Union Bankshares, Inc.

2005 Annual Report

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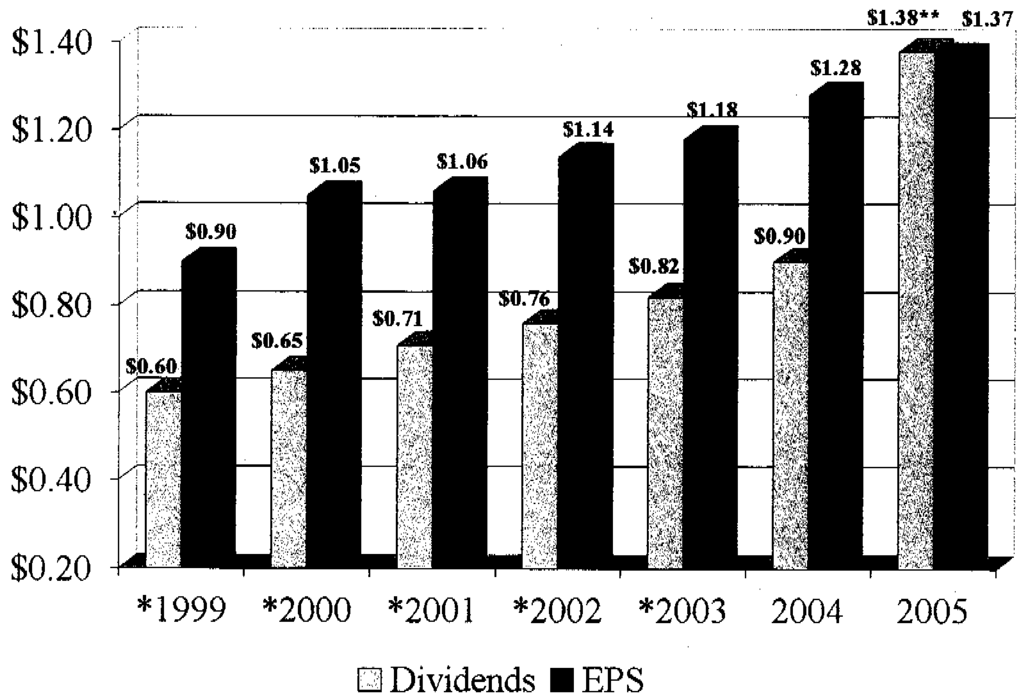
Union Bankshares, Inc.

Earnings Per Share & Dividends Paid to Stockholders by Year



* Dividend amoumts have been adjusted for 2003 stock split

**Includes a $0.40 per share special dividend

Facing page: The Union Bank Team

(not pictured: Faith Trottier; Heather Waterhouse; Heather Young)

Letter to Shareholders

March 30, 2006

Dear Shareholder,

Much was accomplished in 2005 by your company and we are pleased to report those accomplishments in this year's annual report.

On the financial side, short-term interest rates continued to increase as the Federal Reserve pursued its policy of implementing, in small increments, its anti-inflationary controls. This caused the "prime rate" to rise from 5.25% to 7.25% during the year having a positive effect on net interest income. Deposit rates have also risen rapidly in the past twelve months requiring continued close monitoring of our asset/liability management strategy.

We also focused this past year on improving our officer call program and as a result loans outstanding and loans held for sale increased 9.6% reflecting strong demand not only in our traditional market, but at our new St. Albans loan office as well. Residential, home equity, municipal, and commercial loans all experienced solid growth. Thus far in 2006 we are experiencing a continuation of this trend.

As you read this report you will notice, in addition to the customary financial information, we have highlighted a few services and activities which are of interest. In particular is our newest full-service branch in Littleton, New Hampshire. This office opened in March of 2006 replacing the loan office we established there in 2001. We are quite pleased with the reception we have received and it reflects positively on the quality of our staff and advisory board who have many years of experience in the Littleton market. In October, we completed renovations to our Portland Street branch in St. Johnsbury with an eye toward improving lobby and vehicle traffic flow as well as physical security. New loan and deposit activity at this location has improved substantially.

Community banks continue to be a focal point of regulatory action; however, this past year we have seen some beneficial reductions in "regulatory burden" and other related legislation. For example, Congress recently approved amendments to the FDIC Act, the first improvements since 1980. The most significant change was an increase in deposit insurance coverage for retirement accounts from $100,000 to $250,000. Since the inception of Individual Retirement Accounts (IRA's) and similar retirement savings accounts, deposits in these accounts have increased substantially. New deposit insurance levels should assist us in attracting and retaining retirement deposits. In addition, changes in bankruptcy law, Community Reinvestment Act exams, Bank Secrecy Act compliance, and FASB accounting issues were all beneficial to the banking community. There are even recommendations to change some of the Sarbanes Oxley reporting requirements. We will watch closely how the SEC responds to the recommendations of the SEC Advisory Committee on Smaller Public Companies.

We want to thank our shareholders, customers, and especially our employees for all contributing to the success of Union Bankshares this past year.

Sincerely,

Richard Sargent

Richard C. Sargent
Chairman

Kenneth D. Gibbons
President & CEO

Union Bankshares Board of Directors

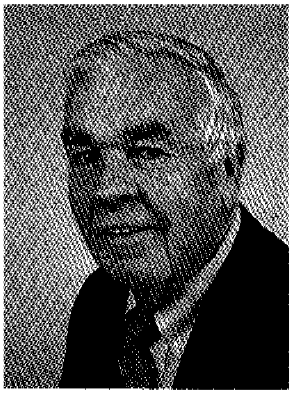

Cynthia D. Borck

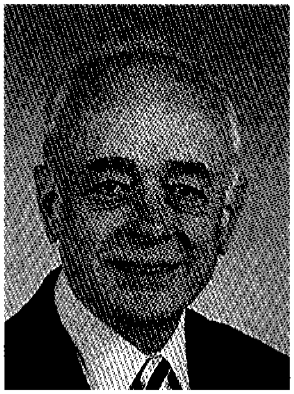

Steven J. Bourgeois


Kenneth D. Gibbons


Franklin G. Hovey II


Richard C. Marron


Robert P. Rolllins


Richard C. Sargent


John H. Steel

2005: Growing to meet new opportunities

In 2005, the team at Union Bank (the sole subsidiary of Union Bankshares, Inc.) continued to pursue a strategy of steady growth in assets, services provided, market area, and profitability. The following narrative provides some highlights of the year's activities which furthered the bank's pursuit of financial success while enhancing the communities in our service area. During the fourth quarter of 2005, the bank surpassed several previous financial records, with new records for Total Assets $382 million, Total Deposits $324 million and Total Loans $308 million.

COMMERCIAL SERVICES

The economies of the geographic region served by Union Bank are driven by many diverse businesses in the for-profit sector, as opposed to being dominated by a small handful of very large companies. As a result of this, small and medium sized businesses remain the "heart and soul" of the local economy. Throughout its history, Union Bank has responded by specializing in lending to independent businesses and entrepreneurs. We believe that by providing proper financing, we can help each business grow and prosper, increase their employment base and therefore add to the community as a whole. At the same time, helping to create strong local economies has also increased the Bank's growth and profitability.

Commercial Services Officers: FRONT Stacey Chase, Rhonda Bennett, Alycia Vosinek, Tracey Holbrook, Dennis Lamothe. BACK David Silverman, Peter Jones, Mike Curtis, Steve Kendall, Phil Martin, Ken Gibbons.

2005 was a successful year for the Commercial Services team. The commercial loan portfolio increased from $135 million at year end 2004 to $158 million at year end 2005 representing 17% growth year over year. At the end of 2005, commercial loans comprised 51.4% of the bank's total loan portfolio.

One highlight in 2005 was the opening of the St. Albans (VT) Loan Center in February 2005. Vice President and Commercial Loan Officer Mike Curtis and Loan Assistant Carol Allen operate the office with an eye towards developing business and commercial relationships in the greater St. Albans - Franklin County area. Both are highly experienced commercial bankers and have worked in the St. Albans market for several years. "Carol and I have been surprised that so many people in our community are already Union Bank customers," states Mike. "The bank has a good reputation in the market. One year later we are very pleased that so many more have become our loan customers."

Mike and Carol have closely followed the Bank's philosophy of community involvement. "A great part of our success is predicated on our active involvement in our community," Mike continues, "whether it is the St. Albans Free Library, Northwestern Counseling and Support Services, or St. Albans For the Future, our local involvement gives us the community's pulse and keeps Union Bank visible in our community.

Another active component of our Commercial Services Team is our Municipal Services program. We have designated several team members as Municipal specialists and have actively been soliciting deposit and loan business from our local municipalities. This program has grown in size and profitability over the last several years while benefiting the towns we live in with cost effective financial solutions, customized to their needs. "With CDARS and other programs," states Vice President Rhonda Bennett, "we can not only assist towns and school districts with their financing and cash management needs, we can also help them invest excess funds until needed to meet municipal expenses."

David Silverman, Senior Vice President, adds "Our service philosophy is consistently about building relationships. We view our commercial customers as individuals with individual needs, not as transactions. One important thing we have as a Bank is the relative longevity of our commercial lenders. Seven of our eleven commercial officers have been part of the Team for ten years or more. Our customers appreciate being able to work with a person they've come to know and trust. Many of our new customers are directed to us by our existing customers. We appreciate this level of loyalty and remain determined to earn it every business day."

The Bank's Merchant Services (credit/debit card processing) program continues to produce solid revenues while enhancing commercial customer loyalty. In 2005 the bank processed over $80 million in card transactions, an 8% increase year over year. Currently serving over 670 commercial customers, the department is now developing newer markets in St. Albans, Vermont and Littleton, New Hampshire.

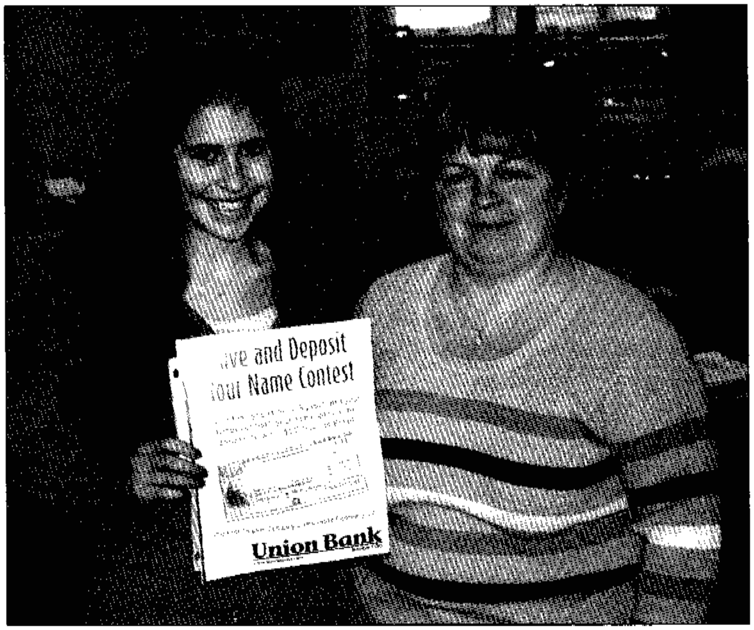
"The Bank offers a great value in card processing," states Stacey Chase, Merchant Services Officer. "We take pride in providing a quick response to customer calls and we take the time to thoroughly educate our customers about the benefits of working with us and how to minimize their risk when engaging in electronic commerce."

CONSUMER & RESIDENTIAL LENDING

In Consumer Lending, the Bank continues to have success with the B.U.I.L.D. Loan program. The B.U.I.L.D. Loan is unique to the Bank, and has features that make it a leader in the Bank's market. In the past decade, the program has helped over 1450 families to construct new homes, or renovate existing homes.

"The B.U.I.L.D. Loan continues to generate both great interest and great numbers," says B.U.I.L.D. Loan co-creator and Executive V.P., Cynthia Borck. "We have helped thousands of individuals and families with this program, and have also generated some very impressive loan numbers. At year end, B.U.I.L.D. loans accounted for $20.7 million of our overall loan portfolio."

In addition to the B.U.I.L.D. Loan, traditional Mortgages and Home Equity loans continued to show growth. The Bank also made a technology investment with the installation of "Loan Prospector," a computer-driven, software risk assessment tool which gives the Bank ready access to Freddie Mac's credit and pricing terms, streamlining the underwriting process. The Bank continues its long tradition of servicing the mortgages it originates.



COMMUNITY

The Bank's ongoing dedication to the communities it serves was demonstrated in several ways, the first being its "Save for Success" school savings programs. The Bank's "Save for Success" Team Leaders and volunteers visit over 20 local graded schools every week in a program that encourages youngsters to open and contribute to savings programs. Now in its 9th year, Save for Success has been an extremely well received program that has helped children learn to save at an early age. "At year end," says SFS Facilitator Kristy Adams-Alfieri, "over 2900 kids were enrolled in the Bank's Save for Success program."

In 2005, the Bank also began a formal internship program with Lyndon State College. Two students from Lyndon State College, were given training in both Teller and Personal Banker procedures. Internship students generally begin working with the Bank between their freshman & sophomore years, culminating with an internship during the summer before their senior year. In addition, the Bank continued it's long relationship with Johnson State College, by contributing to the Union Bank Scholarship Endowment. The JSC Scholarships are for students who show promise in civic and business leadership, and receive matching funds from the Vermont Higher Education Trust Fund. To date, seventeen scholarships have been granted from the interest on the endowment. The Bank will seek new interns from both Johnson and Lyndon State Colleges in 2006.

Historically, the Bank has benefitted greatly from its interns. Many talented team members began their careers at the bank as interns, and the Bank continues to realize the internship programs as a source of well-educated, experienced bank employees.

In August, Union Bank and Northeastern Vermont Regional Hospital, located in St. Johnsbury, announced a five-year pledge from the Bank in support of its ongoing capital campaign. In recognition, NVRH named a large meeting room in its business and conference center the "Union Bank Conference Room."

NVRH Board Chair Gretchen Hammer expressed particular thanks to recently retired Union Bank Director and St. Johnsbury Advisory Board Member Bill Costa for his support in recommending this gift to Union Bank's board. "Bill was one of the leaders in building the original hospital and he remains an important figure as we invest in the hospital to address the Kingdom's health needs for the next few decades," said Ms. Hammer.

Left to Right: Retired Union Bank Director (and active St. Johnsbury Advisory Board Member) William T. Costa, Jr.; NVRH Board Chair Gretchen Hammer; Union Bank President Ken Gibbons, and NVRH CEO Paul Bengtson.

"Union Bank has set a standard that will encourage others to be generous. Their support and leadership provides tremendous momentum to this campaign. We have already seen several organizations follow their lead." Added Paul Bengtson, NVRH's CEO.

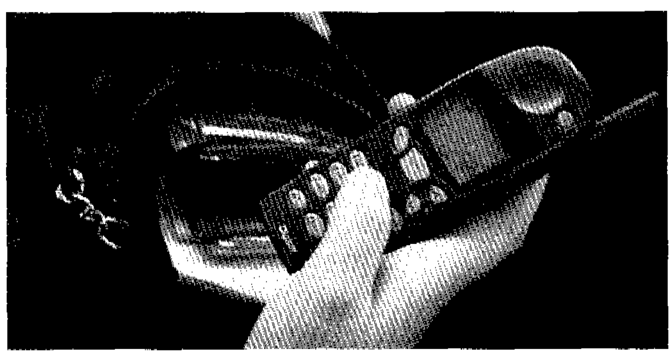
In November, Union Bank's Mail Clerk, Don Rayta, spearheaded an effort to collect Thanksgiving turkeys as part of a regional effort to help those in need on this important family holiday. "The Bank's employees donated over 75 turkeys, which became part of well over 400 that were distributed throughout the greater Lamoille Valley," said Don. "The delivery truck was full of frozen birds."

Bank team members also participated in fund raising events for the American Cancer Society, the March of Dimes and the Red Cross. In October, the Bank, on behalf of the many community members who contributed, was able to give a check for $11,893 (which included $10,000 from the Bank) to the American Red Cross, specifically targeted for the victims of Hurricane Katrina.

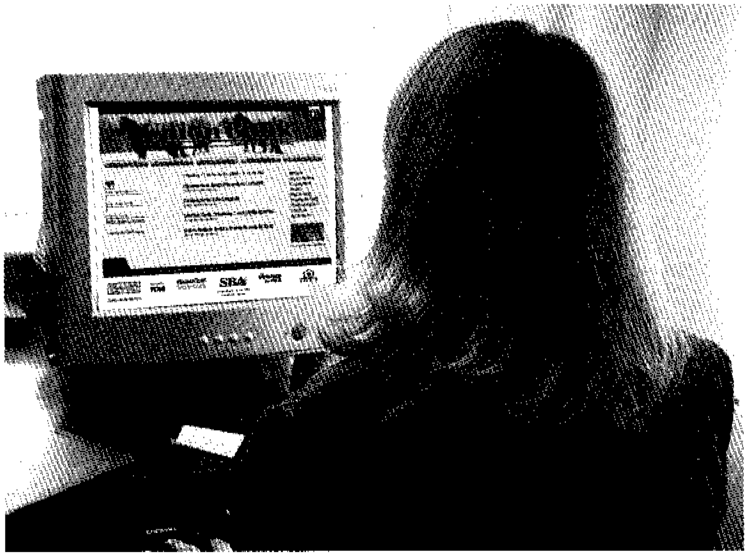
"Every Union Bank branch from Fairfax to Littleton was set up to receive donations," said Union Bank President, Ken Gibbons. "We wanted to make the giving process as easy as possible for the members of the communities we serve. All donations are and will continue to be of great use by Gulf Coast relief efforts, as the challenge of Katrina's devastation will face the region and the nation for some time to come."

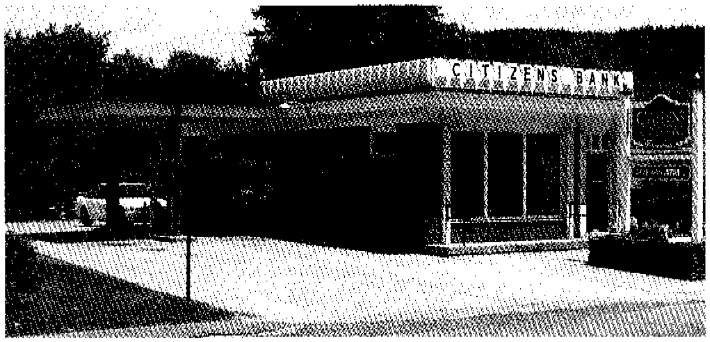
TECHNOLOGIES

Technology continues to redefine the process of banking, both for Union Bank and its customer base. Formally defining an Electronic Banking Department, the Bank has organized a team that is available to answer electronic banking questions every business day. The Electronic Banking Department handles everything from Wire Transfers to questions about its NetTeller Online banking program.



"The bank serves over 3500 customers through its NetTeller® Internet banking system and over 11,000 debit card customers," states Electronic Banking Officer Sara Small. "We take pride in the high level of service we offer our electronic banking customers, particularly given the wide array of banking methods at their disposal." In 2005, the bank handled over 250,000 calls through its Express Telebanking® system. Recognizing the increased potential for abuse of both debit and credit card accounts, the Bank initiated several Anti-Fraud educational campaigns through print advertising, direct mail and on its web site. "We have taken the initiative to aggressively educate our customers and the community at large about the growing issues of financial fraud," said Peter Eley, Senior Vice President. " In this era of online commerce, criminals and scam artists can operate with nearly complete anonymity, and from locations far outside our region, and often outside the country. The Bank has taken solid steps to protect its customers, but we're also doing our best to help them protect themselves."





The original Portland Street office, constructed in the mid 1960s.

The same site, after major renovations in 2005.

Portland Street Team: Melyssa Whitcomb, Molly Moghari, Teri Achilles, Tina Before, and Kathie Crown.

PORTLAND STREET, ST. JOHNSBURY

In the fourth quarter of 2005, major renovations were completed to the Bank's Portland Street Office in St. Johnsbury. Using the existing structure as a starting point, the entire building was overhauled, both interior and exterior. As described by the "before and after" images at the left, the building was increased in size and was transformed into a more traditional design.

"Moving to the classic 'New England look' has several benefits," says Paul Grogan, Facilities Manager. "Besides simply being more 'in tune' with typical village architecture, the sloped roof handles snow loads much better and leaves more convenient access for infrastructure requirements, such as wiring. The traffic flow was also improved, with better drive-through access and better over all parking."

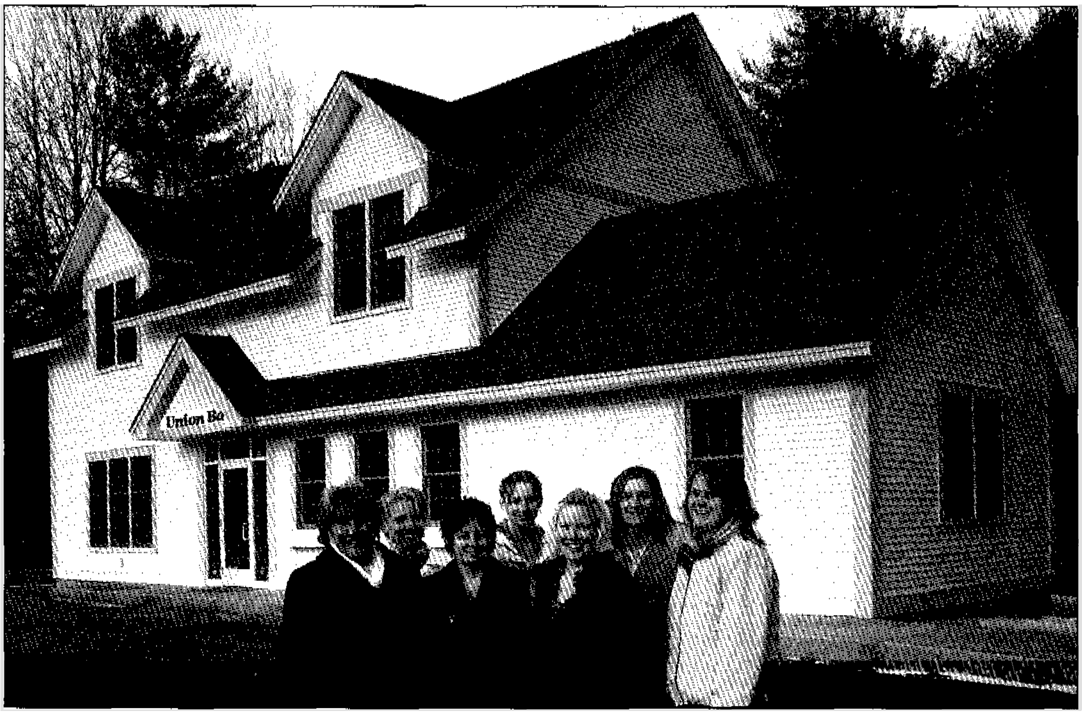
"Our customers have really responded favorably," states Portland Street Branch Supervisor Kathie Crown. "We now have an on-site loan officer which gives our customers much greater access to loan programs. From our standpoint, our teller stations are much improved, with more space, easier access to important banking equipment and much better lighting through out the office. It's a very pleasant place to be in. Our renovations have even been acknowledged by the Northeast Kingdom Chamber of Commerce, who awarded us a 2005 Kingdom Improvement Award."

LITTLETON, NEW HAMPSHIRE

In March of 2006, construction was completed on the Bank's new full-service office at 263 Dells Road in Littleton, New Hampshire, just off I-93. The office opened officially on Monday, the 20th of March. The building is a two-story, traditional structure that features a convenient drive through teller window and ATM, a full teller line, and has both loan and closing offices. The location is convenient to the village of Littleton and large-chain retailers.

"I think that the word "initiative" is very appropriate in describing both Union Bank's move into the Littleton market and Littleton as a community," says Littleton Advisory Board Member Stan Fillion. "Littleton as a community, working with the Littleton Industrial Development Corporation, took the initiative and brought new and diversified business to the area in the 1970's in response to the demise of the local shoe industry and the changing face of commerce in the North Country. Again in the 1990's, Littleton became a 'National Main Street Community' and worked with the newly formed Littleton Main Street Corporation to revitalize its Main Street. Littleton continues this tradition of innovation and initiative into the new century and has become an economic hub for the region. Littleton and Union Bank are both built on the Yankee tradition of ingenuity and integrity. These are truly traits that will bind Littleton and Union Bank together."

Norrine Williams, also on the Littleton Advisory Board adds, "Folks here are looking for solid, dependable banks who remember the individual, including the small business "Yankee" with deep roots to the North Country. Union Bank has a great history with its support and recognition of how important communities are, not just to themselves, but as part of the overall fabric of regional economies. Northern New Hampshire and Vermont are very similar in terms of business and small towns with a strong history of both independence and local control."


UB's Littleton Team: Millie Nelson, Alycia Vosinek, Candy Durocher, Ashley Reardon, Crystal Chase, Samanth Carey and Tara Donovan.

Advisory Board Member Judy Aydelott sums up: "In my 25 years of experience as co-owner of Profile Broadcasting Co., Inc. (WTLN AM/FM), I saw how welcoming the region is to entrepreneurial thinking; innovative notions and community involvement on the part of businesses of all sizes. I know that the Union Bank family applauds and supports these points of view and is eager for the opportunity to assist forward-thinking businesses and individuals alike. I think that the bank's location and extremely attractive exterior is going to set it apart from the other banks and branches in Littleton."

With the completion of Littleton's full service branch, the Bank's office locations run west to east from greater St. Albans in Northwestern Vermont to greater Littleton in Northern New Hampshire and touches or encompasses 7 Vermont and 3 New Hampshire counties, with a total population (2004 Census estimate) of over half a million individuals.

Union Bankshares, Inc. and Subsidiary

Selected Financial Information

	At or For The Years Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share data)				
Balance Sheet Data:					
Total assets	$374,746	$359,529	$356,557	$343,492	$337,475
Investment securities available-for-sale	32,408	40,966	44,370	45,824	49,610
Loans, net of unearned income	307,071	280,069	271,561	255,907	250,943
Allowance for loan losses	(3,071)	(3,067)	(3,029)	(2,908)	(2,801)
Deposits	313,299	306,598	305,381	293,004	285,722
Borrowed funds	16,256	7,934	7,223	7,536	10,344
Stockholders' equity (1)	41,603	42,403	40,987	39,169	37,215
Income Statement Data:					
Total interest income	$ 22,256	$ 20,178	$ 20,372	$ 22,169	$ 24,124
Total interest expense	(4,499)	(3,310)	(4,209)	(6,364)	(9,565)
Net interest and dividend income	17,757	16,868	16,163	15,805	14,559
Provision for loan losses	(60)	(30)	(114)	(356)	(320)
Noninterest income	4,056	3,774	3,603	3,560	3,073
Noninterest expenses	(13,056)	(12,319)	(12,060)	(11,761)	(10,496)
Income before provision for income taxes	8,697	8,293	7,592	7,248	6,816
Provision for income taxes	(2,460)	(2,458)	(2,205)	(2,068)	(1,984)
Net income	$ 6,237	$ 5,835	$ 5,387	$ 5,180	$ 4,832
Per Common Share Data:					
Net income (2)(3)	$ 1.37	$ 1.28	$ 1.18	$ 1.14	$ 1.06
Cash dividends paid (3)	1.38	0.90	0.82	0.76	0.71
Book value (1)(3)	9.16	9.31	9.01	8.62	8.19
Weighted average number of shares outstanding (3)	4,554,055	4,551,469	4,547,366	4,543,113	4,546,204
Number of shares outstanding (3)	4,542,663	4,554,663	4,550,313	4,545,288	4,542,788

(1) Stockholders' equity includes unrealized gains or losses, net of applicable income taxes, on investment securities classified as "available-for-sale".

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

(3) Per common share data and number of shares outstanding for all applicable periods have been restated to reflect the three-for-two stock split effected in the form of a 50% stock dividend to shareholders of record on July 26, 2003.

Management's Responsibiity

Union Bankshares, Inc.'s management is responsible for preparation, integrity and fair presentation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report. The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the requirements of the Securities and Exchange Commission ("SEC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators including Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and internal audit, including organizational and procedural controls, internal accounting controls and internal controls over financial reporting. Our system of internal control includes communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

We have established a Disclosure Control Committee to assist us in ensuring that all public disclosures made by us are accurate and complete, and fairly present the Company's financial condition and results of operations. The members of the committee consist of select members of management and one of the financial experts from the Audit Committee. Representatives from the Company's external independent auditors and legal counsel normally participate. The Disclosure Control Committee shall review each annual and quarterly Exchange Act report prior to the Company filing them with the SEC to assess the quality of the disclosures made in the report, including but not limited to whether the report is accurate and complete in all material respects.

We, as Union Bankshares, Inc.'s Chief Executive Officer and Chief Financial Officer, will be certifying Union Bankshares, Inc.'s annual disclosure document filed with the SEC as required by the federal Sarbanes-Oxley Act of 2002.

In order to provide their report on our consolidated financial statements, the Company's Independent Auditors review our system of internal control and conduct their work to the extent that they consider appropriate.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, including the MD&A, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit Committee, comprised solely of non-management, independent directors. The Audit Committee meets periodically with management, internal auditors and the independent public accountants.

The Company's Independent Auditors and the Company's Internal Auditors have direct full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters with or without management present.

Marsha A. Mongeon
Chief Financial Officer

Kenneth D. Gibbons
Chief Executive Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Union Bankshares, Inc.

We have audited the accompanying consolidated balance sheets of Union Bankshares, Inc. and subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Union Bankshares, Inc. and subsidiary for the year ended December 31, 2003, were audited by other auditors whose report dated March 5, 2004, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Union Bankshares, Inc. and subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Albany, New York
March 10, 2006
VT Reg. No. 092-0000-648

Union Bankshares, Inc. and Subsidiary

Consolidated Balance Sheets
December 31, 2005 and 2004

	2005	2004
ASSETS		
Cash and due from banks	$ 14,018,842	$ 16,929,793
Federal funds sold and overnight deposits	189,587	4,187,159
Cash and cash equivalents	14,208,429	21,116,952
Interest bearing deposits in banks	8,597,835	7,508,703
Investment securities available-for-sale	32,407,973	40,965,888
Loans held for sale	6,546,019	8,813,910
Loans	300,677,096	271,420,631
Allowance for loan losses	(3,071,421)	(3,066,871)
Unearned net loan fees	(152,338)	(165,654)
Net loans	297,453,337	268,188,106
Accrued interest receivable	1,971,924	1,527,808
Premises and equipment, net	5,898,424	5,121,046
Other assets	7,661,722	6,286,622
Total assets	$ 374,745,663	$ 359,529,035
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 52,616,912	$ 57,221,189
Interest bearing	260,682,182	249,376,952
Total deposits	313,299,094	306,598,141
Borrowed funds	16,256,274	7,933,652
Accrued interest and other liabilities	3,587,484	2,594,218
Total liabilities	333,142,852	317,126,011
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $2.00 par value; 5,000,000 shares authorized; 4,918,611 shares issued in 2005; 4,915,611 shares issued in 2004	9,837,222	9,831,222
Paid-in capital	139,861	106,989
Retained earnings	33,760,610	33,809,456
Treasury stock at cost; 375,948 shares in 2005 and 360,948 shares in 2004	(2,036,931)	(1,721,931)
Accumulated other comprehensive (loss) income	(97,951)	377,288
Total stockholders' equity	41,602,811	42,403,024
Total liabilities and stockholders' equity	$ 374,745,663	$ 359,529,035

See accompanying notes to consolidated financial statements.

Union Bankshares, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Interest income			
Interest and fees on loans	$ 20,247,000	$ 17,948,375	$ 18,203,663
Interest on debt securities			
Taxable	1,261,344	1,692,097	1,615,049
Tax exempt	191,549	214,449	233,902
Dividends	87,814	68,953	69,178
Interest on federal funds sold and overnight deposits	188,080	47,149	73,807
Interest on interest bearing deposits in banks	280,348	207,163	176,738
Total interest income	22,256,135	20,178,186	20,372,337
Interest expense			
Interest on deposits	3,984,868	2,948,477	3,866,621
Interest on borrowed funds	513,951	362,101	342,362
Total interest expense	4,498,819	3,310,578	4,208,983
Net interest income	17,757,316	16,867,608	16,163,354
Provision for loan losses	60,000	30,000	114,000
Net interest income after provision for loan losses	17,697,316	16,837,608	16,049,354
Noninterest income			
Trust income	300,491	204,392	162,508
Service fees	2,898,159	2,802,020	2,660,976
Net gains on sales of investment securities	144,673	23,443	379
Net gains on sales of loans held for sale	192,073	443,965	524,981
Net gains on sales of other real estate owned	336,153	90,191	22,866
Other income	183,920	210,387	231,010
Total noninterest income	4,055,469	3,774,398	3,602,720
Noninterest expenses			
Salaries and wages	5,627,296	5,401,332	5,302,774
Pension and employee benefits	2,044,870	1,972,948	1,912,319
Occupancy expense, net	788,672	737,386	691,079
Equipment expense	1,040,797	930,939	903,280
Other expenses	3,554,249	3,276,681	3,250,283
Total noninterest expense	13,055,884	12,319,286	12,059,735
Income before provision for income taxes	8,696,901	8,292,720	7,592,339
Provision for income taxes	2,459,532	2,457,593	2,205,253
Net income	$ 6,237,369	$ 5,835,127	$ 5,387,086
Earnings per common share (See Note 2)	$ 1.37	$ 1.28	$ 1.18
Dividends per common share (See Note 2)	$ 1.38	$ 0.90	$ 0.82

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2005, 2004, and 2003

	Common Stock						
	Shares, Net of Treasury	Amount	Paid-in Capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balances, December 31, 2002	3,030,057	$ 6,541,378	$317,553	$ 33,357,259	$ (1,721,931)	$674,280	$ 39,168,539
Stock split effected in the form of a stock dividend (See Note 2)	1,515,231	3,271,094	(329,453)	(2,945,045)	—	—	(3,404)
Comprehensive income:							
Net income	—	—	—	5,387,086	—	—	5,387,086
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects	—	—	—	—	—	86,374	86,374
Total comprehensive income							5,473,460
Cash dividends declared	—	—	—	(3,728,457)	—	—	(3,728,457)
Exercise of stock options	5,025	10,050	66,476	—	—	—	76,526
Balances, December 31, 2003	4,550,313	9,822,522	54,576	32,070,843	(1,721,931)	760,654	40,986,664
Comprehensive income:							
Net income	—	—	—	5,835,127	—	—	5,835,127
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects	—	—	—	—	—	(383,366)	(383,366)
Total comprehensive income							5,451,761
Cash dividends declared	—	—	—	(4,096,514)	—	—	(4,096,514)
Exercise of stock options	4,350	8,700	52,413	—	—	—	61,113
Balances, December 31, 2004	4,554,663	9,831,222	106,989	33,809,456	(1,721,931)	377,288	42,403,024
Comprehensive income:							
Net income	—	—	—	6,237,369	—	—	6,237,369
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects	—	—	—	—	—	(475,239)	(475,239)
Total comprehensive income							5,762,130
Cash dividends declared	—	—	—	(6,286,215)	—	—	(6,286,215)
Issuance of stock options	—	—	862	—	—	—	862
Exercise of stock options	3,000	6,000	32,010	—	—	—	38,010
Purchase of treasury stock	(15,000)	—	—	—	(315,000)	—	(315,000)
Balances, December 31, 2005	4,542,663	$ 9,837,222	$139,861	$ 33,760,610	$ (2,036,931)	$ (97,951)	$ 41,602,811

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2005, 2004, and 2003

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 6,237,369	$ 5,835,127	$ 5,387,086
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	772,971	696,686	654,483
Provision for loan losses	60,000	30,000	114,000
Provision for deferred income taxes	93,290	197,939	1,918
Net amortization of investment securities	135,638	205,571	261,400
Equity in losses of limited partnerships	221,884	140,104	124,948
Issuance of stock options	862	—	—
Net gains on sales of investment securities	(144,673)	(23,443)	(379)
Net gains on sales of loans held for sale	(192,073)	(443,965)	(524,981)
Net gains on sales of other real estate owned	(336,153)	(90,191)	(22,866)
Net gains on disposals of premises and equipment	(1,995)	(7,395)	(5,609)
Write-downs of other real estate owned	—	—	42,846
Write-downs of impaired investment securities	47,500	41,501	—
Decrease in unamortized loan fees	(13,316)	(19,542)	(20,904)
Proceeds from sales of loans held for sale	15,208,927	26,269,537	30,186,323
Origination of loans held for sale	(12,748,963)	(16,115,144)	(31,046,743)
(Increase) decrease in accrued interest receivable	(444,116)	123,698	238,972
(Increase) decrease in other assets	(135,134)	90,814	(359,474)
Increase (decrease) in income taxes	7,742	4,653	(1,409)
Increase (decrease) in accrued interest payable	200,046	(51,046)	(216,388)
Increase (decrease) in other liabilities	81,661	(326,142)	(217,340)
Net cash provided by operating activities	9,051,467	16,558,762	4,595,883
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest bearing deposits in banks			
Maturities and redemptions	5,374,868	3,562,529	3,562,015
Purchases	(6,464,000)	(4,551,539)	(4,755,075)
Investment securities available-for-sale			
Sales	2,453,236	1,761,346	350,553
Maturities, calls and pay downs	15,245,085	13,161,672	22,958,760
Purchases	(9,898,930)	(12,323,253)	(21,986,482)
Purchase of Federal Home Loan Bank stock	—	—	(5,300)
Increase in loans, net	(29,624,052)	(18,259,344)	(13,686,707)
Recoveries of loans charged off	54,972	124,164	98,581
Purchase of premises and equipment	(1,551,164)	(1,377,719)	(497,439)
Investments in limited partnerships	(640,107)	(100)	(378,900)
Proceeds from sales of premises and equipment	2,810	14,548	13,643
Proceeds from sales of other real estate owned	615,552	—	75,396
Proceeds from sales of repossessed property	11,370	12,684	42,251
Net cash used in investing activities	(24,420,360)	(17,875,012)	(14,208,704)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in borrowings outstanding, net	8,322,622	711,122	(313,502)
Proceeds from exercise of stock options	38,010	61,113	76,526
Net (decrease) increase in noninterest bearing deposits	(4,604,277)	8,855,595	7,387,039
Net increase (decrease) in interest bearing deposits	11,305,230	(7,638,873)	4,987,911
Purchase of treasury stock	(315,000)	—	—
Proceeds paid out for fractional shares	—	—	(3,404)
Dividends paid	(6,286,215)	(4,096,514)	(3,728,457)
Net cash provided by (used in) financing activities	8,460,370	(2,107,557)	8,406,113
Decrease in cash and cash equivalents	(6,908,523)	(3,423,807)	(1,206,708)
Cash and cash equivalents:			
Beginning	21,116,952	24,540,759	25,747,467
Ending	$ 14,208,429	$ 21,116,952	$ 24,540,759
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$ 4,298,773	$ 3,361,624	$ 4,425,371
Income taxes paid	$ 2,186,544	$ 2,283,094	$ 2,223,156
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING & FINANCING ACTIVITIES			
Other real estate acquired in settlement of loans	$ 243,665	$ 319,368	$ 130,717
Repossessed property acquired in settlement of loans	$ 13,500	$ 8,916	$ 25,078
Loans originated to finance the sale of other real estate owned	$ —	$ 283,634	$ 801,296
Investment in limited partnerships acquired by capital contributions payable	$ 703,817	$ —	$ —
Change in unrealized (losses) gains on investment securities available-for-sale	$ (720,059)	$ (580,858)	$ 129,603
Transfer of loans held for sale to portfolio	$ 1,983,458	$ —	$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

The accounting and reporting policies of Union Bankshares, Inc. and Subsidiary (the "Company") are in conformity with U.S. generally accepted accounting principles (GAAP) and general practices within the banking industry. The following is a description of the more significant policies.

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Union Bankshares, Inc., and its wholly-owned subsidiary, Union Bank ("Union"). On May 16, 2003, the two subsidiaries (Union Bank and Citizens Savings Bank and Trust Company (Citizens) of Union Bankshares, Inc. were merged with the surviving, state chartered bank being Union Bank headquartered in Morrisville, Vermont. All significant intercompany transactions and balances have been eliminated. The Company utilizes the accrual method of accounting for financial reporting purposes.

Nature of operations

The Company provides a variety of financial services to individuals, municipalities, commercial and nonprofit customers through its branches, ATMs, telebanking, and internet banking systems in northern Vermont and its loan production offices in St. Albans, Vermont and Littleton, New Hampshire. This market area encompasses primarily retail consumers, small businesses, municipalities, agricultural producers, and the tourism industry. The Company's primary deposit products are checking, savings, money market accounts, and certificates of deposit and its primary lending products are commercial, real estate, municipal, and consumer loans.

Concentration of risk

The Company's operations are affected by various risk factors, including interest-rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities/repricing of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Company. Although the Company has a diversified loan portfolio and economic conditions are relatively stable, most of its lending activities are conducted within the Northern Vermont and New Hampshire market area where it is located and a substantial portion of the Company's loans are secured by real estate and/or are Small Business Administration ("SBA") guaranteed. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy and real estate market conditions. Note 7 discusses the types of lending which the Company engages in.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, deferred tax assets, judgments regarding impairment of assets and pension plan accounting. These estimates involve a higher degree of complexity and subjectivity and the amount of the change that is reasonably possible cannot be estimated.

Management believes that the allowance for loan losses is adequate to absorb losses inherent in the portfolio. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. The ultimate collectibility of a substantial portion of the Company's loan portfolio is dependent upon general economic and real estate market conditions in Northern Vermont. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

Note 1. Significant Accounting Policies (Continued)

Presentation of cash flows

For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in process of clearing), federal funds sold (generally purchased and sold for one day periods), and overnight deposits.

Trust assets

Assets held by the Trust & Asset Management Division of Union in a fiduciary or agency capacity, other than trust cash on deposit, are not included in these consolidated financial statements because they are not assets of Union or the Company.

Investment securities

Investment securities purchased and held primarily for resale in the near future are classified as trading securities and are carried at fair value with unrealized gains and losses included in earnings. Debt securities the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale. Investments classified as available-for-sale are carried at fair value.

Accretion of discounts and amortization of premiums arising at acquisition are included in income using the effective interest method over the life of the securities. Unrealized gains and losses are excluded from earnings and reported in other comprehensive income, net of tax and reclassification adjustment, as a separate component of stockholders' equity. The specific identification method is used to determine realized gains and losses.

Declines in the fair value of held-to-maturity and available-for-sale investment securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses in other expenses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition and near and medium-term prospects of the issuer, (3) whether the decline is attributable to changes in interest rates or credit quality and (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans held for sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Loans transferred from held for sale to portfolio are transferred at the lower of cost or market value in the aggregate. Sales are normally made without recourse. Gains and losses on the disposition of loans held for sale are determined on the specific identification basis. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their unpaid principal balances adjusted for any charge-offs, the allowance for loan losses, 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. Delinquency status is determined based on contractual terms. The accrual of interest is discontinued when a loan is specifically determined to be impaired and/or management believes, after considering collection efforts and other factors, that the borrowers' financial condition is such that collection of interest is doubtful. Normally, any unpaid interest previously accrued on those loans is reversed against interest income. A loan may be restored to accrual status when its financial status has been 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 non-accrual loans is generally not recognized unless a loan is placed back in accrual status or after all principal has been collected. Interest income generally is not recognized on impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance.

Note 1. Significant Accounting Policies (Continued)

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield using methods that approximate the interest method. The Company is generally amortizing these amounts over the contractual life of the related loans.

Allowance for loan losses

The allowance for loan losses is established for estimated losses in the loan portfolio through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is uncollectible or in accordance with federal guidelines. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's periodic evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions.

Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as economic conditions change.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred and the costs of major renewals and betterments are capitalized. Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank ("FHLB") of Boston, Union is required to invest in common stock of the FHLB of Boston. Effective April 19, 2004, to comply with the Gramm-Leach-Bliley Act, the FHLB of Boston adopted a capital plan that redeemed its Class A common stock and issued Class B common stock in its place. While there was no change in the dollar value of Union's investment upon conversion, the Class B common stock has a five year notice requirement for redemption and there is no guarantee of future redemption. Also, there is the possibility of future capital calls by the FHLB of Boston on member banks to ensure compliance with its capital plan. FHLB of Boston stock is reported in other assets at its par value of $1,240,500 at both December 31, 2005 and 2004. The stock is nonmarketable, and if redeemed, Union would receive from the FHLB of Boston an amount equal to the par value of the stock.

Other real estate owned

Real estate properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at the lesser of the recorded loan or at estimated fair value at the date of acquisition establishing a new carrying basis. Thereafter, valuations are periodically performed by management, and the real estate is carried at the lower of carrying amount or fair value, less cost to sell. Revenue and expenses from operations and changes in valuation are included in other income and expenses.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of loans with servicing rights retained. Capitalized servicing rights are reported in other assets and are amortized against noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions.

Notes to Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Investments Carried at Equity

The Company has purchased various limited partnership interests in low income housing partnerships. These partnerships were established to acquire, own and rent residential housing for low and moderate income Vermonters located in Northern Vermont. The investments are accounted for under a method approximating the equity method of accounting. These equity investments, which are included in other assets, are recorded at cost and adjusted for the Company's proportionate share of the partnerships' undistributed earnings or losses.

Pension plans

Union maintains a non-contributory defined benefit pension plan covering all eligible employees who meet certain service requirements. The costs of this plan, based on actuarial computations of current and estimated future benefits for employees, are charged to pension and other employee benefits as a current operating expense and are funded as accrued. As of January 1, 2004, former Citizens employees became eligible to participate in the defined benefit pension plan.

Union also has a contributory 401(k) pension plan covering all employees who meet certain service requirements. The plan is voluntary, and in 2005, 2004, and 2003, Union, through the discretionary matching component of the plan, contributed fifty cents for every dollar contributed by participants, up to six percent of each participant's salary. Citizens had a contributory 401(k) pension plan covering all employees who met certain age and service requirements. The obligations of Citizens under the plan were assumed by Union at the time of the merger of the two subsidiaries in May of 2003. The plan was voluntary, and Citizens/Union, through the discretionary matching component of the plan, contributed fifty cents for every dollar contributed by participants, up to six percent of each participant's salary in 2003. Contributions to the profit sharing component of the plan were at the discretion of the Citizens' Board of Directors and were made in 2003. Effective January 1, 2004, the Citizens 401(k) pension plan was merged into the Union 401(k) pension plan.

Advertising costs

The Company expenses advertising costs as incurred.

Earnings per common share

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period, retroactively adjusted for stock splits, stock dividends, and stock issues and reduced for shares held in treasury. The weighted average shares outstanding were 4,554,055, 4,551,469 and 4,547,366 for the years ended December 31, 2005, 2004 and 2003, respectively.

Income taxes

The Company prepares its Federal income tax return on a consolidated basis. Federal income taxes are allocated to members of the consolidated group based on taxable income. The Company recognizes income taxes under the asset and liability method. This involves estimating the Company's actual current tax exposure as well as assessing temporary differences resulting from differing treatment of items, such as timing of the deduction of expenses, for tax and GAAP purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. The Company must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and to the extent that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, and deferred tax assets and liabilities. Low-income housing tax credits and historic rehabilitation credits are recognized as a reduction of income tax expense in the year they are earned.

Off-balance-sheet financial instruments

In the ordinary course of business, the Company is a party to off-balance-sheet financial instruments consisting of commitments to originate credit, unused lines of credit, commitments under credit card arrangements, commitments to purchase investment

Note 1. Significant Accounting Policies (Continued)

securities, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on investment securities available-for-sale, are not included in net income, the cumulative effect of such items, net of tax effect, is reported as a separate component of the equity section of the balance sheet as Accumulated other comprehensive income. Such items, along with net income, are components of comprehensive income.

Other comprehensive income components and related tax effects at December 31 are as follows:

	2005	2004	2003
Unrealized holding (losses) gains on investment securities available-for-sale	$ (622,886)	$ (598,916)	$ 129,982
Reclassification adjustment for (gains) losses realized in income	(97,173)	18,058	(379)
Net unrealized (losses) gains	(720,059)	(580,858)	129,603
Tax effect	244,820	197,492	(43,229)
Net of tax amount	$ (475,239)	$ (383,366)	$ 86,374

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Segment reporting

The Company's operations are solely in the financial services industry and include providing traditional banking services to its customers. The Company operates primarily in the geographical regions of Northern Vermont and New Hampshire. Management makes operating decisions and assesses performance based on an ongoing review of its traditional banking operations, which constitute the Company's only reportable segment.

Stock option plan

In December 2005 the Company adopted the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123R *Share Based Payment,* using the modified prospective application. Under SFAS No. 123R, the Company must recognize as compensation expense the grant date fair value of stock-based awards over the vesting period of the awards. Under the modified prospective application, SFAS No. 123R applies to new awards and to awards modified, repurchased or cancelled after the application date. Prior to the adoption of SFAS No. 123R the Company had accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* as allowed under SFAS No. 123 *Accounting for Stock-Based Compensation.* Under APB Opinion No. 25 the Company has provided pro forma net income disclosures for employee stock-based awards granted on or after January 1, 1995 as if the fair value based method defined in SFAS No. 123 had been applied. As a result, the Company has provided the pro forma disclosures of net income, earnings per share and other disclosures, as if the fair value based method of accounting had been applied. The pro forma effects on net income and earnings per share were not material in 2004 and 2003. See Note 20 — Stock Option Plan for additional information.

Recent accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Statements,* an amendment of FASB Statements No. 133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains

Note 1. Significant Accounting Policies (Continued)

an embedded derivative that otherwise would require bifurcation and clarifies which interest only strips and principal only strips are not subject to the requirements of SFAS No. 133. The statement also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free standing derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. The statement amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not believe the adoption of SFAS No. 155 will have a material impact on the Company's financial position or results of operations but is still in the process of analyzing that impact.

In November 2005, the FASB issued FASB Staff Position ("FSP") 115-1, *The Meaning of Other-than-temporary Impairment and its Application to Certain Investments.* This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired and when that impairment should be considered other-than-temporary and recognized as a loss in earnings. The guidance indicates that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable to determine either the period-specific effects or the cumulative effects of the change. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 improves financial reporting because its requirements enhance the consistency of financial information between periods. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005, with early adoption permitted. The Company has adopted SFAS No. 154, which has had no impact on the Company's financial position or results of operations.

In March 2005, the Securities and Exchange Commission ("SEC") issued SEC Staff Accounting Bulletin ("SAB") No. 107 — *Interaction of SFAS No. 123R, Share-Based Payment and certain SEC rules and regulations.* SAB No. 107 provides guidance from the SEC staff related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R and disclosures in Management's Discussion and Analysis ("MD&A") subsequent to adoption of SFAS No. 123R. SFAS No. 123R, issued in December 2004, was adopted in December 2005 and requires the Company to expense share-based payments under the "modified prospective" method. Under this method, compensation expense is recognized at the time of the grant for all share-based payments granted at or after adoption, and also for all awards granted prior to adoption that remain unvested on the adoption date. The Company had no unvested share-based payments on the adoption date. As of the adoption date, the Company had not adopted the transitional provisions of SFAS No. 123, but had continued to account for its stock option plan in accordance with the provisions of APB Opinion No. 25 as allowed under SFAS No. 123. See Note 20 — Stock Option Plan for additional information.

Reclassifications

Certain amounts in the 2004 and 2003 financial statements have been reclassified to conform to the current year presentation.

Note 2. Stock Split

On July 16, 2003, the Board of Directors of Union Bankshares, Inc. declared a three-for-two stock split effected in the form of a 50% stock dividend to shareholders of record on July 26, 2003, payable on August 8, 2003. The stock split resulted in the issuance of 1,515,231 additional shares of the Company's common stock, net of fractional shares settled in cash. Per share amounts presented in the consolidated financial statements, including earnings per share, weighted average number of common shares outstanding, and the dividends declared per share for 2003 have been adjusted to retroactively reflect the stock split.

Notes to Consolidated Financial Statements (Continued)

Note 3. Restrictions on Cash and Due From Banks

The Company is required to maintain vault cash or non-interest bearing reserve balances with Federal Reserve Bank of Boston. In accordance with Federal Reserve banking regulations, the Company decided in 2005 to reclassify transaction deposit accounts that meet certain criteria to savings accounts for purposes of reporting deposits subject to reserve requirements and as a result the daily reserve requirement has been reduced. Total reserve balance required at December 31, 2005 was $330,000 and $6,140,000 at December 31, 2004.

The nature of the Company's business requires that it maintain amounts due from banks which, at times, may exceed federally insured limits. The balance in these accounts at December 31, is as follows:

	2005	2004
Non-interest bearing accounts	$ 1,767,171	$ 559,318
Federal Reserve Bank of Boston	9,087,433	12,538,867
Federal funds sold	—	4,013,453
Federal Home Loan Bank of Boston	189,587	173,706

No losses have been experienced in these accounts. The Company was required to maintain contracted clearing balances of $1,000,000 at both December 31, 2005 and 2004, which are included in the Federal Reserve Bank balances above.

Note 4. Interest Bearing Deposits in Banks

Interest bearing deposits in banks consist of certificates of deposit purchased from various financial institutions. Deposits at each institution are maintained at or below the FDIC insurable limits of $100,000. Certificates are held with rates ranging from 2.15% to 5.65% and mature at various dates through 2011, with approximately $3,970,000 scheduled to mature in 2006.

Note 5. Investment Securities

Investment securities available-for-sale consists of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2005:				
Debt securities:				
U.S. Government and agencies	$ 500,000	$ —	$ —	$ 500,000
U.S. Government sponsored enterprises	2,495,068	—	(41,568)	2,453,500
Mortgage-backed	15,948,823	3,434	(341,890)	15,610,367
State and political subdivisions	4,742,086	42,283	(14,922)	4,769,447
Corporate	8,329,751	59,472	(155,269)	8,233,954
Total debt securities	32,015,728	105,189	(553,649)	31,567,268
Marketable equity securities	540,654	300,051	—	840,705
Total	$ 32,556,382	$ 405,240	$ (553,649)	$ 32,407,973

Note 5. Investment Securities (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2004:				
Debt securities:				
U.S. Government and agencies	$ 4,717,868	$ 1,550	$ (23,251)	$ 4,696,167
U.S. Government sponsored enterprises	4,271,448	6,639	(9,111)	4,268,976
Mortgage-backed	16,524,542	76,832	(129,212)	16,472,162
State and political subdivisions	5,137,263	135,131	(14,549)	5,257,845
Corporate	8,887,830	230,636	(21,031)	9,097,435
Total debt securities	39,538,951	450,788	(197,154)	39,792,585
Marketable equity securities	855,289	318,014	—	1,173,303
Total	$ 40,394,240	$ 768,802	$ (197,154)	$ 40,965,888

Investment securities with a carrying amount of $1,661,176 and $2,456,096 at December 31, 2005 and 2004, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Information pertaining to investment securities available-for-sale with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities:						
U.S. Government sponsored enterprises	$ 1,477,687	$ (17,381)	$ 975,813	$ (24,187)	$ 2,453,500	$ (41,568)
Mortgage-backed	6,070,158	(98,130)	8,230,510	(243,760)	14,300,668	(341,890)
State and political subdivisions	1,009,164	(14,922)	—	—	1,009,164	(14,922)
Corporate	3,469,505	(98,797)	1,461,659	(56,472)	4,931,164	(155,269)
Total debt securities	$ 12,026,514	$ (229,230)	$ 10,667,982	$ (324,419)	$ 22,694,496	$ (553,649)

There were no U.S. Government and agency securities or any marketable equity securities with unrealized losses at December 31, 2005.

Information pertaining to investment securities available-for-sale with gross unrealized losses at December 31, 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities:						
U.S. Government and agencies	$ 4,470,999	$ (22,874)	$ —	$ —	$ 4,470,999	$ (22,874)
U.S. Government sponsored enterprises	2,989,408	(9,488)	—	—	2,989,408	(9,488)
Mortgage-backed	12,306,222	(128,835)	28,605	(377)	12,334,827	(129,212)
State and political subdivisions	823,218	(14,549)	—	—	823,218	(14,549)
Corporate debt	2,045,070	(21,031)	—	—	2,045,070	(21,031)
Total debt securities	$ 22,634,917	$ (196,777)	$ 28,605	$ (377)	$ 22,663,522	$ (197,154)

There were no marketable equity securities with unrealized losses at December 31, 2004.

Note 5. Investment Securities (Continued)

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation and on a monthly basis for marketable equity securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or a government sponsored enterprise, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Consideration is given to the length of time and the extent to which the fair value has been less than the amortized cost basis, the financial condition and near and medium-term prospects of the issuer, whether the decline is attributable to changes in interest rates or credit quality and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2005, fifty-eight debt securities had unrealized losses with aggregate depreciation of 1.7% from the Company's amortized cost basis. The primary factor causing securities to have gross unrealized loss is the change over the last eighteen months in the interest rate environment. The Federal Reserve discount rate and the commercial prime rate have risen twelve times or 300 basis points since July 1, 2004.

At December 31, 2005, twenty-eight debt securities had been in an unrealized loss position totaling $324 thousand, or 1% of the value of the amortized cost of the entire portfolio, for more than twelve months but upon individual analysis, the impairment is not considered other than temporary. Management has the ability to hold these debt securities until maturity, or for the foreseeable future as the securities are classified as available-for-sale.

During 2005, the Company recognized other than temporary impairment on one corporate debt security of $47,500 to its quoted fair market value. The security remains on the Company's books as of December 31, 2005 and the fair value is lower than its new carrying cost by 1.4%. During 2004, the Company recognized other than temporary impairment on two equity securities of $41,501 to their quoted market value. One of the securities was subsequently sold at a profit and the second security is still in the portfolio with a fair market value higher than the new carrying cost.

Proceeds from the sale of securities available-for-sale were $2,453,236, $1,761,346 and $350,553 in 2005, 2004, and 2003, respectively. Gross realized gains from sales of investments available-for-sale were $160,040, $35,673 and $379 with gross realized losses of $15,366, $12,230 and $0 for the years 2005, 2004, and 2003 respectively.

The scheduled maturities of debt securities available-for-sale as of December 31, 2005 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 946,017	$ 947,696
Due from one to five years	10,601,072	10,546,795
Due from five to ten years	2,621,691	2,613,123
Due after ten years	1,898,125	1,849,287
	16,066,905	15,956,901
Mortgage-backed securities	15,948,823	15,610,367
Total debt securities	$ 32,015,728	$ 31,567,268

Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid usually without any penalties. Therefore, these securities are not included in the maturity categories in the above maturity summary.

Notes to Consolidated Financial Statements (Continued)

Note 6. Loans Held for Sale and Loan Servicing

At December 31, 2005 and 2004, loans held for sale consisted of conventional residential mortgages, commercial real estate mortgages and commercial loans originated for subsequent sale. At December 31, 2005 and 2004, the estimated fair value of these loans was in excess of their carrying value, and therefore no valuation reserve is necessary for loans held for sale. There were no guarantees to repurchase loans or recourse for any amount at December 31, 2005.

Commercial and mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of commercial and mortgage loans serviced for others were $85,044,568 and $81,178,069 at December 31, 2005 and 2004, respectively.

The Company generally retains the servicing rights on loans sold. At December 31, 2005 and 2004, the unamortized balance of servicing rights on loans sold with servicing retained was not material. The estimated fair value of these servicing rights was in excess of their carrying value at both December 31, 2005 and 2004, and therefore no impairment reserve was necessary. Loan servicing rights of $112,254, $194,601 and $200,765 were capitalized in 2005, 2004, and 2003, respectively. Amortization of servicing rights was $134,786, $146,445 and $141,376 for 2005, 2004, and 2003, respectively.

Note 7. Loans

The composition of net loans at December 31 is as follows:

	2005	2004
Residential real estate	$ 106,469,996	$ 100,130,337
Construction real estate	18,066,108	20,050,164
Commercial real estate	130,482,781	108,473,777
Commercial	20,650,229	20,583,924
Consumer	7,998,500	8,729,004
Municipal loans	17,009,482	13,453,425
Gross loans (1)	300,677,096	271,420,631
Deduct:		
Allowance for loan losses	(3,071,421)	(3,066,871)
Net deferred loan fees, premiums, and discounts	(152,338)	(165,654)
	(3,223,759)	(3,232,525)
Net loans	$ 297,453,337	$ 268,188,106

(1) Includes loans in non-accrual status of $1,269,148 and $1,169,457 and loans past due 90 days or more and still accruing of $3,338,168 and $4,126,040 as of December 31, 2005 and 2004, respectively.

Residential real estate loans aggregating $7,621,904 and $3,756,744 at December 31, 2005 and 2004, respectively, were pledged as collateral on deposits of municipalities.

Information regarding impaired loans as of or for the years ended December 31 is as follows:

	2005	2004	2003
Impaired loans	$ 670,558	$ 872,829	$ 742,312
Total allowance for loan losses related to impaired loans	81,788	121,108	110,360
Interest income recognized on impaired loans	23,652	46,625	46,161
Average investment in impaired loans	542,699	981,566	741,994

At December 31, 2005, the Company was not committed to lend any additional funds to borrowers whose loans are non-performing, impaired or restructured. Aggregate interest on non-accrual loans not recognized was $286,463, $338,456 and $392,732 for the years ended December 31, 2005, 2004 and 2003, respectively.

Notes to Consolidated Financial Statements (Continued)

Note 8. Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31, are as follows:

	2005	2004	2003
Balance, beginning	$ 3,066,871	$ 3,028,813	$ 2,908,222
Provision for loan losses	60,000	30,000	114,000
Recoveries of amounts charged off	54,973	124,164	98,581
	3,181,844	3,182,977	3,120,803
Amounts charged off	(110,423)	(116,106)	(91,990)
Balance, ending	$ 3,071,421	$ 3,066,871	$ 3,028,813

Note 9. Premises and Equipment

The major classes of premises and equipment and accumulated depreciation at December 31 are as follows:

	2005	2004
Land and land improvements	$ 901,220	$ 689,456
Building and improvements	5,387,775	4,860,283
Furniture and equipment	7,684,481	7,320,954
Construction in progress	363,491	107,153
	14,336,967	12,977,846
Less accumulated depreciation	(8,438,543)	(7,856,800)
	$ 5,898,424	$ 5,121,046

Depreciation included in occupancy and equipment expenses amounted to $772,971, $696,686 and $654,483 for the years ended December 31, 2005, 2004, and 2003, respectively.

The Company is obligated under noncancelable operating leases for premises that expire in various years through the year 2010. Options to renew for additional periods are available with these leases. Future minimum rental commitments for these leases with original or remaining terms of one year or more at December 31, 2005 were as follows:

2006	$ 101,268
2007	55,270
2008	33,820
2009	28,000
2010	14,000
	$ 232,358

Rent expense for 2005, 2004, and 2003 amounted to $132,050, $107,841 and $101,307, respectively.

Occupancy expense is shown in the consolidated statements net of rental income of $97,674 in 2005, $73,983 in 2004, and $71,930 in 2003.

Note 10. Other Real Estate Owned

There was no other real estate owned at December 31, 2005, and $35,734 at December 31, 2004 which was included in Other Assets.

Note 11. Investments Carried at Equity

The carrying values of investments carried at equity were $2,538,272 and $1,416,232 at December 31, 2005 and 2004, respectively consisting of investments in limited partnerships for low income housing projects. The capital contributions payable related to these investments were $703,817 and $0 at December 31, 2005 and 2004, respectively. The provision for undistributed net losses of the partnerships charged to earnings was $221,884, $140,104 and $124,948 for 2005, 2004 and 2003, respectively.

Note 12. Deposits

The following is a summary of interest bearing deposits at December 31:

	2005	2004
NOW accounts	$ 58,279,020	$ 48,948,414
Saving and money market accounts	105,377,154	108,232,927
Time deposits, $100,000 and over	35,581,736	29,324,394
Other time deposits	61,444,272	62,871,217
	$ 260,682,182	$ 249,376,952

The following is a summary of time deposits by maturity at December 31, 2005:

2006	$ 75,657,302
2007	10,657,420
2008	8,339,468
2009	1,138,237
2010	1,233,581
	$ 97,026,008

Note 13. Borrowed Funds

At December 31, 2005 and 2004, borrowed funds were comprised of option advance borrowings from the FHLB of Boston of $16,256,274, and $7,933,652, respectively. The option advance borrowings are a mix of bullets, balloons and amortizers with maturities through 2025. At December 31, 2005 and 2004, all of the borrowings had fixed interest rates ranging from 2.22% to 6.06% and 2.13% to 6.06%, respectively. The weighted-average interest rates on the borrowings were 4.51% and 4.09% at December 31, 2005 and 2004, respectively.

The contractual maturities of borrowed funds as of December 31, 2005 are as follows:

2006	$ 7,869,620
2007	815,941
2008	610,649
2009	416,715
2010 and thereafter	6,543,349
	$ 16,256,274

Additionally, Union maintains an IDEAL Way Line of Credit with the FHLB of Boston. As of December 31, 2005, the total amount of this line approximated $551,000. There were no borrowings outstanding on this line at December 31, 2005. Interest on this line is chargeable at a rate determined by the FHLB of Boston and payable monthly based on daily balances outstanding.

Collateral on these borrowings consists of FHLB of Boston stock purchased by Union, all funds placed on deposit with the FHLB of Boston, and qualified first mortgages held by Union, and any additional holdings which may be pledged as security.

Union also maintains a line of credit with a correspondent bank for the purchase of overnight Federal Funds. As of December 31, 2005, the total amount of this line approximated $5 million with no outstanding borrowings. Interest on this borrowing is chargeable at the Federal Funds rate at the time of the borrowing and is payable daily.

Notes to Consolidated Financial Statements (Continued)

Note 14. Income Taxes

The components of the provision for income taxes for the years ended December 31 were as follows:

	2005	2004	2003
Currently paid or payable	$ 2,552,822	$ 2,259,654	$ 2,203,335
Deferred	(93,290)	197,939	1,918
	$ 2,459,532	$ 2,457,593	$ 2,205,253

The total provision for income taxes differs from the amounts computed at the statutory federal income tax rate of 34% primarily due to the following at December 31:

	2005	2004	2003
Computed "expected" tax expense	$ 2,956,946	$ 2,819,525	$ 2,581,395
Tax exempt interest	(238,456)	(203,901)	(215,958)
Increase in cash surrender value life insurance	(35,988)	(36,644)	(38,796)
Tax credits on limited partnership investments	(243,019)	(135,986)	(135,986)
Other	20,049	14,599	14,598
	$ 2,459,532	$ 2,457,593	$ 2,205,253

Listed below are the significant components of the net deferred tax asset at December 31:

	2005	2004
Components of the deferred tax asset:		
Bad debts	$ 846,186	$ 844,640
Mark-to-market loans	28,755	53,005
Nonaccrual loan interest	91,278	115,075
Deferred compensation	422,798	447,072
Pension	32,438	86,063
Unrealized loss on investment securities available-for-sale	50,459	—
Other	15,145	22,056
Total deferred tax asset	1,487,059	1,567,911
Valuation allowance	—	—
Total deferred tax asset, net of valuation allowance	1,487,059	1,567,911
Components of the deferred tax liability:		
Depreciation	(180,131)	(207,043)
Mortgage servicing rights	(100,346)	(108,007)
Limited partnership tax credits	(119,882)	(119,882)
Unrealized gain on investment securities available-for-sale	—	(194,360)
Other	(116,314)	(119,762)
Total deferred tax liability	(516,673)	(749,054)
Net deferred tax asset	$ 970,386	$ 818,857

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Based on the temporary taxable items, historical taxable income and estimates of future taxable income, the Company believes that it is more likely than not that the deferred tax assets at December 31, 2005 will be realized.

Net deferred income tax assets are included in the caption "Other assets" on the balance sheet at December 31, 2005 and 2004.

Note 15. Employee Benefits

Union sponsors a non-contributory defined benefit pension plan covering all eligible employees. The employees of the former Citizens which was merged into Union in May 2003 became eligible to participate in the plan January 1, 2004. The plan provides defined benefits based on years of service and final average salary. Union uses a December 31 measurement date for the plan. Union's policy is to accrue annually an amount equal to the actuarially calculated expense. Union made an additional tax-deductible voluntary contribution of $250,000 to the pension plan in December 2005. Information pertaining to the activity in the plan using a measurement date of December 31, is as follows:

Obligations and funded status at December 31:

Change in projected benefit obligation	2005	2004
Projected benefit obligation at beginning of year	$ 8,041,022	$ 7,155,345
Service cost	438,989	408,422
Interest cost	481,277	436,429
Actuarial loss	416,838	196,110
Benefits paid	(175,656)	(155,284)
Projected benefit obligation at end of year	$ 9,202,470	$ 8,041,022
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 6,255,300	$ 5,268,288
Actual return on plan assets	395,201	634,155
Employer contributions	721,884	508,141
Benefits paid	(175,656)	(155,284)
Fair value of plan assets at end of year	$ 7,196,729	$ 6,255,300
Funded status	$ (2,005,741)	$ (1,785,722)
Unrecognized prior service cost	47,083	53,083
Unrecognized net actuarial loss	1,863,253	1,479,513
Net amount recognized as accrued benefit cost	$ (95,405)	$ (253,126)

	2005	2004
Accumulated benefit obligation at December 31	$ 7,042,311	$ 5,767,765

The Company uses the alternate amortization method for prior service costs, as provided in paragraph 26 of SFAS 87, *"Employers' Accounting for Pensions."*

Net periodic pension benefit cost for 2005, 2004, and 2003 consisted of the following components:

	2005	2004	2003
Service cost	$ 438,989	$ 408,422	$ 301,433
Interest cost on projected benefit obligation	481,277	436,429	391,817
Expected return on plan assets	(423,662)	(363,526)	(295,025)
Amortization of prior service cost	6,158	6,158	6,158
Amortization of transition asset	(7,649)	(7,649)	(7,649)
Amortization of net loss	69,050	89,453	75,348
Net periodic benefit cost	$ 564,163	$ 569,287	$ 472,082

Note 15. Employee Benefits (Continued)

Weighted-average assumption used to determine benefit obligation at December 31:

	2005	2004
Discount rate	5.75%	6.00%
Wage base rate	3.50%	3.50%
Consumer Price Index rate	2.25%	2.25%

Weighted-average assumptions used to determine net period benefit cost for years ended December 31:

	2005	2004
Discount rate	5.75%	6.00%
Rate of increase in compensation levels	4.25%	4.25%
Expected long-term rate of return on plan assets	6.75%	6.75%

The overall expected long-term rate of return on assets was derived to be consistent with a 2.25% future inflation assumption and returns expected in that inflation environment. The return is more conservative than the plan's long term actual results and is at a level that management believes is sustainable.

Union's pension plan weighted-average asset allocations at December 31, 2005 and 2004, by asset category based on their fair values are as follows:

	Plan Assets	
Asset Category	2005	2004
Cash & Equivalents	2.3%	3.7%
Debt Securities	27.0%	33.0%
Equity Securities	57.4%	50.4%
International Mutual Funds	13.3%	12.9%
Total	100.0%	100.0%

The investment philosophy for the pension plan is to prudently invest the assets of the plan and future contributions received in a diversified manner that will ensure the future benefits due to participants and beneficiaries over a long term horizon. The Trustees of the plan seek to protect the pension plan assets through prudent asset allocation, manager selection and periodic reviews. Investments in stocks and fixed income investments should be diversified in a way consistent with risk tolerance and investment objectives. In order to obtain this goal the investment objective is to maintain a mix of growth and income investments with allocation as follows:

Equity Securities & International Mutual Funds	60—85%
Debt Securities	15—35%
Cash & Equivalents	0—5%

There are no securities of the Company held by the pension plan. The estimated employer contribution for 2006 is $498,000.

The following table summarizes the estimated future benefit payments expected to be paid under the plan:

2006	$ 183,014
2007	170,909
2008	170,909
2009	173,318
2010	190,825
Years 2011 to 2015	2,291,782

Note 15. Employee Benefits (Continued)

Additionally, Union Bankshares, Inc. and Union have a non-qualified Deferred Compensation Plan for Directors and certain key officers. For participants in payout status, the future amount of payouts have been frozen at their current amounts and no deferrals were allowed in 2005 for the four participants not yet in payout status. The current deferred compensation plan will be re-evaluated during 2006 based on final rules under the federal American Jobs Creation Act of 2004, which were issued by the Internal Revenue Service ("IRS") late in 2005 to become effective by December 31, 2006. Prior to 2005 current participants could defer compensation that would otherwise be currently payable. Amounts deferred accrue interest at the prime rate less 100 basis points and benefits are payable over a 15 year period upon attainment of a certain age or death. The benefit obligations under the plan represent general unsecured obligations of the Company and no assets have to be segregated for such payments. However, Union Bankshares, Inc. and Union have purchased life insurance contracts on the lives of each participant in order to fund these benefits. The benefits accrued under this plan aggregated $1,193,906 and $1,314,917 at December 31, 2005 and 2004, respectively, and are included in the financial statement caption "Accrued interest and other liabilities". The cash surrender value of the life insurance policies purchased to fund these plans aggregated $1,781,737 and $1,675,889 at December 31, 2005 and 2004, respectively. These amounts are included in the financial statement caption "Other assets".

Union maintains a defined contribution 401(k) plan under which employees may elect to make tax deferred contributions of up to the IRS maximum from their annual salary. All employees meeting service requirements are eligible to participate in the plan. Company contributions fully vest after three years of service. Union's employer matching contributions to the plan are at the discretion of the Board of Directors. Employer matching contributions to the plan were $122,520, $113,637 and $76,930 for 2005, 2004, and 2003, respectively.

Citizens maintained separately a 401(k) plan which included a discretionary profit sharing component. The 401(k) plan covered all employees meeting certain eligibility requirements. Employees were permitted to contribute any amount of their compensation to the 401(k) plan in accordance with IRS limits. Citizens, at the discretion of their Board of Directors, made matching contributions up to 6% of an employee's compensation. Matching contributions to this plan were $21,906 for 2003. Profit sharing contributions were at the discretion of Citizens' Board of Directors. Contributions were $71,848 for 2003. The Citizens 401(k) plan was merged into the Union plan effective January 1, 2004.

Note 16. Financial Instruments With Off-Balance-Sheet Risk

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 and to reduce its own exposure to fluctuations in interest rates. 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 and commitments to buy or sell securities. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's 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 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 contract or notional amounts do not represent exposure to credit loss. The Company controls the risk of interest rate cap agreements through credit approvals, limits, and monitoring procedures.

The Company generally requires collateral or other security to support financial instruments with credit risk.

The following table shows financial instruments whose contract amount represents credit risk:

	Contract or Notional Amount	
	2005	2004
Commitments to originate loans	$ 9,722,166	$ 13,773,009
Unused lines of credit	35,348,616	31,907,901
Standby letters of credit	918,000	1,003,748
Credit card arrangements	2,236,309	2,273,323
Equity commitments to affordable housing limited partnerships	—	1,348,808
Total	$ 48,225,091	$ 50,306,789

Note 16. Financial Instruments With Off-Balance-Sheet Risk (Continued)

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. Commitments generally have fixed expiration dates within 90 days of the commitment. Unused lines of credit are renewable at least annually except for home equity lines which have an indefinite expiration date. Unused lines may have other termination clauses and may require payment of a fee.

Since many of the commitments and lines are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon issuance of a commitment to extend credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support customer's private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

At December 31, 2005, the Company had $2,538,272 of investments in tax advantaged limited partnerships involved in low income housing investment tax credit projects in its market area of which $703,817 is recorded as a payable in other liabilities. There are no commitments to invest additional monies in such partnerships.

Note 17. Commitments and Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, after consulting with the Company's legal counsel, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

Note 18. Fair Values of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. 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 judgement. 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. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

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

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

Investment securities and interest bearing deposits: Fair values for investment securities and interest bearing deposits are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or discounted present values of cash flows.

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

Note 18. Fair Values of Financial Instruments (Continued)

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

Borrowed funds: The fair values of the Company's long-term debt are estimated using discounted cash flow analysis based on interest rates currently being offered on similar debt instruments.

Off-balance-sheet financial instruments: The estimated fair market value of off-balance-sheet financial instruments approximates their contract or notional values as the majority of our credit commitments are short-term (one year or less) in nature. The only commitments to extend credit that are longer than one year in duration are the Home Equity Lines whose interest rates are variable on a quarterly basis. The only fees collected for commitments are an annual fee on credit card arrangements and sometimes a flat fee on commercial lines of credit and standby letters of credit. The fair value of the off-balance-sheet financial instruments is not significant.

The estimated fair values and related carrying amounts of the Company's significant financial instruments at December 31 are as follows:

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,208,429	$ 14,208,429	$ 21,116,952	$ 21,116,952
Interest bearing deposits in banks	8,597,835	8,509,897	7,508,703	7,519,068
Investment securities available-for-sale	32,407,973	32,407,973	40,965,888	40,965,862
Loans and loans held for sale, net	303,999,356	303,586,133	277,002,016	277,254,542
Financial liabilities:				
Deposits	$ 313,299,094	$ 312,873,444	$ 306,598,141	$ 306,341,457
Borrowed funds	16,256,274	16,116,629	7,933,652	8,085,683

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

Note 19. Transactions with Related Parties

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with principal stockholders, directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Aggregate loan transactions with related parties for the year ended December 31 were as follows:

	2005	2004
Balance, beginning	$ 772,867	$ 1,051,851
New loans	1,973,665	1,200,896
Repayments	(2,066,723)	(1,479,222)
Other, net	(95,658)	(658)
Balance, ending	$ 584,151	$ 772,867
Balance available on lines of credit	$ 544,238	$ 527,199

Deposit accounts with related parties were $1,710,699 and $745,924 at December 31, 2005 and 2004, respectively.

Note 20. Stock Option Plan

Under the Company's 1998 Incentive Stock Option Plan, ("Plan") the Company's Board of Directors, with shareholder approval, authorized the granting to certain key employees incentive options to purchase up to 75,000 shares of the Company's common stock. As of December 31, 2005, 48,700 shares remain available for future option grants. The exercise price of the options is equal to the market price of the stock at the date of grant. These options have a one year requisite service period, vest over one year, and have a five-year contractual term. The compensation cost that has been charged against income for this plan was $862, $0, and $0, for 2005, 2004, and 2003 respectively.

The fair value of each option award is estimated on the date of grant using a Black-Scholes based option valuation model that utilizes the assumptions noted in the following table. Expected volatilities are based on historical volatilities of the Company's stock, and, possibly, other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is estimated from past exercise activity, and represents the period of time that granted options are expected to be outstanding. The risk free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

	2005	2004	2003
Expected volatility	19.24%	22.41%	22.41%
Expected dividends	4.21%	3.10%	3.10%
Risk free interest rate	4.22%	3.36%	3.18%
Expected term (in years)	5	5	5
Vesting periods (in years)	1	1	1

A summary of the option activity under the Plan as of December 31, 2005, and changes during the year then ended is presented as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2005	12,575	$20.08		
Granted	3,250	$23.30		
Exercised	(3,000)	$12.67		
Forfeited or expired	—	—		
Outstanding at December 31, 2005	12,825	$22.63	3.22	$ —
Exerciseable at December 31, 2005	9,575	$22.40	3.30	$ —

The weighted average grant-date fair value of options granted during the years 2005, 2004, and 2003, was $3.19, $4.60, and $4.30, respectively. The total intrinsic value of options exercised during the years ended December 31, 2005, 2004, and 2003, was $0.

A summary of the status of the Company's nonvested options as of December 31, 2005 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2005	3,250	$4.60
Granted	3,250	$3.19
Vested	(3,250)	$4.60
Forfeited	—	—
Nonvested at December 31, 2005	3,250	$3.19

Note 20. Stock Option Plan (Continued)

As of December 31, 2005, there was $9,488 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized fully during 2006. The total fair value of shares vested during the years ended December 31, 2005, 2004, and 2003, was, $14,950, $12,900, and $9,098 respectively. The nonvested options at December 31, 2005 are expected to vest during 2006.

Had compensation cost been determined on the basis of fair value pursuant to SFAS No. 123, the effects on net income and earnings per common share for the years ended December 31 would have been:

	2004	2003
Net income as reported	$5,835,127	$5,387,086
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(18,382)	(9,026)
Pro forma net income	$5,816,745	$5,378,060
Earnings per common share		
As reported	$1.28	$1.18
Pro forma	$1.28	$1.18

Note 21. Regulatory Capital Requirements

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, they must meet specific capital guidelines that involve quantitative measures of their 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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Union to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2005 and 2004, the Company and Union met all capital adequacy requirements to which they were subject.

As of December 31, 2005 and 2004, the most recent notification from the FDIC categorized Union as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since the date of the most recent notification that management believes might result in an adverse change to Union's regulatory capital category.

Note 21. Regulatory Capital Requirements (Continued)

Union's and the Company's actual capital amount (000's omitted) and ratios are also presented in the table.

	Actual		Minimum for Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total capital to risk weighted assets						
Union	$44,754	17.06%	$20,987	8.0%	$26,233	10.0%
Company	44,907	17.08%	21,034	8.0%	N/A	N/A
Tier I capital to risk weighted assets						
Union	$41,548	15.84%	$10,492	4.0%	$15,738	6.0%
Company	41,701	15.86%	10,517	4.0%	N/A	N/A
Tier I capital to average assets						
Union	$41,548	11.08%	$14,999	4.0%	$18,749	5.0%
Company	41,701	11.10%	15,027	4.0%	N/A	N/A

	Actual		Minimum for Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004:						
Total capital to risk weighted assets						
Union	$44,361	18.27%	$19,425	8.0%	$24,281	10.0%
Company	45,212	18.57%	19,477	8.0%	N/A	N/A
Tier I capital to risk weighted assets						
Union	$41,182	16.96%	$9,713	4.0%	$14,569	6.0%
Company	42,026	17.27%	9,734	4.0%	N/A	N/A
Tier I capital to average assets						
Union	$41,182	11.42%	$14,425	4.0%	$18,031	5.0%
Company	42,026	11.62%	14,467	4.0%	N/A	N/A

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

Note 22. Treasury Stock

On November 18, 2005, Union Bankshares, Inc. announced the implementation of a Stock Repurchase Program of up to $2.15 million or 100,000 shares of its common stock. Repurchases under the program may be made in the open market or in privately negotiated transactions as Management may deem conditions warrant. The basis for the carrying value of the Company's treasury stock is the purchase price of the shares at the time of purchase.

During 2005, the Company, under the authorized purchase program, purchased 15,000 shares of its common stock at $21.00 per share for a total of $315,000.

Notes to Consolidated Financial Statements (Continued)

Note 23. Subsequent Events

On January 13, 2006, Union Bankshares, Inc. declared a $0.26 per share regular dividend payable January 26, 2006 to stockholders of record on January 23, 2006.

Note 24. Condensed Financial Information (Parent Company Only)

The following financial statements are for Union Bankshares, Inc. (Parent Company Only), and should be read in conjunction with the consolidated financial statements of Union Bankshares, Inc. and Subsidiary.

UNION BANKSHARES, INC. (PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
Cash	$ 240,284	$ 925,584
Investment in subsidiary — Union	41,450,452	41,559,523
Other assets	581,149	545,178
Total assets	$ 42,271,885	$ 43,030,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Other liabilities	$ 669,074	$ 627,261
Total liabilities	669,074	627,261
STOCKHOLDERS' EQUITY		
Common stock, $2 par value; 5,000,000 shares authorized; 4,918,611 shares issued in 2005 and 4,915,611 shares issued in 2004	9,837,222	9,831,222
Paid-in capital	139,861	106,989
Retained earnings	33,760,610	33,809,456
Treasury stock, at cost; 375,948 shares in 2005 and 360,948 shares in 2004	(2,036,931)	(1,721,931)
Accumulated other comprehensive income	(97,951)	377,288
Total stockholders' equity	41,602,811	42,403,024
Total liabilities and stockholders' equity	$ 42,271,885	$ 43,030,285

The investment in the subsidiary bank is carried under the equity method of accounting. The investment and cash, which is on deposit with Union, has been eliminated in consolidation.

Notes to Consolidated Financial Statements (Continued)

Note 24. Condensed Financial Information (Parent Company Only) (Continued)

UNION BANKSHARES, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
Revenues			
Dividends—bank subsidiary	$ 6,050,000	$ 4,230,000	$ 4,015,000
Other income	27,324	25,476	29,018
Total revenues	6,077,324	4,255,476	4,044,018
Expenses			
Interest	1,381	838	633
Administrative and other	301,132	298,520	363,548
Total expenses	302,513	299,358	364,181
Income before applicable income tax and equity in undistributed net income of subsidiary	5,774,811	3,956,118	3,679,837
Applicable income tax benefit	(96,391)	(101,352)	(120,260)
Income before equity in undistributed net income of subsidiary	5,871,202	4,057,470	3,800,097
Equity in undistributed net income—Union	366,167	1,777,657	1,586,989
Net income	$ 6,237,369	$ 5,835,127	$ 5,387,086

Notes to Consolidated Financial Statements (Continued)

Note 24. Condensed Financial Information (Parent Company Only) (Continued)

UNION BANKSHARES, INC. (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 6,237,369	$ 5,835,127	$ 5,387,086
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of Union	(366,167)	(1,777,657)	(1,586,989)
Issuance of stock options	862	—	—
Increase in other assets	(35,971)	(42,705)	(46,391)
Increase in other liabilities	41,812	39,744	63,361
Net cash provided by operating activities	5,877,905	4,054,509	3,817,067
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(6,286,215)	(4,096,514)	(3,728,457)
Proceeds from exercise of stock options	38,010	61,113	76,526
Proceeds paid out for fractional shares	—	—	(3,404)
Purchase of treasury stock	(315,000)	—	—
Net cash used in financing activities	(6,563,205)	(4,035,401)	(3,655,335)
(Decrease) increase in cash	(685,300)	19,108	161,732
Beginning cash	925,584	906,476	744,744
Ending cash	$ 240,284	$ 925,584	$ 906,476
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION			
Interest	$ 1,381	$ 838	$ 633
Income taxes	$ 250	$ 250	$ 250

Notes to Consolidated Financial Statements (Continued)

Note 25. Quarterly Financial Data (Unaudited)

A summary of financial data for the four quarters of 2005, 2004 and 2003 is presented below (dollars in thousands):

	Quarters in 2005 Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$5,132	$5,356	$5,782	$5,986
Interest expense	859	1,022	1,268	1,350
Net interest income	4,273	4,334	4,514	4,636
Provision for loan losses	—	—	—	60
Noninterest income	885	908	900	1,362
Noninterest expenses	3,181	3,277	3,352	3,246
Net income	1,395	1,433	1,494	1,915
Earnings per common share	$ 0.31	$ 0.31	$ 0.33	$ 0.42

	Quarters in 2004 Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$4,867	$4,902	$5,116	$5,293
Interest expense	844	817	806	843
Net interest income	4,023	4,085	4,310	4,450
Provision for loan losses	—	—	30	—
Noninterest income	962	870	882	1,060
Noninterest expenses	3,176	3,149	3,022	2,972
Net income	1,274	1,305	1,499	1,757
Earnings per common share	$ 0.28	$ 0.29	$ 0.33	$ 0.38

	Quarters in 2003 Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$5,141	$5,109	$5,081	$5,041
Interest expense	1,199	1,111	978	921
Net interest income	3,942	3,998	4,103	4,120
Provision for loan losses	42	42	30	—
Noninterest income	915	790	828	1,070
Noninterest expenses	3,091	3,093	2,965	2,922
Net income	1,229	1,189	1,362	1,607
Earnings per common share	$ 0.27	$ 0.26	$ 0.30	$ 0.35

Note 26. Noninterest Other Income and Noninterest Other Expenses

The components of noninterest other income and noninterest other expenses which are in excess of one percent of total revenues in any of the three years presented are as follows:

	2005	2004	2003
Expenses			
Supplies	$ 208,373	$ 240,189	$ 256,944
State franchise tax	235,588	262,836	253,693
Postage and shipping	201,104	219,966	256,599
Advertising	264,755	223,866	154,560
Professional fees	283,153	201,253	171,120
Other	2,361,276	2,128,571	2,157,367
Other Expenses	$3,554,249	$3,276,681	$3,250,283