

Union Bankshares, Inc. NasdaqGM:UNB

Shareholder/Analyst Call

Friday, May 22, 2020 8:00 PM GMT

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Call Participants

EXECUTIVES

Cornelius J. Van Dyke
Independent Chairman

David Scott Silverman
President, CEO & Director

Dawn D. Bugbee
Independent Director

Joel S. Bourassa
Independent Director

John H. Steel
Independent Director & Secretary

John M. Goodrich
Independent Director

Karyn J. Hale
VP, Treasurer & CFO

Kristy Adams Alfieri
Assistant Secretary

Nancy C. Putnam
Independent Director

Steven J. Bourgeois
Independent Director

Timothy Willis Sargent
Independent Vice Chairman

ATTENDEES

**Gregory D. Sargent; Kittell, Branagan
& Sargent; Managing Shareholder**

Schuyler W. Sweet; Director

Presentation

Operator

Welcome to the 2020 Annual Meeting for Union Bankshares, Inc. Our host for today's call is Cornelius Neil Van Dyke, Chairman. [Operator Instructions]

I would now like to turn the call over to your host, Mr. Van Dyke, you may begin.

Cornelius J. Van Dyke *Independent Chairman*

Welcome, everyone, and thank you very much for joining us today. While we are very sorry not to be able to see you in person and have a chance to gather after the meeting as has been our tradition, we also recognize that hosting our meeting virtually allows us to be more inclusive and reach a greater number of shareholders and perhaps, some that would not normally be able to attend the meeting. We will conduct the business portion of our meeting first and answer questions at the end of the meeting. Should you have any comments about the proposals to be voted or a question you wish to ask during our Q&A session, we ask that you enter the question in the question box located in the left center of the meeting web page. Only validated shareholders may comment on proposals or ask questions. If you entered the meeting as a guest without your control number, the question box will not appear on your screen. Please feel free to type in questions at any point during the meeting, and we'll just queue them up to address at the appropriate time, so you don't need to wait until we get to the Q&A session to ask a question. We'll get to them just as soon as we can. Though we may not be able to answer every question, we'll do our best to provide a response to as many as possible.

Please note that this meeting is being recorded. However, nobody attending via the webcast or telephone is permitted to use any audio recording device. It is now just after 3:00 p.m. Eastern Standard Time on May 22, and this meeting is officially called to order.

And now I'd like to introduce the members of the Board at today's meeting. As was announced during the introduction, my name is Neil Van Dyke, and I'm the Chair of the Board. I joined Union Bank Board in 2010 and became the Chair last year on the retirement of former Chair, Ken Gibbons. I serve on the Compensation Committee, was formally on the Wealth Management Committee. My business background was as a lodging business owner in Stowe and I currently work for the Vermont Department of Public Safety.

The next Director I'd like to introduce is Steven Bourgeois.

Steven J. Bourgeois *Independent Director*

Good afternoon. I have been a Director since 2005. I'm a banker. I said I'm -- in addition to being a Board member, I am a member of the Audit Committee, and I serve as the Chair. I'm also representing the Board with -- on the Disclosure Control Committee. And I serve on the St. Albans Advisory Board. And my hometown is in the Franklin-Grand Isle area.

Cornelius J. Van Dyke *Independent Chairman*

Thank you, Steve.

Our next director is Joel Bourassa.

Joel S. Bourassa *Independent Director*

Good afternoon, everyone. As introduced, my name is Joel Bourassa, and I reside in a town of Bartlett, in the Mt. Washington Valley of New Hampshire. I've been in senior management positions for over 30 years, the first half in the ski industry and the second half in the resort hospitality business. I was on Union Bank's New Hampshire Advisory Committee for 5 years before becoming a Board member and now I'm a -- the new member on the Bank's Compensation Committee.

Cornelius J. Van Dyke

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Independent Chairman

Thank you, Joel.

I wanted to check and see if Dawn Bugbee has been able to join us at the meeting. Dawn?

Dawn works in the health care industry, which, as I'm sure you can imagine, is particularly busy at this time of the year, and she may have a chance to join us later.

Our next director is John Goodrich.

John M. Goodrich
Independent Director

Hello, everyone. This is John Goodrich. I'm from the St. Johnsbury area. I've been on the Board since, I believe, 2013. I serve on the Compensation Committee. And I'm trying to -- I'll be stepping in as Chair of that, I hope, filling big shoes of Schuyler Sweet. My background is in the manufacturing area. I worked 40 years in manufacturing for a global company and continue to consult in that area a wee bit these days. Thank you.

Cornelius J. Van Dyke
Independent Chairman

Thanks, John.

Nancy Putnam.

Nancy C. Putnam
Independent Director

Hi, this is Nancy Putnam. I live in Jeffersonville and joined the Board in 2017. My first career was in banking, in the trust and estates area. And then for the last 20 years, I have served as a CPA in the Morrisville area. I serve on the Audit Committee, and I Chair the Asset Management Committee. Thank you.

Cornelius J. Van Dyke
Independent Chairman

Thank you, Nancy.

Tim Sargent.

Timothy Willis Sargent
Independent Vice Chairman

Good afternoon, everyone. My name is Tim Sargent, and I have been a director since 2011. I'm an attorney here in Morrisville, Vermont, and I've been working at Sargent Law Office for about 17 years now. My family and I reside in Elmore, and I'm on the Audit Committee. Thank you.

Cornelius J. Van Dyke
Independent Chairman

And Tim is also our Vice Chair.

Next is David Silverman.

David Scott Silverman
President, CEO & Director

Good afternoon, everybody. Glad to have you here virtually. My name is Dave Silverman. I joined the Union Bank in 1986 and have been here nearly 34 years, serving in a variety of areas, mostly related to the lending function of the bank. I became a director at the same time that Tim did in 2011 and became CEO of the bank in 2012. Welcome.

Cornelius J. Van Dyke
Independent Chairman

Thank you, David.

I understand that Dawn may have joined us. Dawn, are you there?

Dawn D. Bugbee
Independent Director

Yes, I am. Can you hear me?

Cornelius J. Van Dyke
Independent Chairman

Yes. Go ahead and introduce yourself.

Dawn D. Bugbee
Independent Director

Okay. Sorry about that. Technical problems on my end. But welcome to the Annual Meeting. I'm Dawn Bugbee, and I'm on the Board, in the Bankshares Board. I also serve on the Audit Committee and the Comp Committee. My background is I'm a CPA. I spent many years at Northwestern Medical Center. And then just recently retired as the Chief Financial Officer with Green Mountain Power out in Colchester, Vermont. Stayed retired for about 3 months until I got a very nice call from Northwestern Medical Center, requesting me to come back for an interim appointment as Chief Administrative Officer due to the leaving of their CEO, plus additional help in the COVID pandemic. Wonderful time to go back to the hospital. I can't say enough about the staff. They are true heroes in this pandemic. And I'm really proud to be there for the -- probably for another 3 months and help them get through the situation. So thank you.

Cornelius J. Van Dyke
Independent Chairman

Thank you, Dawn.

John Steel.

John H. Steel
Independent Director & Secretary

Good afternoon. This is John Steel. I live in Stowe. I am a homebuilder, and have been with -- on the Board of the Union Bank, longest-serving Board Member at this point. I serve on the Compensation Committee. I serve on the Asset Management Group. A member of the 401(k) Committee and the Pension Committee. And welcome, everybody, and thank you for being here.

Cornelius J. Van Dyke
Independent Chairman

Thank you, John.

And last would be Schuyler Sweet. Schuyler, are you with us? Can you unmute? I know you are there, Schuyler, but we are not hearing you. Are you with us, Schuyler?

One more time. Schuyler, if you are there, you're on mute. Are you there? We hear some -- a little bit of fumbling.

Operator

This is the operator. Schuyler looks like he disconnected, but he is calling back in right now. So...

Cornelius J. Van Dyke
Independent Chairman

Okay. We're going to wait just a second to see if we can get Schuyler back on the line here. Thank you for your patience. I think the mute button is right next to the disconnect button on your phones.

Operator

And Schuyler is back on with us.

Schuyler W. Sweet;Director

Yes, I am.

Cornelius J. Van Dyke
Independent Chairman

Okay. Great. You're on.

Schuyler W. Sweet;Director

Are you ready for me, Neil?

Cornelius J. Van Dyke
Independent Chairman

We are.

Schuyler W. Sweet;Director

Schuyler Sweet. I joined the Advisory Board in 2005. I was elected to the Bank Board in 2007 and Bankshares Board in 2008. Currently, I serve as Chairman of the Compensation Committee. I serve as Vice Chairman of the Audit Committee. I'm on the Pension Committee. I had served in the past on both the Trust Committee and a Merger and Acquisition Committee. I live in Littleton. Currently, I am Chairman of the Littleton Water and Light Board of Commissioners. I'm on the Board of Directors of Littleton Industrial Development Corporation. And I am President-elect of the local chapter of Trout Unlimited. During my term as a Board of Director, I also served in Littleton as members of the Zoning Board, the Select Board, trustee of the trust funds and various other community activities. Thank you.

Cornelius J. Van Dyke
Independent Chairman

Thank you, Schuyler.

As certainly the Board knows and many of our shareholders may know, we do have a mandatory retirement age from the Board, which, unfortunately, Schuyler has reached this year. So this will be his final meeting on the Board. And I just want to take a minute at this point to formally thank Schuyler for his service to the bank and acknowledge all that he has done during his tenure on the Board. As you can tell from his bio, he served on a number of different committees through the years for us.

But I wanted to focus a little bit on his service as Chair of the Compensation Committee, of which he became Chair in 2011. And it's really his work on this committee that Schuyler's legacy is truly significant. He really pushed the Board hard to examine and revamp our compensation policies. And under his guidance, we have had an independent consultant performing comprehensive compensation studies of our own policies and our peers every 2 years with the end result being a plan that includes base compensation and both short- and long-term incentive plans that are competitive with our peers and reward excellent performance. I really don't think we can overstate the improved sophistication in which this aspect of bank operations is addressed compared to prior to his chairmanship of this committee.

The other thing I wanted to mention is that Schuyler has been a very vocal advocate for the interest of the shareholders as a Board member. I would say, perhaps, more than any other member of our Board, he has kept us focused on what is best for all of you. So I hope all of you will join me in thanking Schuyler for his many years of service to the bank. His input and perspective will be sorely missed. Thank you, Schuyler.

Schuyler W. Sweet;Director

Thank you, Neil.

Cornelius J. Van Dyke
Independent Chairman

We have a new member of our Bank Board. Typically, it would be next year that they would be elected onto the Bankshares Board. And I'd like to introduce Greg Sargent at this point and ask him to tell you a little bit about his background.

Gregory D. Sargent; Kittell, Branagan & Sargent; Managing Shareholder

Good afternoon, everyone. My name is Greg Sargent. My first Board meeting was May 6, 2020. I am the managing shareholder of Kittell, Branagan & Sargent in St. Albans, Vermont. I currently serve on the Asset Management Committee, and I live in St. Albans, Vermont.

Cornelius J. Van Dyke
Independent Chairman

Thank you, Greg, and welcome to the Board.

I'm now going to call on our Secretary, John Steel, to read the notice of the Annual Meeting.

John H. Steel
Independent Director & Secretary

This is the notice of the 2020 Annual Meeting of Shareholders to be held on Friday, May 22, 2020. To the shareholders of Union Bankshares Inc., the Annual Meeting of Shareholders of Union Bankshares, Inc., the company, will be held at 3:00 p.m. local time on Friday, May 22, 2020, as a virtual meeting for the following purposes: One, to fix the numbers of directors at 9 for the ensuing year and to elect 9 directors, or such lesser number as circumstances may warrant, to serve a 1-year term until their successors are elected and qualified; and two, to ratify the appointment of the independent public accounting firm of Berry, Dunn, McNeil & Parker, LLC as the company's external auditors for 2020. The Board of Directors has fixed the close of business on March 27, 2020, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting or any adjournment of the meeting.

Cornelius J. Van Dyke
Independent Chairman

Thank you, John.

And finally, the company has appointed Kristy Alfieri and Carrie Locklin as ballot tellers. Also with us today is an Inspector of Elections from Broadridge, who is responsible for telling and recording the votes of the virtual shareholder meeting today.

Now we are going to present the matters to be voted on today.

Item #1. Tim?

Timothy Willis Sargent
Independent Vice Chairman

I make a motion to set the number of directors for the ensuing year at 9 with the slate recommended by the directors: Steven J. Bourgeois, Joel S. Bourassa, Dawn D. Bugbee, John M. Goodrich, Nancy C. Putnam, Timothy W. Sargent, David S. Silverman, John H. Steel, Cornelius J. Van Dyke.

Cornelius J. Van Dyke
Independent Chairman

Do we have a second for the motion?

Schuyler W. Sweet; Director

Schuyler Sweet, in his last official duty, seconds the motion.

Cornelius J. Van Dyke
Independent Chairman

Thank you, Schuyler. We will call the motion.

Item #2 of notice, Steve Bourgeois.

Steven J. Bourgeois
Independent Director

I make a motion to ratify the appointment of the independent public accounting firm of Berry, Dunn, McNeil & Parker, LLC as the company's external auditors for 2020.

Cornelius J. Van Dyke
Independent Chairman

Do we have a second?

John M. Goodrich
Independent Director

Neil, this is John Goodrich. And yes, I second that motion.

Cornelius J. Van Dyke
Independent Chairman

Okay. We have a second. So we will call the motion.

It is now 3:18 p.m. Eastern Time on May 22, 2020, and the polls are now open. Any shareholder who has not yet voted or wishes to change their vote may do so by clicking on the voting button on the web portal and following the instructions there. Shareholders who have sent in proxies or voted via telephone or Internet and do not want to change their vote, do not need to take any further action.

Management is now going to provide a brief presentation about the activities of Union Bankshares' subsidiary, Union Bank. And we're going to start off with Karyn Hale, our Chief Financial Officer. Karyn?

Karyn J. Hale
VP, Treasurer & CFO

Thank you, Neil. Good afternoon, everyone. And I don't know about you, but I can't believe how fast these years keep going by. This afternoon, I'm going to summarize the financial position and results of operations for Union Bankshares for the period ended December 31, 2019.

I wanted to start off by mentioning that the company opened 2 full-service branches in Chittenden County, Vermont in May and in August of 2019. The new locations have contributed to increases in customer loan and deposit balances on the balance sheet and have also contributed to increases in the company's overhead costs, specifically related to salaries, wages, occupancy and equipment expenses.

The first slide that you are viewing is the company's comparative balance sheet as of December 31, 2019 and 2018. 2019 was another good growth year for your company, with total assets increasing 8.4% to \$872.9 million, compared to \$805.3 million at the end of '18. Total asset growth was led by a \$32.4 million increase in total loans, which is our largest earning asset category, followed by a \$14.1 million increase in investments and \$12.5 million in fed funds sold and overnight deposits, which is also often referred to as our excess liquidity. Management had planned growth for 2019 from a combination of efforts from our existing branches, as well as the 2 new full-service branches.

I would also like to just discuss for a moment the loan portfolio. Our loan portfolio consists of various types of loans including commercial, commercial real estate, municipal, consumer and residential loans. And the residential loans not only includes closed-end mortgages, but also home equities and our construction loans. During 2019, we experienced growth in almost all of these categories. But one area that's difficult to quantify is our residential activity when we are just looking at our balance sheet because it does not capture the amount of loans that were originated and sold to the secondary market.

During 2019, loans sold totaled \$158.3 million compared to sales of \$116.7 million in 2018. Later on in the presentation this afternoon, you will see a slide that details the total loans recorded on our balance sheet as well as the loans we have sold and continued to service for others. I don't mean to steal the thunder from that slide, but the total of those numbers exceeds \$1 billion, which it has -- which has been the case since 2017, but still remains a notable achievement.

The balance sheet growth was funded primarily by customer deposits, whose balances increased \$37.3 million during 2019 to end the year at \$744 million. 2019, similar to 2018, was focused on customer deposit growth, not only for our newest branches in Berlin, Jericho and Williston, but also for our seasoned locations as well. Customer deposits are traditionally at a lower cost and deemed an optimal way to fund balance sheet growth. However, building relationship

takes time, and as the relationship process evolves, other sources may be needed to bridge funding gaps. These sources are in the form of advances from the Federal Home Loan Bank, brokered deposits, which is actually a mechanism where we can purchase deposits or lines of credit with our correspondent banks. As of December 31, 2019, total borrowed funds were \$47.2 million, an increase of \$19.3 million compared to the end of '18.

As we continue down the balance sheet, there isn't a subtotal for this, but from the common stock line to the treasury stock line, this is considered the company's total capital. Total capital ended 2019 at \$71.8 million compared to \$64.5 million for 2018, an increase of \$7.4 million or 11.4%. The increase was primarily due to net income of \$10.6 million and a \$2 million increase in accumulated other comprehensive income, reduced by dividends paid to shareholders of \$5.5 million.

As we move on to the income statement, the slide that you are now viewing shows the results of operations for the 12 months ended December 31, 2019, compared to 12 months ended December 31, 2018. I'd like to draw your attention to net interest income. This is the third line item down on the slide, the first subtotal. Net interest income is a difference between income on earning assets, such as our loans and investments; and interest paid on liabilities, like our customer deposits and borrowed funds. Net interest income as of December 31, 2019, is 74.6% of total income. So as you can imagine, these components play a significant role in our overall results. Net interest income increased 6.2% in 2019 compared to '18 and ended the year at \$30.4 million. The \$1.8 million increase in net interest income was primarily due to increases in volumes of our earning assets, our loans and investments, partially offset by changes in interest rates. If you would like to view the details of those changes, you can refer to Page 28 in the annual report on Form 10-K.

The provision for loan losses increased to \$775,000 for 2019 compared to \$450,000 in '18. The increase year-over-year was primarily due to growth in our loan portfolios. Noninterest income for 2019 increased 10.4% compared to 2018. The increase year-over-year is due to an increase in the gain on sales of loans held for sale, mainly our residential loans, which was \$2.9 million for '19 -- for 2019 compared to \$1.8 million in '18. As I mentioned previously, the volume of loan sales in 2019 was \$158.3 million compared to \$116.7 million in 2018.

As we move on to noninterest expenses, and I'll take these one at a time, salaries and wages increased 10% year-over-year, and the increase is due to a combination of normal salary increases; higher commissions paid to mortgage loan originators, which is consistent with the increase in the residential loan volume; and the addition of staff for new branch locations as well as in support departments, resulting in an increase of 6 full-time equivalents in 2019.

The next line item that you see doesn't have an amount recorded for 2019, but is representative of the pension expense that we recorded in 2018 as a result of the termination of the defined benefit pension plan. Those expenses did not repeat themselves in 2019. Employee benefits increased 14.8% during '19, primarily due to increases in health care premiums. And occupancy and equipment expenses all grouped together as they both did increase in 2019 compared to '18, and this was primarily due to our branch expansion projects.

The other expenses line item includes items such as ATM and debit card expenses, advertising, Vermont franchise taxes, professional fees, et cetera. Increases in these areas are due to overall growth in the company as well as our branch expansion projects. For further details on those specific expenses, you can refer to Page 30 in the annual report on Form 10-K.

And I can't get away without mentioning income taxes, the second most consistent thing in life, I suppose. Income taxes increased 35.4% in 2019 compared to 2018. But income taxes in 2018 were reduced by \$900,000 due to the tax impact of the defined benefit pension plan. We ended 2019 with net income of \$10.6 million compared to reported results for 2018 of \$7.1 million. However, 2018 results without the onetime charges to earnings related to the termination of the pension plan are more comparable to 2019.

Just to summarize for you the impact on the 2018 net income from the termination of the pension plan, net income for 2018 was reduced by onetime charges of \$3.7 million net of taxes related to the termination and settlement of the plan. Absent those charges, the company reported -- company would have reported net income of \$10.8 million or \$2.42 per share for the year ended December 31, 2018. Management believes the presentation of this adjusted non-GAAP net income and earnings per share information is useful to investors and shareholders as it provides comparability of core operations year-over-year.

And with that, I believe that, that's all I have for today. And if you have any questions regarding the financials, please submit them through the queue, and we can address them during the Q&A portion of the meeting.

Cornelius J. Van Dyke
Independent Chairman

Thank you, Karyn.

We're now going to have some comments from our President and CEO, David Silverman.

David Scott Silverman
President, CEO & Director

Thank you, Neil, and thank you, Karyn. Nice job. So I want to take you through some 2019 highlights. We have been trying or have been on a purposeful mission to grow our franchise over the last 5 years in a profitable manner. And we have been doing that through a combination of organic growth and geographic expansion. In particular, in 2019, we embarked on creating and opening 2 new branch locations in Chittenden County, Vermont's most populous county. We started our activities in Chittenden County in 2010 when we opened a residential loan center and we have -- that part of our franchise has grown very, very nicely. We'll talk a little bit about that in a second. But most recently, we have embarked on new branches. One in Jericho, Vermont, off of Route 15, you can see a picture of that. We opened that branch on May 29 in 2019. We have been looking at the Jericho-Underhill area of Vermont for a very long time, going back into the 90s, and we had simply not been able to find a suitable location. And this location, which is very close to the Jericho-Underhill border, we found it to be an ideal location right next to a very nice grocery store. And so we are able to open that in late May of last year on a beautiful sunny day.

The next slide, which will come up in a second, is our new office in Williston, Vermont, near Taft Corners. This facility is about a 9,300 square foot facility that we house a traditional branch in, as well as we have office space upstairs, which houses our residential loan center. We also have a rental space there that we're actually very close to signing a lease on to a law firm, which we think is a compatible use. These 2 branches, having built in a little bit less than a year, are meeting our budgetary expectations as far as growth. I might have shared the actual numbers, but my CFO reminded me about forward-looking statements. And so I will just tell you that we are pleased with the performance of the 2 new branches, and they are meeting our expectations regarding deposit growth.

I thought that it might not be a bad idea to review our progress in Chittenden County because that has been a focus of ours as far as geographic expansion. As you can see in the slide, since we opened the loan center in 2010, we have issued 3 -- well, almost 3,300 residential loans in that area for nearly \$800 million. Right now, we currently service \$340 million -- well, actually, as of December 31, we're servicing \$340 million of residential loans in the Chittenden County area, and we currently have about 1,600 deposit accounts for about \$32 million in deposits. I will tell you, our goal is to grow that deposit significantly. And now that we have brick-and-mortar, we should be able to do that, and we are having very good success. And we also have the 113 commercial relationships with almost 104 -- or about \$142 million in balances. So we are very pleased with our activity in Chittenden County. We think it's bearing fruit for us and looking forward to continue to grow that business.

In addition, we are looking eastward. And in November of 2018, we opened up a commercial loan production center in North Conway to further our reach into New Hampshire. And you can see some of the statistics that we have lined up. We've developed about 37 commercial loan relationships in about 1.5 years, with about \$25 million in outstanding balances. We think this is an attractive region. There's almost \$600 million of deposits domiciled in that region as of December 2019. We're very comfortable with that community. It's much like a lot of our other communities that we serve, kind of a ski town, if you will. There's significant primary and second home opportunities, and there's a very, very strong local Chamber of Commerce with 700 members that we think are providing us with lots of great opportunities going forward.

The next thing I would like to do is share, as I have done in the past years, some brief charts about our financial activities. The first slide that I have for you is a graph of total asset growth from 2015 through 2019. And again, I think I have told you that we have been focused on growing in a profitable manner. And so we have been intentionally working on growing the franchise. And throughout the last 5 years, we have grown our asset size by an average of 8.5%, which is significantly over inflation, and it's really a matter of gaining market share rather than simply a reflection of the economy. Our sales staff have been really hustling to achieve this kind of growth.

Looking at the next slide, we're looking at deposit growth for the same period. And our deposit growth for that same period has been about 7.4% on average through that 5-year period. And here, again, that's well above inflation and also a credit to our frontline salespeople, who have really been doing a terrific job.

Karyn referenced the next slide, which is about the loan portfolio that we're servicing. Those are loans that either reside on our books or that we have originated and serviced for others. A classic example would be the residential loans that we originate and sell to either Freddie Mac or the Federal Home Loan Bank or other like investors. And in this area, we have gone from \$923,000 in 2015 to \$1.25 million in -- at the end of 2019, which is a solid 8% average.

One thing that we've talked about in the past, but I would want to speak to again briefly, is the green portion of the graph, which shows our servicing portfolio. Those are loans that we're servicing for others, and we get fee income for that servicing, and it tends to run between 0.25% to 0.5% on an annual basis, which provides us with some very stable income. Particularly in the current environment where interest rates are so low, it's unlikely that our portfolio will rapidly refinance. So that -- those are things that we will service very likely for a long period of time.

As has been our custom, we also like to show you some comparisons to peers. And one of the most important measures of bank performance is return on assets, and we pride ourselves on being near the top in our peer group. And you can see that our -- we are the red line, and you can see the dip in 2018, which Karyn spoke about with regards to the pension expense that's nonrecurring. But in 2019, we were able to bounce back up to where we're more accustomed to be.

The next slide talks about return on equity. And here, again, this graph looks a lot like the previous one, with the dip in 2018 and strong improvement in 2019 and also showing that this -- in this statistic, we are pretty well ahead of our peers for the most part.

We had some accolades in 2019 that we'd like to share with you, one being a very important one for the seventh consecutive year. We have been named the USDA Rural Development Vermont lender of the year. We're particularly proud of that, and the reason for it is that the USDA RD loan programs are targeted at low- to moderate-income Vermonters and New Hampshireites, and we feel that it's important for us to do our share to help in that area. And so we're proud of that accolade.

In a similar vein, we just finished up with our 3-year cycle with our FDIC compliance exams. And this measures our compliance with consumer regulations as well as measuring our performance under the Community Reinvestment Act. And there are several ratings that you can obtain satisfactory needs to improve. The highest rating that you can achieve is an outstanding rating. And we received an outstanding rating from the FDIC, we just found out on Wednesday, and we're very pleased by that. We take a great deal of pride in meeting the credit needs of our communities, and we think we do a good job with that.

And finally, just another accolade. We've talked about in past annual meetings, from the American Banker magazine, they have a ranking system that identifies the top 200 community banks in the United States. They do this by looking at a 3-year average of return on average equity. And you can see in this slide that we were 27th in the nation in this category. And we take some pride in that, and we look forward to, hopefully, going up, up, up the rankings a bit because eventually we will put the 2018 performance behind us in this matter.

So those are really my comments, and I will be looking forward to answering any questions in the Q&A.

Cornelius J. Van Dyke
Independent Chairman

Thank you, David.

And I just wanted to acknowledge and thank David for his very strong leadership here at the bank, and along with his senior management team and all of the staff at the bank. It takes a team effort to get the kinds of results that Karyn and David just spoke about. And it's a lot of hard work and a great team that we have here.

As David said, if you have any questions, go ahead and throw them up in the queue, and we'll get to them shortly.

Now that everybody has had the opportunity to vote, I am going to declare the polls for the 2020 Union Bankshares Annual Shareholder Meeting closed at 3:40 p.m. Eastern Time on May 22, 2020. And I'd like to ask our ballot tellers, Kristy and Carrie, do we have preliminary voting results?

Kristy Adams Alfieri
Assistant Secretary

We do.

Cornelius J. Van Dyke

Independent Chairman

We do. Okay. Let's take a look at those.

We have been informed by the ballot tellers that the preliminary vote report shows that the nominees for election to the Board have been duly elected. The motion was approved by a vote of 2,633,044 in favor of total vote, total of 2,820,079 shares, 93.4% on article 1. On article 2, the accounting firm of Berry, Dunn, McNeil & Parker has been ratified as external auditors for 2020. The motion was approved by a vote of 3,653,699 in favor out of the total 3,694,791 shares, or 98.9% on article 2.

At this point, we are going to open it up to questions.

Question and Answer

Cornelius J. Van Dyke
Independent Chairman

We don't have a lot that have been put up on the screen here, but we have one that we get every year that I'm going to turn over to David to talk about the dividend.

David Scott Silverman
President, CEO & Director

Thanks, Neil.

So there's a question on the floor, and it is very direct. It's, "How safe is the dividend going into the future?" So it's been our policy that we don't make -- we don't offer forward guidance. And so I'm going to answer this cautiously, but I will answer it. When the Board -- when management recommends and the Board approves a dividend rate, we look at past performance, expected future performance when we make these decisions.

Kristy, if you could show the first extra slide, please?

Kristy Adams Alfieri
Assistant Secretary

Slide 21, yes?

David Scott Silverman
President, CEO & Director

So I've asked Kristy to show us a slide that I prepared to help me answer this question. But essentially, what you will see is that over the past 5 years, we have gradually increased our dividend, while -- essentially in keeping with the increases in earnings that we've had over that time period. But all the while we have been increasing the dividend modestly, we have actually been decreasing our dividend payout ratio, and that's actually been a very purposeful decision by the Board to retain capital to allow for our growth.

At our last dividend, we made a conscious decision based on the first quarter's performance as well as our expectations for the future to keep the dividend the same. And when we have made those decisions, we are looking at what we're expecting to do throughout the year. And as you can see, or as you should know, we did not decrease the dividend. Now I think we all have to acknowledge that the economy is in a state of flux, that may be even understating the matter. But right now, with the pandemic and what is surely a recession, we are trying to assess, to the best of our ability, how this will impact the bank and its asset quality or loan quality. The dividend payout is definitely a tool in a banker's toolbox that can be used to manage capital, especially when the economy softens. And so we are fully cognizant how important the dividend is to our shareholders. And when we make decisions about the dividend, we certainly are thinking about our shareholders and their best interests. But we still have to have -- we still need to retain the ability to change the dividend in the future, if we need to, based on the economy and asset quality.

Cornelius J. Van Dyke
Independent Chairman

Thank you, David.

We have no other questions that have been brought forward to us today. So as we have concluded the business before us, I did want to mention that the Board is giving consideration to convening our shareholders' information session, a little bit more informal but with a reception, perhaps, this fall. Obviously, all contingent on governing orders and common sense and where we find ourselves later this fall, but it would be our stated desire to have an opportunity to meet with you folks in person, if we're able to do that. So as details of those events -- of that event, if one is held, comes forward, we'll communicate that with you. And certainly, I hope you can join us.

Thank you all for attending today. And there being no further business to come before the meeting, the 2020 Annual Meeting of Shareholders of Union Bankshares is now adjourned.

Operator

This now concludes the meeting. Thank you for joining, and have a pleasant day.

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