UNION BANKSHARES INC
Form 10-Q
November 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2013

Commission file number: 001-15985

UNION BANKSHARES, INC.
VERMONT 03-0283552

P.O. BOX 667
20 LOWER MAIN STREET
MORRISVILLE, VT 05661

Registrant's telephone number: 802-888-6600

Former name, former address and former fiscal year, if changed since last report: Not applicable

Securities registered pursuant to section 12(b) of the Act:

Common Stock, $2.00 par value	Nasdaq Stock Market
(Title of class)	(Exchanges registered on)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of November 1, 2013:

Common Stock, $2 par value	4,458,359 shares

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
UNION BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
	(Dollars in thousands)	
Assets		
Cash and due from banks	$4,032	$5,023
Federal funds sold and overnight deposits	12,377	41,487
Cash and cash equivalents	16,409	46,510
Interest bearing deposits in banks	19,562	21,922
Investment securities available-for-sale	27,526	20,630
Investment securities held-to-maturity (fair value $8.6 million and $5.5 million at September 30, 2013 and December 31, 2012, respectively)	9,214	5,496
Loans held for sale	4,221	11,014
Loans	471,709	444,145
Allowance for loan losses	(4,773)	(4,657)
Net deferred loan costs	146	139
Net loans	467,082	439,627
Accrued interest receivable	1,665	1,539
Premises and equipment, net	10,769	10,289
Core deposit intangible	1,309	1,438
Goodwill	2,223	2,223
Investment in real estate limited partnerships	3,291	3,809
Company-owned life insurance	3,372	3,267
Other assets	8,027	9,492
Total assets	$574,670	$577,256
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits		
Noninterest bearing	$88,723	$83,715
Interest bearing	265,225	273,505
Time	153,401	152,773
Total deposits	507,349	509,993
Borrowed funds	14,190	15,747
Liability for defined benefit pension plan	2,571	2,753
Accrued interest and other liabilities	3,878	3,717
Total liabilities	527,988	532,210
Commitments and Contingencies		
Stockholders’ Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,927,286 shares issued at September 30, 2013 and 4,923,986 shares issued at December 31, 2012	9,855	9,848
Additional paid-in capital	360	295
Retained earnings	43,035	40,772
Treasury stock at cost; 468,927 shares at September 30, 2013 and 467,905 shares at December 31, 2012	(3,880)	(3,859)
Accumulated other comprehensive loss	(2,688)	(2,010)
Total stockholders' equity	46,682	45,046

Total liabilities and stockholders' equity	$574,670	$577,256

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Interest and fees on loans	$5,944	$6,066	$17,399	$17,716
Interest on debt securities:				
Taxable	138	121	388	492
Tax exempt	71	93	211	273
Dividends	17	8	46	32
Interest on federal funds sold and overnight deposits	3	4	26	11
Interest on interest bearing deposits in banks	59	63	178	212
Total interest and dividend income	6,232	6,355	18,248	18,736
Interest expense				
Interest on deposits	476	580	1,480	1,859
Interest on borrowed funds	133	235	390	719
Total interest expense	609	815	1,870	2,578
Net interest income	5,623	5,540	16,378	16,158
Provision for loan losses	95	150	230	510
Net interest income after provision for loan losses	5,528	5,390	16,148	15,648
Noninterest income				
Trust income	155	154	472	460
Service fees	1,326	1,274	3,772	3,646
Net (losses) gains on sales of investment securities available-for-sale	—	—	(1)	44
Net gains on sales of loans held for sale	541	1,301	1,791	2,442
Other income	164	159	428	367
Total noninterest income	2,186	2,888	6,462	6,959
Noninterest expenses				
Salaries and wages	2,320	2,235	6,712	6,704
Pension and employee benefits	596	968	1,917	3,083
Occupancy expense, net	249	252	871	881
Equipment expense	385	396	1,199	1,082
Other expenses	1,546	1,894	4,798	5,099
Total noninterest expenses	5,096	5,745	15,497	16,849
Income before provision for income taxes	2,618	2,533	7,113	5,758
Provision for income taxes	545	552	1,506	1,112
Net income	$2,073	$1,981	$5,607	$4,646
Earnings per common share	$0.47	$0.44	$1.26	$1.04
Weighted average number of common shares outstanding	4,458,025	4,457,204	4,456,891	4,457,048
Dividends per common share	$0.25	$0.25	$0.75	$0.75

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net income	$2,073	$1,981	$5,607	$4,646
Other comprehensive (loss) income, net of tax:				
Investment securities available-for-sale:				
Net unrealized holding (losses) gains arising during the period on investment securities available-for-sale	(131)	127	(740)	181
Reclassification adjustment for net losses (gains) on investment securities available-for-sale realized in net income	—	—	1	(29)
Total	(131)	127	(739)	152
Defined benefit pension plan:				
Net actuarial (loss) gain arising during the period	—	—	(33)	26
Reclassification adjustment for amortization of net actuarial loss realized in net income	31	98	94	292
Reclassification adjustment for amortization of prior service cost realized in net income	—	1	—	3
Total	31	99	61	321
Total other comprehensive (loss) income	(100)	226	(678)	473
Total comprehensive income	$1,973	$2,207	$4,929	$5,119

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2013 and 2012 (Unaudited)

	Common Stock						
	Shares, net of treasury	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total stockholders' equity
	(Dollars in thousands, except per share data)						
Balances, December 31, 2012	4,456,081	$9,848	$295	$40,772	$(3,859)	$(2,010)	$45,046
Net income	—	—	—	5,607	—	—	5,607
Other comprehensive loss	—	—	—	—	—	(678)	(678)
Cash dividends declared ($0.75 per share)	—	—	—	(3,344)	—	—	(3,344)
Stock based compensation expense	—	—	9	—	—	—	9
Exercise of stock options	3,300	7	56	—	—	—	63
Purchase of treasury stock	(1,022)	—	—	—	(21)	—	(21)
Balances, September 30, 2013	4,458,359	$9,855	$360	$43,035	$(3,880)	$(2,688)	$46,682
Balances, December 31, 2011	4,457,204	$9,847	$276	$38,385	$(3,823)	$(4,346)	$40,339
Net income	—	—	—	4,646	—	—	4,646
Other comprehensive income	—	—	—	—	—	473	473
Cash dividends declared ($0.75 per share)	—	—	—	(3,343)	—	—	(3,343)
Stock based compensation expense	—	—	6	—	—	—	6
Exercise of stock options	700	1	11	—	—	—	12
Purchase of treasury stock	(700)	—	—	—	(13)	—	(13)
Balances, September 30, 2012	4,457,204	$9,848	$293	$39,688	$(3,836)	$(3,873)	$42,120

See accompanying notes to unaudited interim consolidated financial statements.

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

	Nine Months Ended September 30, 2013	2012
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$5,607	$4,646
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	679	641
Provision for loan losses	230	510
Deferred income tax provision (benefit)	557	(718)
Net amortization of investment securities	36	71
Equity in losses of limited partnerships	518	488
Stock based compensation expense	9	6
Net (increase) decrease in unamortized loan costs	(7)	13
Proceeds from sales of loans held for sale	99,732	90,992
Origination of loans held for sale	(91,148)	(98,980)
Net gains on sales of loans held for sale	(1,791)	(2,442)
Net gain on disposals of premises and equipment	—	(14)
Net losses (gains) on sales of investment securities available-for-sale	1	(44)
Write-downs of impaired assets	36	389
Net (gains) losses on sales of other real estate owned	(8)	13
Increase in accrued interest receivable	(126)	(28)
Amortization of core deposit intangible	129	129
Decrease in other assets	659	191
Increase in other liabilities	71	1,645
Net cash provided by (used in) operating activities	15,184	(2,492)
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	7,065	9,141
Purchases	(4,705)	(4,755)
Investment securities held-to-maturity		
Proceeds from maturities, calls and paydowns	500	4,000
Purchases	(4,216)	(1,996)
Investment securities available-for-sale		
Proceeds from sales	1,018	1,291
Proceeds from maturities, calls and paydowns	3,448	14,126
Purchases	(12,519)	(5,322)
Purchase of nonmarketable stock, net	(77)	—
Net increase in loans	(27,742)	(26,046)
Recoveries of loans charged off	42	37
Purchases of premises and equipment	(1,159)	(1,811)
Investments in limited partnerships	—	(889)
Proceeds from sales of premises and equipment	—	19
Proceeds from sales of other real estate owned	563	622
Net cash used in investing activities	(37,782)	(11,583)

Cash Flows From Financing Activities		
Advances on long-term borrowings	2,000	2,000
Repayment of long-term debt	(1,030)	(868)
Net decrease in short-term borrowings outstanding	(2,527)	(4,391)
Net increase in noninterest bearing deposits	5,008	2,588
Net (decrease) increase in interest bearing deposits	(8,280)	38,446
Net increase (decrease) in time deposits	628	(9,657)
Issuance of common stock	63	12
Purchase of treasury stock	(21)	(13)
Dividends paid	(3,344)	(3,343)
Net cash (used in) provided by financing activities	(7,503)	24,774
Net (decrease) increase in cash and cash equivalents	(30,101)	10,699
Cash and cash equivalents		
Beginning of period	46,510	24,381
End of period	$16,409	$35,080
Supplemental Disclosures of Cash Flow Information		
Interest paid	$1,968	$2,700
Income taxes paid	$750	$1,500
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$122	$971
Loans originated to finance the sale of other real estate owned	$100	$—

See accompanying notes to unaudited interim consolidated financial statements.

UNION BANKSHARES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation
The accompanying unaudited interim consolidated financial statements of Union Bankshares, Inc. and Subsidiary (the Company) as of September 30, 2013, and for the three and nine months ended September 30, 2013 and 2012, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, general practices within the banking industry, and the accounting policies described in the Company’s Annual Report to Shareholders and Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of the Company’s management, all adjustments, consisting only of normal recurring adjustments and disclosures necessary for a fair presentation of the information contained herein, have been made. This information should be read in conjunction with the Company’s 2012 Annual Report to Shareholders and 2012 Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2013, or any other interim period.

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

Note 2. Legal Contingencies
In the normal course of business, the Company is involved in various legal and other proceedings. In the opinion of management, any liability resulting from such proceedings is not expected to have a material adverse effect on the Company’s consolidated financial condition or results of operations.

Note 3. Per Share Information
Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period and reduced for shares held in treasury. The assumed conversion of outstanding exercisable stock options does not result in material dilution and is not included in the calculation.

Note 4. Recent Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.” This ASU amends the scope of FASB ASU No. 2011-11, “Disclosures about Offsetting Assets and Liabilities,” which requires additional disclosure regarding offsetting of assets and liabilities to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The provisions of the ASUs were effective for annual and interim reporting periods beginning on or after January 1, 2013. As the ASUs address financial statement disclosures only, their adoption effective January 1, 2013 did not impact the Company's consolidated financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This ASU adds new disclosure requirements for items reclassified out of accumulated other comprehensive income to be in a single location in the financial statements. The Company's disclosures of the components of accumulated other comprehensive income (loss) are disclosed in its Consolidated Statements of Comprehensive Income. For the three and nine months ended September 30, 2013, the items requiring reclassification out of accumulated other comprehensive income (loss) are disclosed in Note 10. The new guidance became effective for all interim and annual periods beginning January 1, 2013. Since this ASU addresses financial statement disclosures only, the adoption of this guidance effective January 1, 2013 did not have an impact on the Company's consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The objective of the amendment is to provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. Early adoption is permitted and amendments are to be applied prospectively. The Company has adopted the amendment and the ASU did not have any effect on the Company's consolidated financial position or results of operations.

Note 5. Goodwill and Other Intangible Assets

As a result of the acquisition of three New Hampshire branches in May 2011, the Company recorded goodwill amounting to $2.2 million. The goodwill is not amortizable. Goodwill is evaluated for impairment annually, in accordance with current authoritative guidance. Management assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the Company, in total, is less than its carrying amount. Management is not aware of any such events or circumstances that would cause it to conclude that the fair value of the Company is less than its carrying amount.

The Company also recorded $1.7 million of acquired identifiable intangible assets in connection with the branch acquisition, representing the core deposit intangible which is subject to straight-line amortization over the estimated 10 year average life of the core deposit base, absent any future impairment. Management will evaluate the core deposit intangible for impairment if conditions warrant.

Amortization expense for the core deposit intangible was $43 thousand for the three months ended September 30, 2013 and 2012, and was $129 thousand for the nine months ended September 30, 2013 and 2012. The amortization expense is included in other noninterest expense on the consolidated statement of income and is deductible for tax purposes. As of September 30, 2013, the remaining amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

	(Dollars in thousands)
2013	$42
2014	171
2015	171
2016	171
2017	171
Thereafter	583
Total	$1,309

Note 6. Investment Securities

Investment securities as of the balance sheet dates consisted of the following:

September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$12,418	$35	$(775)	$11,678
Agency mortgage-backed	1,903	16	(33)	1,886
State and political subdivisions	9,780	439	(52)	10,167
Corporate	2,791	—	(125)	2,666
Total debt securities	26,892	490	(985)	26,397
Marketable equity securities	746	151	(3)	894
Mutual funds	235	—	—	235
Total	$27,873	$641	$(988)	$27,526
Held-to-maturity				
U.S. Government-sponsored enterprises	$9,214	$—	$(649)	$8,565

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$4,500	$22	$(3)	$4,519
Agency mortgage-backed	1,343	36	—	1,379
State and political subdivisions	9,803	664	(5)	10,462
Corporate	3,294	28	(22)	3,300
Total debt securities	18,940	750	(30)	19,660
Marketable equity securities	746	66	(15)	797
Mutual funds	173	—	—	173
Total	$19,859	$816	$(45)	$20,630
Held-to-maturity				
U.S. Government-sponsored enterprises	$5,496	$3	$(22)	$5,477

There were no sales of securities available-for-sale for the three months ended September 30, 2013 or September 30, 2012. Proceeds from the sale of securities available-for-sale were $1.0 million with gross realized gains of $3 thousand and gross realized losses of $4 thousand for the nine months ended September 30, 2013. Proceeds from the sale of securities available-for-sale were $1.3 million with gross realized gains of $44 thousand for the nine months ended September 30, 2012. There were no gross realized losses for the nine months ended September 30, 2012. The specific identification method is used to determine realized gains and losses on sales of securities available-for-sale.

The amortized cost and estimated fair value of debt securities by contractual scheduled maturity as of September 30, 2013 were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale		
Due in one year or less	$190	$190
Due from one to five years	2,838	2,899
Due from five to ten years	11,075	10,917
Due after ten years	10,886	10,505
	24,989	24,511
Agency mortgage-backed securities	1,903	1,886
Total debt securities available-for-sale	$26,892	$26,397
Held-to-maturity		
Due from one to five years	$997	$977
Due from five to ten years	2,000	1,893
Due after ten years	6,217	5,695
Total debt securities held-to-maturity	$9,214	$8,565

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

Information pertaining to all investment securities with gross unrealized losses as of the balance sheet dates, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

September 30, 2013	Less Than 12 Months		12 Months and over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in thousands)					
Debt securities:						
U.S. Government-sponsored enterprises	$18,669	$(1,424)	$—	$—	$18,669	$(1,424)
Agency mortgage-backed	913	(33)	—	—	913	(33)
State and political subdivisions	1,376	(52)	—	—	1,376	(52)
Corporate	2,166	(123)	500	(2)	2,666	(125)
Total debt securities	23,124	(1,632)	500	(2)	23,624	(1,634)
Marketable equity securities	36	(2)	13	(1)	49	(3)
Total	$23,160	$(1,634)	$513	$(3)	$23,673	$(1,637)

December 31, 2012	Less Than 12 Months		12 Months and over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in thousands)					
Debt securities:						
U.S. Government-sponsored enterprises	$4,472	$(25)	$—	$—	$4,472	$(25)
State and political subdivisions	345	(5)	—	—	345	(5)
Corporate	2,266	(22)	—	—	2,266	(22)
Total debt securities	7,083	(52)	—	—	7,083	(52)
Marketable equity securities	91	(7)	42	(8)	133	(15)
Total	$7,174	$(59)	$42	$(8)	$7,216	$(67)

The Company evaluates all investment securities on a quarterly basis, and more frequently when economic conditions warrant, to determine if an other-than-temporary impairment exists. A debt security is considered impaired if the fair value is lower than its amortized cost basis at the report date. If impaired, management then assesses whether the unrealized loss is other-than-temporary.

Declines in the fair values of individual equity securities that are deemed to be other-than-temporary are reflected in noninterest income when identified. An unrealized loss on a debt security is generally deemed to be other-than temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an other-than-temporary impairment write-down is recorded, net of tax effect, through net income as a component of net other-than-temporary impairment losses in the consolidated statement of income, while the remaining portion of the impairment loss is recognized in other comprehensive income (loss), provided the Company does not intend to sell the underlying debt security and it is "more likely than not" that the Company will not have to sell the debt security prior to recovery.

Management considers the following factors in determining whether an other-than-temporary impairment exists and the period over which the debt security is expected to recover:

- The length of time, and extent to which, the fair value has been less than the amortized cost;
- Adverse conditions specifically related to the security, industry, or geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security and the likelihood of the issuer being able to make payments that may increase in the future;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency;
- Recoveries or additional declines in fair value subsequent to the balance sheet date; and
- The nature of the issuer, including whether it is a private company, public entity or government-sponsored enterprise, and the existence or likelihood of any government or third party guaranty.

At September 30, 2013, held-to-maturity and available-for-sale securities, consisting of 23 U.S. Government-sponsored enterprise securities, two agency mortgage-backed securities, three tax-exempt municipal securities, one taxable municipal security, six corporate bonds, and two marketable equity securities, had aggregate unrealized losses of $1.6 million. Only one corporate bond and one marketable equity security had continuous unrealized losses for longer than twelve months. The Company has the ability to hold such securities for the foreseeable future. No declines were deemed by management to be other-than-temporary at September 30, 2013.

Investment securities with a carrying amount of $9.0 million and $6.7 million at September 30, 2013 and December 31, 2012, respectively, were pledged as collateral for public deposits and for other purposes as required or permitted by law.

Note 7. Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their unpaid principal balances, adjusted for any charge-offs, the 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. The following accounting policies, related to accrual and nonaccrual loans, apply to all portfolio segments and loan classes, which the Company considers to be the same. The accrual of interest is normally discontinued when a loan is specifically determined to be impaired and/or management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Normally, any unpaid interest previously accrued on those loans is reversed against current period interest income. A loan may be restored to accrual status when its financial status has significantly improved and there is no principal or interest past due. A loan may also be restored to accrual status if the borrower makes six consecutive monthly payments or the lump sum equivalent. Income on nonaccrual loans is generally not recognized unless a loan is returned to accrual status or after all principal has been collected. Interest 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. Delinquency status is determined based on contractual terms for all portfolio segments and loan classes. Loans past due 30 days or more are considered delinquent.

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

The loans purchased in the May 2011 acquisition of branches were recorded at $32.9 million, the estimated fair value at the time of purchase. The estimated fair value contains both accretable and nonaccretable components. The accretable component is amortized as an adjustment to the related loan yield over the average life of the loan. The nonaccretable component represents probable loss due to credit risk and is reviewed by management periodically and adjusted as deemed necessary. At the acquisition date, the fair value of the loans acquired resulted in an accretable loan premium component of $545 thousand, less a nonaccretable credit risk component of $318 thousand.

The following table summarizes activity in the accretable loan premium component for the acquired loan portfolio:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	$414	$445	$454	$491
Loan premium amortization	(20)	(24)	(60)	(70)
Changes in expected cash flows due to paydowns	—	53	—	53
Balance at end of period	$394	$474	$394	$474

Loan premium amortization has been charged to Interest and fees on loans on the Company's statements of income for the periods reported. The remaining accretable loan premium component balance was $394 thousand at September 30, 2013 and $454 thousand at December 31, 2012. The balance of the nonaccretable credit risk component was $296 thousand at September 30, 2013 and December 31, 2012. The net carrying amounts of the acquired loans were $18.4 million and $22.9 million at September 30, 2013 and December 31, 2012, respectively, and are included in the loan balances below.

The composition of Net loans as of the balance sheet dates were as follows:

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
Residential real estate	$157,500	$154,938
Construction real estate	40,135	36,018
Commercial real estate	207,909	197,240
Commercial	20,348	21,463
Consumer	5,653	6,065
Municipal	40,164	28,421
Gross loans	471,709	444,145
Allowance for loan losses	(4,773)	(4,657)
Net deferred loan costs	146	139
Net loans	$467,082	$439,627

Residential real estate loans aggregating $20.5 million and $11.4 million at September 30, 2013 and December 31, 2012, respectively, were pledged as collateral on deposits of municipalities. Qualifying residential first mortgage loans held by Union may be pledged as collateral for borrowings from the Federal Home Loan Bank (FHLB) of Boston under a blanket lien.

A summary of current, past due and nonaccrual loans as of the balance sheet dates follows:

September 30, 2013	Current	30-59 Days	60-89 Days	90 Days and Over and Accruing	Nonaccrual	Total
	(Dollars in thousands)					
Residential real estate	$154,571	$98	$683	$774	$1,374	$157,500
Construction real estate	40,109	—	—	—	26	40,135
Commercial real estate	205,446	1,752	454	—	257	207,909
Commercial						