

Union Bankshares, Inc.



Y E A R I N R E V I E W

Market for **Union Bankshares** Common Stock

On March 17, 2014, there were 4,458,262 shares of common stock outstanding held by 592 stockholders of record. The number of stockholders does not reflect the number of beneficial owners, including persons or entities who may hold the stock in nominee or "street name." Union Bankshares' common stock is listed on the NASDAQ Global Market trading under the symbol UNB. For shareholder assistance please contact us at 802-888-6600 or our Transfer Agent, Registrar and Transfer Company, at 800-368-5948.

Union Bankshares Again Recognized for High Performance

In 2013, for the second year in a row, Union Bankshares was recognized as one of the top performing small-cap banks and thrifts in the United States by investment firm Sandler O'Neill. The ranking methodology evaluated publicly traded banks and thrifts with market capitalizations between \$25 million and \$2.5 billion. Assessment focused on growth, profitability, credit quality and capital strength. In order to qualify as a Sm-All Star, Union Bank needed to achieve results at or above their peer median for all of the metrics listed in the chart below.

In addition, Union Bank was again recognized by investment firm, Raymond James in its Community Bankers Cup awards for being in the top 10% of community banks (with assets of \$500 million to \$10 Billion) based on various profitability, operational efficiency and balance sheet metrics. Union Bank was the only bank in the country with assets under \$1 Billion to earn this distinction.

Performance Metrics: 2013 Sm-All Stars vs. Industry Medians

Last Twelve Months	Union Bankshares	Sm-All Stars	All Banks and Thrifts
EPS Growth	32.1%	16.6%	5.6%
Loan Growth	5.6%	11.8%	4.2%
Deposit Growth	3.2%	9.0%	2.4%
ROAE	17.5%	11.3%	7.4%
NPAs ¹ / Loans and OREO	0.6%	1.0%	1.8%
NCOs / Avg. Loans	0.06%	0.16%	0.36%
Reserves / NPAs ¹	174%	129%	68%

¹ Accruing TDRs are excluded from NPAs. Source: SNL Financial and Sandler O'Neill

UNION BANKSHARES COMMON STOCK

2013

HIGH	LOW	DIVIDENDS
First Quarter		
\$22.15	\$19.25	\$0.25
Second Quarter		
\$22.00	\$20.21	\$0.25
Third Quarter		
\$22.08	\$20.73	\$0.25
Fourth Quarter		
\$23.00	\$21.03	\$0.26

2012

HIGH	LOW	DIVIDENDS
First Quarter		
\$20.00	\$18.56	\$0.25
Second Quarter		
\$19.90	\$18.75	\$0.25
Third Quarter		
\$21.00	\$18.80	\$0.25
Fourth Quarter		
\$20.09	\$19.26	\$0.25

APRIL 15, 2014

Kenneth D. Gibbons

CHAIRMAN
UNION BANKSHARES, INC.
AND UNION BANK



David S. Silverman

PRESIDENT & CEO
UNION BANKSHARES, INC.
AND UNION BANK

to our SHAREHOLDERS

We are pleased to report the financial results for your company for the year ended December 31, 2013. Net Income was \$7.1 million compared to Net Income for the year ended December 31, 2012 of \$6.8 million. Results for 2013 reflect a year to year increase in net interest income of \$345 thousand, a decrease in noninterest expenses of \$1.8 million, and a decrease in noninterest income of \$2.0 million. The decrease in noninterest income was primarily due to a reduction in gain on sale of real estate loans of \$1.2 million and a decrease in gain on sale of securities of \$673 thousand compared to 2012.

Total assets grew to \$585.4 million as of December 31, 2013 compared to \$577.3 million as of December 31, 2012. Total loans increased \$9.8 million to \$465.1 million, as of December 31, 2013 compared to \$455.3 million, as of December 31, 2012. The 2013 loan growth was net of \$123.1 million of residential mortgage loans sold to the secondary market during the year to manage long-term interest rate risk, compared to sales of \$125.7 million in 2012. Total deposits reached \$518.4 million compared to the prior year of \$510.0 million, an increase of \$8.4 million. The company had total capital of \$49.8 million with a book value per share of \$11.17 as of December 31, 2013 compared to \$45.0 million with a book value of \$10.11 as of December 31, 2012.

2013 was a year of modest growth in loans, deposits, and assets. Inflation has been very low and the local economy has been tepid, though slowly improving. We would like to grow our assets at a brisker pace to allow us to spread regulatory and compliance costs over a larger base, but we resist "growth for growth's sake."

There are several items of note that occurred in 2013. After careful analysis we chose to close our Green Mountain Mall branch office in St. Johnsbury. This was done to make our branch delivery system more efficient and without material attrition in customer accounts. We continue to evaluate our entire organization seeking areas where we can be more efficient.

Final Basel III Capital Standard Regulations were issued in July of 2013 with a January 1, 2015 effective date for the Company. We have since tested our balance sheet under the new Capital Standards and found ourselves compliant with the new regulations in the initial year through full implementation in 2019. Considering our compliance with Basel III and our earnings, the Board of Directors voted to increase the dividend 4% on an annual basis beginning in the third quarter. Of course, future dividends are dependent on future financial performance.

During the autumn of 2013 we had a team from the FDIC perform an examination of our compliance with the Community Reinvestment Act (CRA). The CRA measures a bank's responsiveness in meeting the credit needs of the communities it serves. We again received the top CRA rating of Outstanding. According to FDIC data less than 5% of the banks examined in the past three years have received the "Outstanding" designation.

Finally, we wish to recognize two long time staff members who have recently retired and who have been important factors in our success for many years. JoAnn Tallman has served the bank for almost 28 years holding several positions before becoming the President's Executive Secretary and Board Meeting Recorder. JoAnn's calm, quiet demeanor has been a welcome counterpoint to two Presidents and 19 different Board Members. Marsha Mongeon has served as the bank's Chief Financial Officer for 24 years. Marsha will be remembered for her knowledge, professionalism, and dedication to the bank. Both of these fine individuals will be missed both personally and professionally. We are happy for both to enjoy well deserved retirement years.

Sincerely,

Kenneth D. Gibbons
Chairman

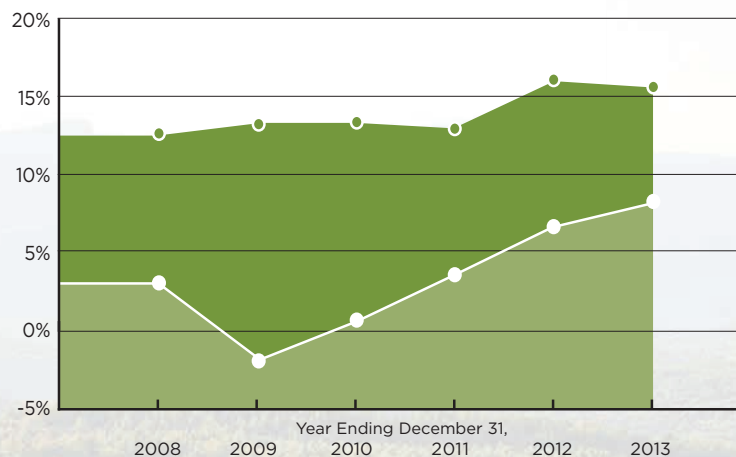
David S. Silverman
President & Chief Executive Officer

FINANCIAL HIGHLIGHTS

RETURN ON AVERAGE EQUITY

SOURCE: SNL FINANCIAL LC

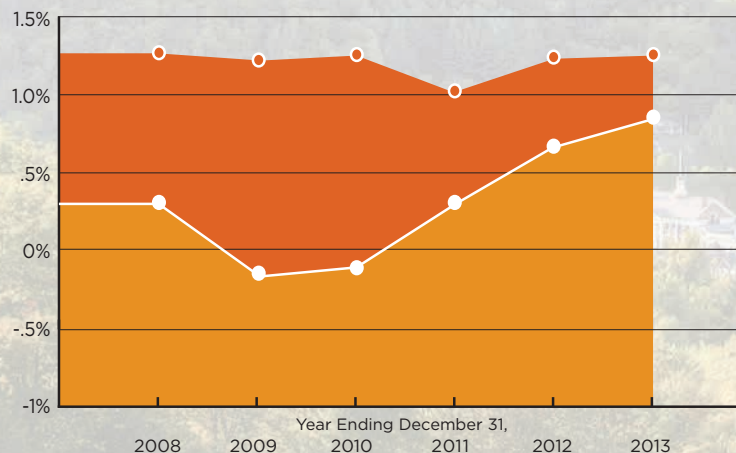
Union Bankshares, Inc. ●
SNL BANK \$500M - \$1B ●



RETURN ON AVERAGE ASSETS

SOURCE: SNL FINANCIAL LC

Union Bankshares, Inc. ●
SNL BANK \$500M - \$1B ●



AT OR FOR THE YEARS ENDED DECEMBER 31

	2013	2012	2011	2010	2009
Balance Sheet Data					
		(Dollars in thousands, except per share data)			
Total assets	\$585,443	\$577,256	\$552,751	\$452,995	\$447,522
Investment securities	45,492	26,126	46,954	24,280	24,649
Loans, net of unearned income	465,123	455,298	429,384	382,071	358,167
Allowance for loan losses	(4,647)	(4,657)	(4,226)	(3,755)	(3,493)
Deposits	518,354	509,993	473,439	376,660	368,827
Borrowed funds	13,216	15,747	29,015	28,986	30,993
Stockholders' equity ¹	49,820	45,046	40,339	41,725	41,180
Income Statement Data					
Total interest and dividend income	\$24,481	\$25,028	\$23,669	\$22,907	\$23,217
Total interest expense	(2,459)	(3,351)	(3,908)	(4,117)	(5,294)
Net interest and dividend income	22,022	21,677	19,761	18,790	17,923
Provision for loan losses	(305)	(660)	(775)	(520)	(400)
Noninterest income	8,501	10,525	7,125	5,649	5,521
Noninterest expenses	(21,221)	(23,035)	(19,773)	(16,630)	(16,397)
Income before provision for income taxes	8,997	8,507	6,338	7,289	6,647
Provision for income taxes	(1,862)	(1,663)	(1,119)	(1,702)	(1,420)
Net income	\$7,135	\$6,844	\$5,219	\$5,587	\$5,227
Per Common Share Data					
Net income ²	\$1.60	\$1.54	\$1.17	\$1.25	\$1.17
Cash dividends paid	1.01	1.00	1.00	1.00	1.00
Book value ¹	11.17	10.11	9.05	9.36	9.23
Weighted average number of shares outstanding	4,457,261	4,457,029	4,456,842	4,458,193	4,466,760
Number of shares outstanding	4,458,359	4,456,081	4,457,204	4,455,704	4,461,208

¹Stockholders' equity includes unrealized gains or losses, net of applicable income taxes, on investment securities classified as "available-for-sale" and includes the unfunded liability for pension benefits, net of taxes for the defined benefit pension plan.

²Computed using the weighted average number of shares outstanding for the period.



BUSINESS HIGHLIGHTS

Union Bank is fortunate to have a varied set of successful business lines that helped contribute to the bank's strong performance and position the organization to meet customer needs in the coming years. A sampling of the services provided can be found here >

Commercial Services

Over many decades, Union Bank has earned a reputation as a reliable, experienced and responsive commercial lender. With seasoned staff and in-market lending decisions, we are able to provide borrowers with a more rapid and personalized loan process than is customary from large banks.

Union Bank provides prospective borrowers with an excellent blend of attractive services, knowledgeable lenders and a formidable lending capacity with a singular focus on serving clients in our local market areas. As a Preferred Lender with the US Small Business Administration, Union Bank offers a variety of loan options to prospective applicants.

These positive attributes and welcome referrals from existing commercial customers helped Union Bank achieve record levels in our commercial loan portfolio during 2013.

Municipal Services

Much of the same can be said of our service to towns, villages, school districts and other municipal entities. Union Bank is extremely well positioned to serve local municipal and non-profit clients who value both the financial services which the bank offers and the readily-accessible personal service. Our staff regularly advises customers in determining the optimal deposit, lending and electronic banking products to meet their particular needs. The Bank is proud to serve the towns, school districts, hospitals, nursing homes, medical practices, social service agencies and other non-profits that are such an important part of the fabric of our communities.

Mortgage Lending

2013 marked a banner year for Union Bank's vibrant residential lending business despite the increase in long term interest rates slowing the refinance market. Repeat customers, client referrals, attractive products and outstanding service also characterize our mortgage business line. While the increase in rates began to impact the refinance market in the last quarter of the year, we attained excellent results lending to families looking to buy or build a new residence throughout the entire year. Union Bank is well positioned to serve

this market with both our traditional branch network and our very successful Mortgage Loan Center in South Burlington, VT. Our lenders are knowledgeable and versatile enough to serve a range of customers from those needing customized jumbo mortgages or BUILD construction loans to those seeking to buy a first home with the assistance of an affordable housing program.

The positive impact that Union Bank has made in the lives of such first time home buyers has been recognized by the FDIC with a rating of Outstanding for our Community Reinvestment activities. Additionally, in 2013 Union Bank has been recognized by the US Department of Agriculture as its Rural Development Home Loan Lender of the Year for Vermont.

Union Bank is extremely proud of these distinctions and believes our varied business efforts have a direct benefit for our customers, our communities, our staff and our shareholders.

Consumer Banking

Gathering deposits to fund our lending activities is a core function of the bank. During 2013 we introduced Advantage Banking, a package of banking services to reward customers who maintain higher deposit balances with Union Bank. We view deposits as a sign of commitment to the bank and this is our effort to reward and retain these important depositors who contribute substantially to our overall success. Advantage Banking has proven to be extremely popular with hundreds of customers signing up in just the first few months. These participating customers gain enhanced value through the special pricing offered on popular bank services. Advantage Checking and Advantage Checking Plus are our flagship checking accounts and reward individuals who maintain deposit relationships of \$25,000 or more with enhanced value and discounts on popular bank services. From complementary checks and ATM fee waivers to no-cost services and higher rates on CD's, Advantage Banking provides special pricing, allowing these customers to take full advantage of their banking relationship with Union Bank. The qualifying deposit relationship is a combination of all personal deposit accounts held individually or jointly by the primary account holder on the Advantage Checking Account. This includes checking accounts, CD's, IRAs, Savings and Money Market accounts.



Lura Jacques
MANAGING
TRUST OFFICER

Joseph (JJ) Ilacqua
TRUST OFFICER



Asset Management Group

Union Bank's Asset Management Group offers a full range of investment management and trust services to individual investors, corporations and non-profit organizations. Our team has the expertise to oversee fully managed investment accounts as well as advisory and custodial relationships. In addition to counseling clients in or approaching retirement, we are experts at advising organizations on effective asset management strategies. For those looking to control the distribution of their estate, we have the expertise to guide clients through the intricacies of personal trust and estate planning. We also serve as advisor to individuals who have assumed the important roles of trustee and executor.

We are pleased to announce that Lura Jacques has been named Managing Trust Officer for the Asset Management Group. Lura has been with Union Bank for the past 6 years in the capacity of Trust Officer in the Western Region. Overall, she has a total of 25 years' asset management experience. In addition; we have expanded our Asset Management services into our Eastern Region with the hiring of Joseph (JJ) Ilacqua. JJ brings over 17 years of investment management experience to the position.

Our network of office locations allows us to offer local, personalized services to our clients and conduct regular investment and life reviews to assist in evaluating a client's investing and asset management strategies. These personalized reviews consider each investor's risk tolerance, time horizon, tax circumstances and income needs.

There has never been a more important time for clients to have access to objective, insightful and personalized investment advice. Union Bank offers the broad expertise, long term perspective and focused customer service to provide our customers with an investment strategy that best meets their needs.

Union Bankshares, Inc.

DIRECTORS

Kenneth D. Gibbons - *Chairman*
 Cynthia D. Borck
 Steven J. Bourgeois
 Timothy W. Sargent
 David S. Silverman
 John H. Steel
 Schuyler W. Sweet
 Neil J. Van Dyke

OFFICERS

Kenneth D. Gibbons - *Chairman*
 David S. Silverman - *President & CEO*
 Marsha A. Mongeon - *Vice President/Treasurer/CFO*
 John H. Steel - *Secretary*
 JoAnn A. Tallman - *Assistant Secretary*
 Jeffrey G. Coslett - *Vice President*

Union Bank

DIRECTORS

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 Cynthia D. Borck
 Steven J. Bourgeois
 John M. Goodrich
 Timothy W. Sargent
 David S. Silverman
 John H. Steel
 Schuyler W. Sweet
 Neil J. Van Dyke

REGIONAL ADVISORY BOARD MEMBERS

Michael R. Barrett - St. Johnsbury
 Joel S. Bourassa - Northern New Hampshire
 Steven J. Bourgeois - St. Albans
 Dwight A. Davis - St. Johnsbury
 Stanley T. Fillion - Northern New Hampshire
 Rosemary H. Gingue - St. Johnsbury
 Coleen K. Kohaut - St. Albans
 Justin P. Lavelly - St. Johnsbury
 Daniel J. Luneau - St. Albans
 Alexandra S. MacLean - St. Johnsbury
 Mary K. Parent - St. Johnsbury
 Samuel H. Ruggiano - St. Albans
 David S. Silverman - All
 Schuyler W. Sweet - Northern New Hampshire
 Norrine A. Williams - Northern New Hampshire



TOP TO BOTTOM

Cynthia D. Borck
 OWNER
 CONSULTING SERVICES
 INFORMATION

Steven J. Bourgeois
 CEO
 STRATEGIC INITIATIVES
 FOR BUSINESS LLC

Kenneth D. Gibbons
 CHAIRMAN
 UNION BANKSHARES, INC.
 AND UNION BANK

David S. Silverman
 PRESIDENT & CEO
 UNION BANKSHARES, INC.
 AND UNION BANK

John H. Steel
 FOUNDER
 STEEL CONSTRUCTION

Timothy W. Sargent
 ATTORNEY/OWNER
 SARGENT LAW OFFICE

Schuyler W. Sweet
 OWNER
 STONY RIVER
 PROPERTIES, LLC

Neil J. Van Dyke
 PRESIDENT
 GOLDEN EAGLE RESORT



Union Bank

OFFICERS

Tracy Pierce Ash - *Assistant Treasurer*
 Diana M. Ashley - *Assistant Treasurer*
 Rhonda L. Bennett - *Vice President*
 Sherrie A. Bull - *Vice President*
 Stacey L. B. Chase - *Assistant Vice President*
 Barbara J. Churchill - *Assistant Treasurer*
 Everett C. Comstock - *Assistant Treasurer*
 Jeffrey G. Coslett - *Senior Vice President*
 Michael C. Curtis - *Vice President*
 Jennifer M. Degree - *Assistant Treasurer*
 Ronald C. Dion - *Assistant Treasurer*
 Jessica M. Eastman - *Assistant Vice President*
 Kenneth D. Gibbons - *Chairman*
 Don D. Goodhue - *Vice President*
 Melissa A. Greene - *Vice President*
 Paul E. Grogan - *Facilities Officer*
 Karyn J. Hale - *Vice President*
 Claire A. Hindes - *Vice President*
 Robert D. Hofmann - *Senior Vice President*
 Patricia N. Hogan - *Senior Vice President*
 Tracey D. Holbrook - *Regional Vice President*
 Joseph J. Ilacqua - *Assistant Vice President*
 Lura L. Jacques - *Assistant Vice President*
 Lynne P. Jewett - *Vice President*
 Stephen H. Kendall - *Senior Vice President*
 Susan F. Lassiter - *Vice President*
 Christine S. Latulip - *Regional Vice President*
 R. Ryan Leap - *Senior Vice President*
 Edward L. Levite - *Senior Loan Originator*
 Carrie R. Locklin - *Assistant Vice President*
 Bonnie J. Losty - *Vice President*
 John L. Malm - *Vice President*
 Robyn A. Masi - *Vice President*
 Marsha A. Mongeon - *Senior Vice President & CFO*
 Samantha A. Norrie - *Assistant Treasurer*
 Karen Calson Noyes - *Vice President*
 Barbara A. Olden - *Vice President*
 Deborah J. Partlow - *Assistant Vice President*
 Bradley S. Prior - *Assistant Vice President*
 Craig S. Provost - *Vice President*
 Robert J. Richardson - *Vice President*
 David S. Silverman - *President & CEO*
 Judy R. Smith - *Vice President*
 Karen Blanchard Smith - *Assistant Treasurer*
 John H. Steel - *Secretary*
 Curtis C. Swan - *Assistant Vice President*
 JoAnn A. Tallman - *Assistant Secretary*
 Melyssa S. Whitcomb - *Assistant Treasurer*
 Martha J. Wilkins - *Assistant Treasurer*
 Lorraine G. Willett - *Assistant Vice President*

Littleton
 Fairfax
 Morrisville
 Morrisville
 Morrisville
 Morrisville
 Morrisville
 Morrisville
 St. Albans
 Morrisville
 Morrisville
 S. Burlington
 Morrisville
 Morrisville
 Hardwick
 Morrisville
 Morrisville
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 St. Johnsbury
 Littleton
 St. Albans
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 Morrisville
 St. Albans
 Morrisville
 Morrisville
 St. Albans
 Lyndonville
 St. Johnsbury
 Morrisville



Union Bankshares, Inc.

VERMONT

Danville	421 Route 2 East	802-684-2211
Fairfax	Jct. Routes 104 & 128	802-849-2600
Hardwick	103 VT Route 15 West	802-472-8100
Jeffersonville	44 Main Street	802-644-6600
Johnson	198 Lower Main Street	802-635-6600
Lyndonville	183 Depot Street	802-626-3100
Morrisville	20 Lower Main Street	802-888-6600
	65 Northgate Plaza	802-888-6860
St. Albans	15 Mapleville Depot	802-524-9000
St. Johnsbury	364 Railroad Street	802-748-3131
	325 Portland Street	802-748-3121
S. Burlington	Loan Center	
	30 Kimball Avenue	802-865-1000
Stowe	47 Park Street	802-253-6600

NEW HAMPSHIRE

Groveton	3 State Street	603-636-1611
Littleton	263 Dells Road	603-444-7136
	76 Main Street	603-444-5321
N. Woodstock	155 Main Street	603-745-2488

WWW.UNIONBANKVT.COM WWW.UNIONBANKNH.COM

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