 30, 2022, respectively.

FINANCIAL CONDITION

At June 30, 2023 September 30, 2023, the Company had total consolidated assets of \$1.33 billion \$1.40 billion, including gross loans and loans held for sale (total loans) of \$938.7 million \$1.03 billion, investment securities AFS of \$267.5 million \$249.0 million, deposits of \$1.12 billion \$1.22 billion, borrowed funds of \$120.5 million \$90.7 million, subordinated notes of \$16.2 million and stockholders' equity of \$59.1 million \$49.2 million. The Company's total assets at June 30, 2023 decreased \$1.7 million September 30, 2023 increased \$59.1 million, or 0.1% 4.4%, from \$1.34 billion at December 31, 2022, and increased \$142.8 million \$95.3 million, or 12.0% 7.3%, compared to June 30, 2022 September 30, 2022.

June 30th marks the end of the fiscal year for the majority of the Company's municipal customers, including school districts, and several customers are required to reduce their outstanding short term debts to zero for at least one day during their fiscal year. The one day requirement traditionally occurs annually on June 30th and as a result the Company experiences a decrease in outstanding loan balances. In many cases monies are transferred from corresponding deposit accounts to pay off these debts so the Company experiences a corresponding decrease in deposit balances as well. These decreases are short term in nature as the loans and deposits for the next municipal fiscal year are recorded within the first few days of July. In July 2023, the Company recorded \$53.3 million in new municipal loans.

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Net loans and loans held for sale decreased \$18.9 million increased \$70.5 million, or 2.0% 7.4%, to \$933.5 million \$1.02 billion, representing 69.9% 73.3% of total assets at June 30, 2023 September 30, 2023, compared to \$952.3 million, or 71.3% of total assets at December 31, 2022. (See *Loans Held for Sale and Loan Portfolio* below.)

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Total deposits decreased \$78.2 million increased \$20.4 million, or 6.5% 1.7%, to \$1.12 billion \$1.22 billion at June 30, 2023 September 30, 2023, from \$1.20 billion at December 31, 2022. There was an increase in time deposits of \$132.3 million, or 86.4%, which was partially offset by decreases in noninterest bearing deposits of \$47.5 million \$57.0 million, or

16.6% 19.9%, and interest bearing deposits of \$129.7 million \$54.9 million, or 17.0%, which were partially offset by an increase in time deposits of \$99.0 million, or 64.7% 7.2%. (See average balances and rates in the *Yields Earned Deposits and Rates Paid* table on pages 33 and 34, page 43.)

Borrowed funds, which consist of FHLB advances, were \$120.5 million \$90.7 million and \$50.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. (See *Borrowings* on page 44.)

Stockholders' equity increased decreased from \$55.2 million at December 31, 2022 to \$59.1 million \$49.2 million at June 30, 2023 September 30, 2023, reflecting a decrease an increase of \$1.2 million \$9.6 million in accumulated other comprehensive loss due to an increase a decrease in the fair market value of the Company's AFS investment securities, cash dividends declared of \$4.9 million and stock repurchases of \$115 thousand during the nine months ended September 30, 2023. These decreases were partially offset by net income of \$5.7 million \$8.2 million for the first six nine months of 2023, an increase of \$218 \$348 thousand to common stock and additional paid in capital from the vesting of stock based compensation, a \$37 thousand increase to retained earnings from the impact of adoption of ASU No. 2016-13 and a \$41 \$61 thousand increase due to the issuance of common stock under the DRIP. These increases were partially offset by cash dividends declared of \$3.2 million and stock repurchases of \$60 thousand during the six months ended June 30, 2023. (See *Capital Resources* on page 46.)

Loans Held for Sale and Loan Portfolio. Total loans (including loans held for sale) decreased \$20.7 million increased \$68.7 million, or 2.2% 7.2%, to \$938.7 million \$1.03 billion, representing 70.3% 73.7% of assets at June 30, 2023 September 30, 2023, from \$959.3 million, representing 71.8% of assets at December 31, 2022. The total loan portfolio at June 30, 2023 September 30, 2023 increased \$116.9 million \$86.8 million compared to the June 30, 2022 September 30, 2022 level of \$821.8 million \$941.2 million, which represented 68.9% 72.4% of assets. The Company's loans consist primarily of adjustable-rate and fixed-rate mortgage loans secured by one-to-four family, multi-family residential or commercial real estate. Real estate secured loans represented \$872.8 million \$903.9 million, or 93.0% 87.9% of total loans at June 30, 2023 September 30, 2023 and \$828.2 million, or 86.3% of total loans at December 31, 2022. The net change in the Company's loan portfolio from December 31, 2022 (see table below) resulted primarily from the seasonal decrease in the municipal portfolio discussed above, partially offset by an increase in the volume of construction, residential, and commercial real estate, loans, and residential construction loans originated.

The composition of the Company's loan portfolio, including loans held for sale, as of June 30, 2023 September 30, 2023 and December 31, 2022 was as follows:

Loan Class	Loan Class	June 30, 2023		December 31, 2022		Loan Class	September 30, 2023		December 31, 2022	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Residential real estate	Residential real estate	(Dollars in thousands)		(Dollars in thousands)		Residential real estate	(Dollars in thousands)		(Dollars in thousands)	
Non-revolving residential real estate	Non-revolving residential real estate	\$ 363,891	38.8	\$ 335,470	35.0	Non-revolving residential real estate	\$ 382,332	37.2	\$ 335,470	35.0
Revolving residential real estate	Revolving residential real estate	16,835	1.8	16,963	1.8	Revolving residential real estate	17,652	1.7	16,963	1.8
Construction real estate	Construction real estate					Construction real estate				
Commercial construction real estate	Commercial construction real estate	53,884	5.7	56,501	5.9	Commercial construction real estate	52,423	5.1	56,501	5.9
Residential construction real estate	Residential construction real estate	46,604	5.0	40,119	4.2	Residential construction real estate	49,826	4.9	40,119	4.2
Commercial real estate	Commercial real estate					Commercial real estate				
Non-residential commercial real estate	Non-residential commercial real estate	289,379	30.8	282,397	29.4	Non-residential commercial real estate	292,337	28.5	282,397	29.4
Multi-family residential real estate	Multi-family residential real estate	99,014	10.5	95,550	9.9	Multi-family residential real estate	102,855	10.0	95,550	9.9
Commercial	Commercial	41,252	4.4	40,973	4.3	Commercial	41,258	4.0	40,973	4.3
Consumer	Consumer	2,572	0.3	2,204	0.2	Consumer	2,289	0.2	2,204	0.2
Municipal	Municipal	22,105	2.4	87,980	9.2	Municipal	80,611	7.8	87,980	9.2
Loans held for sale	Loans held for sale	3,145	0.3	1,178	0.1	Loans held for sale	6,452	0.6	1,178	0.1
Total loans	Total loans	938,681	100.0	959,335	100.0	Total loans	1,028,035	100.0	959,335	100.0
ACL on loans	ACL on loans	(6,780)		(8,339)		ACL on loans	(6,895)		(8,339)	
Unamortized net loan costs	Unamortized net loan costs	1,556		1,336		Unamortized net loan costs	1,700		1,336	

Net loans and loans held for sale	Net loans and loans held for sale	Net loans and loans held for sale
\$ 933,457	\$ 952,332	\$ 1,022,840

The Company originates and sells qualified residential mortgage loans in various secondary market avenues to mitigate long-term interest rate risk and generate fee income, with a majority of sales made to the FHLMC/Freddie Mac, generally with servicing rights retained. At **June 30, 2023** **September 30, 2023**, the Company serviced a **\$1.02 billion** **\$1.05 billion** residential real estate mortgage portfolio, of which **\$3.1 million** **\$6.5 million** was held for sale and approximately **\$635.8 million** **\$642.9 million** of which was serviced for unaffiliated third parties.

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The Company sold **\$29.6 million** **\$54.2 million** of qualified residential real estate loans to the secondary market during the first **six** **nine** months of 2023 compared to sales of **\$34.4 million** **\$60.2 million** during the first **six** **nine** months of 2022. Residential mortgage loan origination activity was strong during the **second** **third** quarter of 2023. Despite low housing inventory and rising interest rates, purchase activity in the Company's markets continues to be stable with an increase in construction loan activity. The Company originates and sells

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FHA, VA, and RD residential mortgage loans, and also has an Unconditional Direct Endorsement Approval from HUD which allows the Company to approve FHA loans originated in any of its Vermont or New Hampshire markets without needing prior HUD underwriting approval. The Company sells FHA, VA and RD loans as originated with servicing released. Some of the government backed loans qualify for zero down payments without geographic or income restrictions. These loan products increase the Company's ability to serve the borrowing needs of residents in the communities served, including low and moderate income borrowers, while the loan sales and government guaranty mitigate the Company's exposure to credit risk.

The Company also originates commercial real estate and commercial loans under various SBA, USDA and State sponsored programs which provide a government agency guaranty for a portion of the loan amount. There was **\$3.0 million** **\$2.8 million** guaranteed under these various programs at **June 30, 2023** **September 30, 2023** on an aggregate balance of **\$4.0 million** **\$3.8 million** in subject loans. The Company occasionally sells the guaranteed portion of a loan to other financial institutions and retains servicing rights, which generates fee income. There were no commercial loans sold in the first six months of 2023 and 2022. The Company recognizes gains and losses on the sale of the principal portion of these loans as they occur.

The Company serviced **\$27.6 million** **\$27.5 million** of commercial and commercial real estate loans for unaffiliated third parties as of **June 30, 2023** **September 30, 2023**. This included \$26.5 million of commercial or commercial real estate loans the Company originated and participated out to other financial institutions. These loans were participated in the ordinary course of business on a nonrecourse basis, for liquidity or credit concentration management purposes.

The Company capitalizes MSRs for all loans sold with servicing retained. The unamortized balance of MSRs on loans sold with servicing retained was \$1.8 million at **June 30, 2023** **September 30, 2023**, with an estimated market value in excess of the carrying value as of such date. Management periodically evaluates and measures the servicing assets for impairment.

Qualifying residential first lien mortgage loans and certain commercial real estate loans with a combined carrying value of **\$262.8 million** **\$350.4 million** were pledged as collateral for borrowings from the FHLB under a blanket lien at **June 30, 2023** **September 30, 2023**.

Asset Quality. The Company, like all financial institutions, is exposed to certain credit risks, including those related to the value of the collateral that secures its loans and the ability of borrowers to repay their loans. Consistent application of the Company's conservative loan policies has helped to mitigate this risk and has been prudent for both the Company and its customers. Management closely monitors the Company's loan and investment portfolios, OREO and OAO for potential problems and reports to the Company's and Union's Board at regularly scheduled meetings. Board approved policies set forth portfolio diversification levels to mitigate concentration risk and the Company participates large credits out to other financial institutions to further mitigate that risk.

Repossessed assets, nonaccrual loans, and loans that are 90 days or more past due are considered to be nonperforming assets. The following table details the composition of the Company's nonperforming assets and amounts utilized to calculate certain asset quality ratios monitored by the Company's management as of the balance sheet dates and **June 30, 2022** **September 30, 2022**:

		June 30,	December 31,	June 30,	September 30,	December 31,	September 30,	
		2023	2022	2022	2023	2022	2022	
		(Dollars in thousands)					(Dollars in thousands)	
Nonaccrual loans	Nonaccrual loans	\$ 1,957	\$ 2,211	\$ 1,416	Nonaccrual loans	\$ 1,882	\$ 2,211	\$ 1,381
Loans past due 90 days or more and still accruing interest	Loans past due 90 days or more and still accruing interest	64	186	109	Loans past due 90 days or more and still accruing interest	245	186	308

Total nonperforming assets	Total nonperforming assets	\$ 2,021	\$ 2,397	\$ 1,525	Total nonperforming assets	\$ 2,127	\$ 2,397	\$ 1,689
Guarantees of U.S. or state government agencies on the above nonperforming loans	Guarantees of U.S. or state government agencies on the above nonperforming loans	\$ —	\$ 76	\$ 59	Guarantees of U.S. or state government agencies on the above nonperforming loans	\$ —	\$ 76	\$ 131
TDR loans	TDR loans	\$ —	\$ 179	\$ 1,888	TDR loans	\$ —	\$ 179	\$ 1,757
ACL on loans	ACL on loans	\$ 6,780	\$ 8,339	\$ 8,340	ACL on loans	\$ 6,895	\$ 8,339	\$ 8,340
Net charge-offs (recoveries)	Net charge-offs (recoveries)	\$ 3	\$ (3)	\$ (4)	Net charge-offs (recoveries)	\$ 4	\$ (3)	\$ (4)
Total loans outstanding	Total loans outstanding	\$ 938,681	\$ 959,335	\$ 821,773	Total loans outstanding	\$ 1,028,035	\$ 959,335	\$ 941,191
Total average loans outstanding	Total average loans outstanding	\$ 972,271	\$ 875,528	\$ 820,502	Total average loans outstanding	\$ 982,071	\$ 875,528	\$ 850,869

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The following table shows trends of certain asset quality ratios monitored by the Company's management as of the balance sheet dates and June 30, 2022 September 30, 2022:

	June 30, 2023	December 31, 2022		June 30, 2022		September 30, 2023	December 31, 2022		September 30, 2022				
		(Dollars in thousands)					(Dollars in thousands)						
ACL on loans to total loans outstanding	ACL on loans to total loans outstanding	0.72	%	0.87	%	1.01	%	0.67	%	0.87	%	0.89	%
ACL on loans to nonperforming loans	ACL on loans to nonperforming loans	335.48	%	347.89	%	546.89	%	324.17	%	347.89	%	493.78	%
ACL on loans to nonaccrual loans	ACL on loans to nonaccrual loans	346.45	%	377.16	%	588.98	%	366.37	%	377.16	%	603.91	%
Nonperforming loans to total loans	Nonperforming loans to total loans	0.22	%	0.25	%	0.19	%	0.21	%	0.25	%	0.18	%
Nonperforming assets to total assets	Nonperforming assets to total assets	0.15	%	0.18	%	0.13	%	0.15	%	0.18	%	0.13	%
Nonaccrual loans to total loans	Nonaccrual loans to total loans	0.21	%	0.23	%	0.17	%	0.18	%	0.23	%	0.15	%
Delinquent loans (30 days to nonaccruing) to total loans	Delinquent loans (30 days to nonaccruing) to total loans	0.25	%	0.57	%	0.29	%	0.22	%	0.57	%	0.54	%
Net charge-offs (recoveries) to total average loans	Net charge-offs (recoveries) to total average loans	—	%	—	%	—	%	—	%	—	%	—	%
Residential real estate						Residential real estate							
Net recoveries						Net recoveries	\$ (1)	\$ —	\$ —	\$ —	\$ —		
Total average loans						Total average loans	\$ 371,088	\$ 304,778	\$ 292,147				

Commercial	Commercial	—	%	—	%	—	%	Commercial	—	%	—	%	—	%	
	Net recoveries	\$	—	\$	(1)	\$	(1)		Net recoveries	\$	—	\$	(1)	\$	(1)
Net recoveries								Total average loans							
Total average loans		\$	40,793	\$	43,710	\$	45,280		Total average loans	\$	40,862	\$	43,710	\$	44,477
Consumer	Consumer		0.13	%	(0.09)	%	(0.13)		Consumer		0.21	%	(0.09)	%	(0.13)
Net charge-offs (recoveries)	Net charge-offs (recoveries)	\$	3	\$	(2)	\$	(3)		Net charge-offs (recoveries)	\$	5	\$	(2)	\$	(3)
Total average loans	Total average loans	\$	2,336	\$	2,262	\$	2,297		Total average loans	\$	2,365	\$	2,262	\$	2,258

All other loan categories did not have charge-offs or recoveries for the periods presented above.

There was one residential real estate loan totaling \$40 thousand were no loans in process of foreclosure at June 30, 2023 September 30, 2023 and one residential real estate loan totaling \$28 thousand in process of foreclosure at December 31, 2022. The aggregate interest income not recognized on nonaccrual loans approximated \$95 \$120 thousand as of June 30, 2023 September 30, 2023 and \$59 thousand as of December 31, 2022.

The Company had loans rated substandard that were on performing status totaling \$1.3 million at June 30, 2023 September 30, 2023 and December 31, 2022. In management's view, substandard loans represent a higher degree of risk of becoming nonperforming loans in the future.

Allowance for Credit Losses on Loans. Some of the Company's loan customers ultimately do not make all of their contractually scheduled payments, requiring the Company to charge off a portion or all of the remaining principal balance due. The Company maintains an ACL to absorb such losses. The level of the ACL on loans at June 30, 2023 September 30, 2023 represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date. The Company's policy and methodologies for establishing the ACL on loans under previously applicable GAAP for the 2022 comparison period presented are described in the Company's 2022 Annual Report, while the Company's policy and methodologies related to the adoption of CECL as of January 1, 2023 and for the first six nine months of 2023 are described in the Summary of Significant Accounting Policies in Note 1 to the unaudited interim consolidated financial statements included in this report. The Company's ACL on loans was \$6.8 million \$6.9 million and \$8.3 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

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The following table reflects activity in the ACL on loans for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023		2022	
	(Dollars in thousands)			
Balance at beginning of period	\$	6,934	\$	8,336
Impact of adoption of ASU No. 2016-13	—	—	(1,495)	—
Charge-offs	(4)	(1)	(4)	(2)
Recoveries	1	5	1	6
Net (charge-offs) recoveries	(3)	4	(3)	4
Credit loss benefit	(151)	—	(61)	—
Balance at end of period	\$	6,780	\$	8,340

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023		2022	
	(Dollars in thousands)			
Balance at beginning of period	\$	6,780	\$	8,340

Impact of adoption of ASU No. 2016-13	—	—	(1,495)	—
Charge-offs	(4)	—	(8)	(2)
Recoveries	3	—	4	6
Net (charge-offs) recoveries	(1)	—	(4)	4
Credit loss expense	116	—	55	—
Balance at end of period	\$ 6,895	\$ 8,340	\$ 6,895	\$ 8,340

The following table (net of loans held for sale) shows the internal breakdown by risk component of the Company's ACL on loans and the percentage of loans in each category to total loans in the respective portfolios at the dates indicated:

	Residential real estate	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022		
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
Residential real estate	Residential real estate			(Dollars in thousands)		Residential real estate		(Dollars in thousands)		
Non-revolving residential real estate	Non-revolving residential real estate	\$ 2,192	38.9	\$ 2,294	35.0	Non-revolving residential real estate	\$ 2,300	37.4	\$ 2,294	35.0
Revolving residential real estate	Revolving residential real estate	144	1.8	123	1.8	Revolving residential real estate	150	1.7	123	1.8
Construction real estate	Construction real estate					Construction real estate				
Commercial construction real estate	Commercial construction real estate	1,525	5.7	611	5.9	Commercial construction real estate	1,465	5.1	611	5.9
Residential construction real estate	Residential construction real estate	149	5.0	421	4.2	Residential construction real estate	159	4.9	421	4.2
Commercial real estate	Commercial real estate					Commercial real estate				
Non-residential commercial real estate	Non-residential commercial real estate	2,152	30.9	2,931	29.5	Non-residential commercial real estate	2,149	28.6	2,931	29.5
Multi-family residential real estate	Multi-family residential real estate	232	10.6	1,004	9.9	Multi-family residential real estate	239	10.1	1,004	9.9
Commercial	Commercial	354	4.4	301	4.3	Commercial	357	4.1	301	4.3
Consumer	Consumer	5	0.3	10	0.2	Consumer	5	0.2	10	0.2
Municipal	Municipal	27	2.4	95	9.2	Municipal	71	7.9	95	9.2
Unallocated	Unallocated	—	—	549	—	Unallocated	—	—	549	—
Total	Total	\$ 6,780	100.0	\$ 8,339	100.0	Total	\$ 6,895	100.0	\$ 8,339	100.0

Notwithstanding the categories shown in the table above or any specific allocation under the Company's ACL methodology, all funds in the ACL on loans are available to absorb loan losses in the portfolio, regardless of loan category or specific allocation.

Management believes, in its best estimate, that the ACL on loans at June 30, 2023 September 30, 2023 is appropriate to cover expected credit losses over the expected life of the Company's loan portfolio as of such date. However, there can be no assurance that the Company will not sustain losses in future periods which could be greater than the size of the ACL on loans at June 30, 2023 September 30, 2023. In addition, our banking regulators, as an integral part of their examination process, periodically review our ACL. Such agencies may require us to recognize adjustments to the ACL based on their judgments about information available to them at the time of their examination. A large adjustment to the ACL on loans for losses in future periods could require increased credit loss expense to replenish the ACL on loans, which could negatively affect earnings.

Investment Activities. During the first six nine months of 2023, investment securities classified as AFS, which are carried at fair value, increased \$17.3 million decreased \$1.3 million to \$267.5 million \$249.0 million, comprising 20.0% 17.8% of total assets, compared to \$250.3 million, or 18.7% of total assets, at December 31, 2022. The increase decrease between periods is due to an increase in unrealized losses of \$12.9 million and returns of principal of \$12.9 million, partially offset by purchases of higher yielding municipal securities of \$24.9 million and a reduction in unrealized losses during the first quarter of \$910 thousand, partially offset by returns of principal of \$8.3 million. 2023.

Net unrealized losses in the Company's AFS investment securities portfolio were \$46.5 million \$60.3 million as of June 30, 2023 September 30, 2023, compared to net unrealized losses of \$47.4 million as of December 31, 2022. The Company's accumulated OCI component of stockholders' equity at June 30, 2023 September 30, 2023 reflected cumulative net unrealized losses on investment securities of \$36.3 million \$47.1 million. There were no securities classified as HTM at June 30, 2023 September 30, 2023 or December 31, 2022. The increase in unrealized losses is

primarily attributable to increases in long term interest rates over which are tied to the past 15 months has negatively impacted pricing indexes for the fair value of the investment portfolio securities. No declines in value were deemed by management to be impairment related to credit losses at June 30, 2023 September 30, 2023. Deterioration in credit quality and/or imbalances in liquidity that may result from changes in financial market conditions might adversely affect the fair values of the Company's investment portfolio and the amount of gains or losses ultimately realized on the sale of such securities and may also increase the potential that credit losses may be identified in future periods, resulting in credit loss expense recorded in earnings.

Investment securities AFS with a carrying amount of \$940 \$874 thousand and \$433 thousand were pledged as collateral for public unit deposits or for other purposes as required or permitted by law at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Deposits. The following table shows information concerning the Company's average deposits by account type and weighted average nominal rates at which interest was paid on such deposits for the six nine months ended June 30, 2023 September 30, 2023 and 2022:

		Six Months Ended June 30, 2023				Six Months Ended June 30, 2022				Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
		Percent		Percent		Percent		Percent		Percent		Percent		Percent			
		Average Amount	of Total Deposits	Average Rate	Average Amount	of Total Deposits	Average Rate	Average Amount	of Total Deposits	Average Rate	Average Amount	of Total Deposits	Average Rate	Average Amount	of Total Deposits	Average Rate	
(Dollars in thousands)																	
Nontime deposits:	Nontime deposits:																
Noninterest bearing deposits	Noninterest bearing deposits	\$ 257,269	21.3	—	\$ 301,123	26.6	—										
Interest bearing checking accounts	Interest bearing checking accounts	315,315	26.2	0.68 %	281,256	24.9	0.22 %										
Money market accounts	Money market accounts	233,370	19.4	1.11 %	257,125	22.7	0.51 %										
Savings accounts	Savings accounts	173,576	14.4	0.04 %	186,539	16.5	0.04 %										
Total nontime deposits	Total nontime deposits	979,530	81.3	0.49 %	1,026,043	90.7	0.19 %										
Total time deposits	Total time deposits	225,655	18.7	3.00 %	104,869	9.3	0.44 %										
Total deposits	Total deposits	\$ 1,205,185	100.0	0.96 %	\$ 1,130,912	100.0	0.22 %	Total deposits			\$ 1,204,958	100.0	1.16 %	\$ 1,148,415	100.0	0.24 %	

During the first six nine months of 2023, average total deposits grew \$74.3 million \$56.5 million, or 6.6% 4.9%, compared to the six nine months ended June 30, 2022 September 30, 2022. The average balance of total non-time deposit balances decreased \$46.5 million \$76.0 million between periods primarily due to decreases of \$43.9 million \$64.1 million in noninterest bearing deposits, \$23.8 million \$20.8 million in money market accounts, and \$13.0 million \$20.0 million in saving accounts, partially offset by an increase of \$34.1 million \$28.9 million in interest bearing checking accounts. The increase in interest bearing checking accounts is primarily attributable to the purchase of nonreciprocal ICS deposits from IntraFi as described below for the the six nine months ended June 30, 2023 September 30, 2023. The decreases in the other categories are attributable to customers spending down deposit balances (including COVID-19 relief funds), the loss of deposit dollars to competing financial institutions and brokerage firms, and customers shifting monies into time deposits as they continue to seek higher yields. The average balance in total time deposits increased \$120.8 million \$132.5 million between periods due to an increase of \$81.4 million \$82.0 million in average brokered deposits and an increase of \$39.4 million \$50.5 million in average customer time deposit accounts as customers took advantage of higher rate paying CDs.

The Company participates in CDARS, which permits it to offer full deposit insurance coverage to its customers by exchanging deposit balances with other CDARS participants. CDARS also provides the Company with an additional source of funding and liquidity through the purchase of deposits. There were no purchased CDARS deposits as of June 30,

2023 September 30, 2023 or December 31, 2022. There were \$14.6 million \$14.3 million and \$12.3 million of time deposits of \$250,000 or less on the balance sheet at June 30, 2023 September 30, 2023 and December 31, 2022, respectively, which were exchanged with other CDARS participants.

The Company also participates in the ICS program, a service through which it can offer its customers demand or savings products with access to unlimited FDIC insurance, while receiving reciprocal deposits from other FDIC-insured banks. Like the exchange of certificate of deposit accounts through CDARS, exchange of demand or savings deposits through ICS provides a depositor with full deposit insurance coverage of excess balances, thereby helping the Company retain the full amount of the deposit on its balance sheet. As with the CDARS program, in addition to reciprocal deposits, participating banks may also purchase one-way ICS deposits. There were \$40.6 million \$106.6 million and \$209.3 million in exchanged ICS demand and money market deposits on the balance sheet at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. Additionally, there were \$50 million \$50.2 million of purchased ICS deposits at June 30, 2023 September 30, 2023 and no purchased ICS deposits at December 31, 2022.

At June 30, 2023 September 30, 2023 there were \$88.0 million \$103.0 million of retail brokered deposits at a weighted average rate of 4.66% 5.07% issued under a master certificate of deposit program with a deposit broker for six, nine and twelve month terms for the purpose of providing a supplemental source of funding and liquidity. There were \$33.0 million of retail brokered deposits at December 31, 2022 at a weighted average rate of 3.45% for a three month term that matured in January 2023.

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Uninsured deposits have been estimated to include deposits with balances greater than the FDIC insurance coverage limit of \$250 thousand. This estimate is based on the same methodologies and assumptions used for regulatory reporting requirements. At June 30, 2023 September 30, 2023, the Company had total estimated uninsured deposit accounts totaling \$354.0 million \$362.7 million, or 31.5% 29.7% of total deposits. Uninsured deposits include \$27.0 million \$31.1 million of municipal deposits that were collateralized under applicable state regulations by investment securities or letters of credit issued by the FHLB at June 30, 2023 September 30, 2023, as described below under *Borrowings*.

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The following table provides a maturity distribution of the Company's time deposits in amounts in excess of the \$250 thousand FDIC insurance limit at June 30, 2023 September 30, 2023 and December 31, 2022:

		June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
		(Dollars in thousands)				(Dollars in thousands)			
		Within 3 months	Within 3 months	\$ 1,162	\$ 1,011	Within 3 months	\$ 14,143	\$ 1,011	\$ 14,143
Within 3 months	Within 3 months	\$ 1,162	\$ 1,011			Within 3 months	\$ 14,143	\$ 1,011	\$ 14,143
3 to 6 months	3 to 6 months	14,308	4,001	3 to 6 months	11,727	3 to 6 months	11,727	4,001	4,001
6 to 12 months	6 to 12 months	17,952	11,462	6 to 12 months	14,742	6 to 12 months	14,742	11,462	11,462
Over 12 months	Over 12 months	4,304	9,883	Over 12 months	621	Over 12 months	621	9,883	9,883
		\$ 37,726	\$ 26,357				\$ 41,233	\$ 26,357	

Borrowings. Advances from the FHLB are another key source of funds to support earning assets. These funds are also used to manage the Bank's interest rate and liquidity risk exposures. The Company's borrowed funds at June 30, 2023 September 30, 2023 were comprised of borrowings from the FHLB of \$120.5 million \$90.7 million at a weighted average rate of 3.76% 3.57%. At December 31, 2022, borrowed funds were comprised of borrowings from the FHLB of \$50.0 million at a weighted average rate of 4.41%.

The Company has the authority, up to its available borrowing capacity with the FHLB, to collateralize public unit deposits with letters of credit issued by the FHLB. FHLB letters of credit in the amount of \$38.5 million \$42.4 million and \$42.5 million were utilized as collateral for these deposits at June 30, 2023 September 30, 2023 and December 31, 2022, respectively. The Company's reimbursement obligations to the FHLB relating to these letters of credit are secured by pledged collateral, which reduces the Company's available borrowing capacity with the FHLB. Total fees paid by the Company in connection with the issuance of these letters of credit were \$10 \$11 thousand and \$34 thousand for the three and nine months ended September 30, 2023, respectively and \$8 thousand and \$23 thousand for the three and six months ended June 30, 2023 September 30, 2023, respectively and \$7 thousand and \$15 thousand for the three and six months ended June 30, 2022 September 30, 2022, respectively.

In August 2021, the Company completed the private placement of \$16.5 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2031 to certain qualified institutional buyers and accredited investors. The Notes initially bear interest, payable semi-annually, at the rate of 3.25% per annum, until September 1, 2026. From and including September 1, 2026, the interest rate applicable to the outstanding principal amount due will reset quarterly to the then current three-month secured overnight financing rate (SOFR) plus 263 basis points. The Notes are presented in the consolidated balance sheets net of unamortized issuance costs of \$278 \$270 thousand and \$295 thousand at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Commitments, Contingent Liabilities, and Off-Balance-Sheet Arrangements. The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers, to reduce its own exposure to fluctuations in interest rates and to implement its strategic objectives. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable-rate loans, commitments to participate in or sell

loans, commitments to buy or sell securities, certificates of deposit or other investment instruments and risk-sharing commitments or guarantees on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contractual or notional amounts of these instruments reflect the extent of involvement the Company has in a particular class of financial instruments.

The Company's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable-rate loans, the contractual or notional amounts do not represent the Company's exposure to credit loss. The Company controls the risk of interest rate cap agreements through credit approvals, borrowing limits, and monitoring procedures. The Company generally requires collateral or other security to support financial instruments with credit risk.

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The following table details the contractual or notional amount of financial instruments that represented credit risk at the balance sheet dates:

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	Commitments to originate loans	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
		(Dollars in thousands)				(Dollars in thousands)			
Commitments to originate loans	Commitments to originate loans	\$ 97,672	\$ 39,217			Commitments to originate loans	\$ 29,484	\$ 39,217	
Unused lines of credit	Unused lines of credit	188,280	185,539			Unused lines of credit	194,234	185,539	
Standby and commercial letters of credit	Standby and commercial letters of credit	1,592	1,762			Standby and commercial letters of credit	1,532	1,762	
Credit card arrangements	Credit card arrangements	94	241			Credit card arrangements	146	241	
FHLB Mortgage	FHLB Mortgage	753	396			FHLB Mortgage	765	396	
Partnership Finance credit enhancement obligation, net	Partnership Finance credit enhancement obligation, net					Partnership Finance credit enhancement obligation, net			
Commitment to purchase investment in a real estate limited partnership	Commitment to purchase investment in a real estate limited partnership	—	3,000			Commitment to purchase investment in a real estate limited partnership	—	3,000	
Total	Total	\$ 288,391	\$ 230,155			Total	\$ 226,161	\$ 230,155	

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have a fixed expiration date or other termination clause and may require payment of a fee. Since many of the loan commitments are expected to expire without being drawn upon and not all credit lines will be utilized, the total commitment amounts do not necessarily represent future cash requirements. Lines of credit incur seasonal volume fluctuations due to the nature of some customers' businesses, such as tourism. The large increase in commitments to originate loans at June 30, 2023 from December 31, 2022 is primarily the result of the fiscal cycle of local municipalities and school districts, with \$53.3 million committed to them on June 30, 2023 for their fiscal year beginning July 1, 2023.

The Company did not hold any derivative or hedging instruments at June 30, 2023 September 30, 2023 or December 31, 2022.

In addition to commitments arising from the Company's financial instruments, in the normal course of business the Company enters into contractual commitments from time to time for the purchase or lease of property, including real property for its banking premises.

With the adoption of CECL, effective January 1, 2023, the Company records an ACL on off-balance sheet credit exposures through a charge or credit to Credit loss expense on the consolidated statements of income to account for the change in the ACL on off-balance sheet exposures between reporting periods. The ACL on off-balance sheet credit exposures totaled \$1.5 million at June 30, 2023 September 30, 2023 and was included in Accrued interest and other liabilities on the June 30, 2023 September 30, 2023 consolidated balance sheet. There was \$55 thousand and \$39 thousand of credit loss expense benefit for off-balance sheet credit exposures recorded for the three and six months ended June 30, 2023 September 30, 2023, respectively. Under previously applicable GAAP, there was no ACL on off-balance sheet credit exposures required at December 31, 2022.

Liquidity. Liquidity is a measurement of the Company's ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment and lending activities, purchase and lease commitments, and for other general business purposes. The primary objective of liquidity management is

to maintain a balance between sources and uses of funds to meet our cash flow needs in the most economical and expedient manner. The Company's principal sources of funds are deposits; whole-sale funding options including purchased deposits, amortization, prepayment and maturity of loans, investment securities, interest bearing deposits and other short-term investments; sales of securities and loans AFS; earnings; and funds provided from operations. Contractual principal repayments on loans have been a relatively predictable source of funds. Deposit flows and loan and investment prepayments are less predictable and can be significantly influenced by market interest rates, economic conditions, and rates offered by our competitors. Managing liquidity risk is essential to maintaining both depositor confidence and earnings stability.

As of **June 30, 2023** **September 30, 2023**, Union, as a member of FHLB, had access to unused lines of credit up to **\$17.8** **\$102.8** million over and above the **\$160.7** **\$134.7** million in combined outstanding FHLB borrowings and other credit, subject to collateralization and to the purchase of required FHLB Class B common stock and evaluation by the FHLB of the underlying collateral available. This line of credit can be used for either short-term or long-term liquidity or other funding needs.

Union also maintains an IDEAL Way Line of Credit with the FHLB. The total line available was \$551 thousand at **June 30, 2023** **September 30, 2023**. There were no borrowings against this line of credit as of such date. Interest on this line is chargeable at a rate determined by the FHLB and payable monthly. Should Union utilize this line of credit, qualified portions of the loan and investment portfolios would collateralize these borrowings.

In addition to its borrowing arrangements with the FHLB, Union maintains a pre-approved federal funds line of credit totaling \$15.0 million with an upstream correspondent bank, a master brokered deposit agreement with a brokerage firm, and one-way buy options with CDARS and ICS. **In addition to the funding sources available to Union, the Company maintains a \$5.0 million revolving line of credit with a correspondent bank.** At **June 30, 2023** **September 30, 2023**, there were no purchased CDARS deposits, **\$50.0 million** **\$50.2 million** in purchased ICS deposits, **\$88.0 million** **\$103.0 million** in retail brokered deposits issued under a master certificate of deposit program with a broker, and no outstanding advances on the Union or Company correspondent lines.

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In response to the recent bank failures, the Federal Reserve created a Bank Term Funding Program to provide liquidity to U.S. Depository institutions which allows any federally insured depository institution to pledge as collateral its investment portfolio

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at par, not at fair market value. The Company continues to evaluate the program and has not yet taken any advances under this facility.

Union's investment and residential loan portfolios also provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales of those portfolios. Additional contingent liquidity sources are available with further access to the brokered deposit market. These sources are considered as liquidity alternatives in our contingent liquidity plan. Management believes the Company has sufficient liquidity to meet all reasonable borrower, depositor, and creditor needs in the present economic environment. However, any projections of future cash needs and flows are subject to substantial uncertainty, including factors outside the Company's control.

Capital Resources. Capital management is designed to maintain an optimum level of capital in a cost-effective structure that meets target regulatory ratios, supports management's internal assessment of economic capital, funds the Company's business strategies and builds long-term stockholder value. Dividends are generally in line with long-term trends in earnings per share and conservative earnings projections, while sufficient profits are retained to support anticipated business growth, fund strategic investments, maintain required regulatory capital levels and provide continued support for deposits. The Company continues to evaluate growth opportunities both through internal growth or potential acquisitions.

In August 2021, the Company completed the private placement of \$16.5 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2031 to certain qualified institutional buyers and accredited investors. The Notes are structured to qualify as Tier 2 capital for the Company under regulatory capital guidelines for bank holding companies. Proceeds from the sale of the Notes were utilized primarily to provide additional Tier 1 capital to Union to support its growth and for other general corporate purposes.

Stockholders' equity **increased** **decreased** from \$55.2 million at December 31, 2022 to **\$59.1 million** **\$49.2 million** at **June 30, 2023** **September 30, 2023**, reflecting a decrease an increase of **\$1.2 million** **\$9.6 million** in accumulated other comprehensive loss due to improvement a decrease in the fair market value of the Company's AFS investment securities, cash dividends declared of \$4.9 million and stock repurchases of \$115 thousand during the nine months ended September 30, 2023. These decreases were partially offset by net income of **\$5.7 million** **\$8.2 million** for the first **six** **nine** months of 2023, an increase of **\$218** **\$348** thousand to common stock and additional paid in capital from the vesting of stock based compensation, a **\$37** thousand increase to retained earnings from the impact of adoption of ASU No. 2016-13 and a **\$41** **\$61** thousand increase due to the issuance of common stock under the DRIP. **These increases were partially offset by cash dividends declared of \$3.2 million and stock repurchases of \$60 thousand during the six months ended June 30, 2023.** The components of other comprehensive loss are illustrated in Note 10 of the unaudited consolidated financial statements.

The Company has 7,500,000 shares of \$2.00 par value common stock authorized. As of **June 30, 2023** **September 30, 2023**, the Company had 4,984,311 shares issued, of which **4,509,573** **4,507,905** were outstanding and **474,738** **476,406** were held in treasury.

In January 2023, the Company's Board reauthorized for 2023 the limited stock repurchase plan that was initially established in May of 2010. The limited stock repurchase plan allows the repurchase of up to a fixed number of shares of the Company's common stock each calendar quarter in open market purchases or privately negotiated transactions, as management deems advisable and as market conditions may warrant. The repurchase authorization for a calendar quarter (currently 2,500 shares) expires at the end of that quarter to the extent it has not been exercised, and is not carried forward into future quarters. The quarterly repurchase authorization expires on December 31, 2023, unless reauthorized. The Company repurchased **2,500** **5,000** shares under this program during the first **six** **nine** months of 2023 at a total cost of **\$59** **\$114** thousand. The Company also purchased 30 shares outside of the limited stock repurchase program during the first quarter of 2023 at a cost of \$1 thousand.

The Company maintains a DRIP whereby registered stockholders may elect to reinvest cash dividends and make optional cash contributions to purchase additional shares of the Company's common stock. The Company has reserved 200,000 shares of its common stock for issuance and sale under the DRIP. As of **June 30, 2023** **September 30, 2023**, **9,311** **10,143** shares of stock had been issued from treasury stock under the DRIP.

The Company (on a consolidated basis) and Union are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Union must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Under the standard regulatory capital guidelines, banking organizations must have a minimum total risk-based capital ratio of 8.0%, a minimum Tier I risk-based capital ratio of 6.0%, a minimum common equity Tier I risk-based capital ratio of 4.5%, and a minimum leverage ratio of 4.0% in order to be "adequately capitalized." In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of common Tier I equity, increasing the minimum

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required total risk-based capital, Tier I risk-based and common equity Tier I capital to risk-weighted assets they must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

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As shown in the table below, as of **June 30, 2023** **September 30, 2023**, both the Company and Union met all capital adequacy requirements to which they are subject and Union exceeded the requirements for a "well capitalized" bank under the FDIC's Prompt Corrective Action framework. There were no conditions or events between **June 30, 2023** **September 30, 2023** and the date of this report that management believes have changed either company's regulatory capital category.

		To Be Well Capitalized Under Prompt Corrective Action Provisions						To Be Well Capitalized Under Prompt Corrective Action Provisions								
		For Capital Adequacy Purposes		Actual		For Capital Adequacy Purposes		Actual		For Capital Adequacy Purposes		Actual				
As of June 30, 2023		Amount	Ratio	Amount	Ratio	Amount	Ratio	As of September 30, 2023		Amount	Ratio	Amount	Ratio			
As of September 30, 2023																
		(Dollars in thousands)														
Company:	Company:															
Total capital to risk weighted assets	Total capital to risk weighted assets	\$ 117,580	13.48 %	\$ 69,780	8.00 %			N/A	Total capital to risk weighted assets	\$ 118,453	13.19 %	\$ 71,844	8.00 %	N/A		
Tier I capital to risk weighted assets	Tier I capital to risk weighted assets	93,080	10.67 %	52,341	6.00 %			N/A	Tier I capital to risk weighted assets	94,085	10.48 %	53,865	6.00 %	N/A		
Common Equity Tier 1 to risk weighted assets	Common Equity Tier 1 to risk weighted assets	93,080	10.67 %	39,256	4.50 %			N/A	Common Equity Tier 1 to risk weighted assets	94,085	10.48 %	40,399	4.50 %	N/A		

Tier I capital to average assets	Tier I capital to average assets	93,080	6.60 %	56,412	4.00 %	N/A	Tier I capital to average assets	94,085	6.56 %	57,369	4.00 %	N/A		
Union:	Union:						Union:							
Total capital to risk weighted assets	Total capital to risk weighted assets	\$ 117,546	13.47 %	\$ 69,812	8.00 %	\$ 87,265	10.00 %	Total capital to risk weighted assets	\$ 118,274	13.18 %	\$ 71,790	8.00 %	\$ 89,737	10.00 %
Tier I capital to risk weighted assets	Tier I capital to risk weighted assets	109,268	12.52 %	52,365	6.00 %	69,820	8.00 %	Tier I capital to risk weighted assets	110,136	12.27 %	53,856	6.00 %	71,808	8.00 %
Common Equity Tier 1 to risk weighted assets	Common Equity Tier 1 to risk weighted assets	109,268	12.52 %	39,274	4.50 %	56,729	6.50 %	Common Equity Tier 1 to risk weighted assets	110,136	12.27 %	40,392	4.50 %	58,344	6.50 %
Tier I capital to average assets	Tier I capital to average assets	109,268	7.76 %	56,324	4.00 %	70,405	5.00 %	Tier I capital to average assets	110,136	7.68 %	57,363	4.00 %	71,703	5.00 %

Dividends paid by Union are the primary source of funds available to the Company for payment of dividends to its stockholders. Union is subject to certain requirements imposed by federal banking laws and regulations, which among other things, establish minimum levels of capital and restrict the amount of dividends that may be distributed by Union to the Company.

Quarterly cash dividends of \$0.36 per share were paid during the **first** **second** quarter of 2023 and were declared for the **second** **third** quarter, payable on **August 3, 2023** **November 2, 2023** to stockholders of record on **July 29, 2023** **October 28, 2023**.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Omitted, in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-10513 (effective September 10, 2018).

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of the Disclosure Control Committee, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of **June 30, 2023** **September 30, 2023**. Based on this evaluation they concluded that those disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the 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's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files with the Commission is accumulated and communicated to the Company's management, including its principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required information.

Changes in Internal Controls over Financial Reporting. There was no change in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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.

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Item 1A. Risk Factors

There have been no material changes in the risk factors discussed in Part I-Item 1A, "Risk Factors" in the Company's 2022 Annual Report since the date of the filing of that report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not issue any unregistered shares during the quarter ended **June 30, 2023** **September 30, 2023**.

There were no The following table summarizes repurchases of the Company's equity securities during the quarter ended **June 30, 2023** **September 30, 2023**.

Period	Issuer Purchases of Equity Securities			Total Number of Shares Announced Plans or Programs (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (1)
	Total Number of Shares Purchased	Average Price Paid per Share	Purchased as Part of Publicly Announced Plans or Programs		
July 2023	2,500	\$21.80	—	2,500	—
August 2023	—	—	—	—	—
September 2023	—	—	—	—	—

(1) *Repurchases were made pursuant to a discretionary stock repurchase program under which the Company may repurchase up to 2,500 shares of its common stock each calendar quarter, in open market or privately negotiated transactions, in management's discretion. The repurchase authorization for a calendar quarter expires at the end of that quarter to the extent it has not been exercised, and is not carried forward into future quarters. The program was initially authorized in 2010 and was reauthorized most recently in January 2023. The program will expire on December 31, 2023, unless reauthorized by the Board of Directors.*

Item 6. Exhibits.

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended **June 30, 2023** **September 30, 2023** formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, (iii) the unaudited consolidated statements of comprehensive income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, (iv) the unaudited consolidated statements of changes in stockholders' equity, (iv) the unaudited consolidated statements of cash flows and (v) related notes.

104 Cover page interactive data file (embedded within exhibit 101).

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Union Bankshares, Inc. Page 48

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, Inc.

August 11, November 14, 2023

/s/ David S. Silverman

David S. Silverman

Director, President and Chief Executive Officer

August 11, November 14, 2023

/s/ Karyn J. Hale

Karyn J. Hale

Chief Financial Officer

(Principal Financial Officer)

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EXHIBIT INDEX

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
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101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, (iii) the unaudited consolidated statements of comprehensive income for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, (iv) the unaudited consolidated statements of changes in stockholders' equity, (iv) the unaudited consolidated statements of cash flows and (v) related notes.
104	Cover page interactive data file (embedded within exhibit 101).

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, David S. Silverman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Bankshares, Inc.;
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 we 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 subsidiary, 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 evaluations;
 - (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 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 registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: [August 11, 2023](#) [November 14, 2023](#)

/s/ David S. Silverman

David S. Silverman
Director, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Karyn J. Hale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Bankshares, Inc.;
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 we 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 subsidiary, 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 evaluations;
 - (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 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 registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: **August 11, 2023** November 14, 2023

/s/ Karyn J. Hale

Karyn J. Hale
Chief Financial Officer
(Principal 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, Inc. (the "Company") on Form 10-Q for the period ended **June 30, 2023** **September 30, 2023** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that to the best of his knowledge: 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.

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

/s/ David S. Silverman

David S. Silverman
Chief Executive Officer

August 11, November 14, 2023

Exhibit 32.2

**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, Inc. (the "Company") on Form 10-Q for the period ended **June 30, 2023** **September 30, 2023** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that to the best of her knowledge: 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.

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

/s/ Karyn J. Hale

Karyn J. Hale
Chief Financial Officer

August 11, November 14, 2023

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