UNION BANKSHARES INC
Form 10-Q
May 11, 2015

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: March 31, 2015

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

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 May 1, 2015:

Common Stock, $2 par value	4,458,353 shares

UNION BANKSHARES, INC.
TABLE OF CONTENTS

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

	March 31, 2015 (Unaudited)	December 31, 2014
Assets	(Dollars in thousands)	
Cash and due from banks	$3,973	$4,822
Federal funds sold and overnight deposits	9,178	36,922
Cash and cash equivalents	13,151	41,744
Interest bearing deposits in banks	13,102	12,252
Investment securities available-for-sale	57,798	45,749
Investment securities held-to-maturity (fair value $5.2 million and $7.1 million at March 31, 2015 and December 31, 2014, respectively)	5,216	7,215
Loans held for sale	8,257	10,743
Loans	493,013	479,978
Allowance for loan losses	(4,773)	(4,694)
Net deferred loan costs	388	355
Net loans	488,628	475,639
Accrued interest receivable	2,082	1,854
Premises and equipment, net	12,491	11,853
Core deposit intangible	1,053	1,096
Goodwill	2,223	2,223
Investment in real estate limited partnerships	2,701	2,824
Company-owned life insurance	8,554	3,517
Other assets	7,231	7,354
Total assets	$622,487	$624,063
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$97,198	$90,385
Interest bearing	303,232	302,722
Time	146,378	158,957
Total deposits	546,808	552,064
Borrowed funds	18,587	15,118
Accrued interest and other liabilities	4,718	5,447
Total liabilities	570,113	572,629
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,929,296 shares issued at March 31, 2015 and December 31, 2014	9,859	9,859
Additional paid-in capital	430	418
Retained earnings	47,142	46,462
Treasury stock at cost; 471,943 shares at March 31, 2015 and 470,866 shares at December 31, 2014	(3,951)	(3,925)
Accumulated other comprehensive loss	(1,106)	(1,380)
Total stockholders' equity	52,374	51,434
Total liabilities and stockholders' equity	$622,487	$624,063

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands, except per share data)	
Interest and dividend income		
Interest and fees on loans	$5,732	$5,762
Interest on debt securities:		
Taxable	215	205
Tax exempt	107	81
Dividends	15	15
Interest on federal funds sold and overnight deposits	8	4
Interest on interest bearing deposits in banks	40	45
Total interest and dividend income	6,117	6,112
Interest expense		
Interest on deposits	476	472
Interest on borrowed funds	89	105
Total interest expense	565	577
Net interest income	5,552	5,535
Provision for loan losses	100	75
Net interest income after provision for loan losses	5,452	5,460
Noninterest income		
Trust income	177	175
Service fees	1,346	1,272
Net gains on sales of investment securities available-for-sale	—	43
Net gains on sales of loans held for sale	729	433
Other income	83	30
Total noninterest income	2,335	1,953
Noninterest expenses		
Salaries and wages	2,323	2,247
Pension and employee benefits	734	667
Occupancy expense, net	381	339
Equipment expense	407	387
Other expenses	1,545	1,539
Total noninterest expenses	5,390	5,179
Income before provision for income taxes	2,397	2,234
Provision for income taxes	513	470
Net income	$1,884	$1,764
Earnings per common share	$0.42	$0.40
Weighted average number of common shares outstanding	4,457,871	4,458,278
Dividends per common share	$0.27	$0.26

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Net income	$1,884	$1,764
Other comprehensive income, net of tax:		
Investment securities available-for-sale:		
Net unrealized holding gains arising during the period on investment securities available-for-sale	274	385
Reclassification adjustment for net gains on investment securities available-for-sale realized in net income	—	(28)
Total other comprehensive income	274	357
Total comprehensive income	$2,158	$2,121

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2015 and 2014 (Unaudited)

	Common Stock						
	Shares, net of treasury	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders' equity
	(Dollars in thousands, except per share data)						
Balances, December 31, 2014	4,458,430	$9,859	$418	$46,462	$(3,925)	$(1,380)	$51,434
Net income	—	—	—	1,884	—	—	1,884
Other comprehensive income	—	—	—	—	—	274	274
Cash dividends declared ($0.27 per share)	—	—	—	(1,204)	—	—	(1,204)
Stock based compensation expense	—	—	12	—	—	—	12
Purchase of treasury stock	(1,077)	—	—	—	(26)	—	(26)
Balances, March 31, 2015	4,457,353	$9,859	$430	$47,142	$(3,951)	$(1,106)	$52,374
Balances, December 31, 2013	4,458,359	$9,855	$363	$43,405	$(3,880)	$77	$49,820
Net income	—	—	—	1,764	—	—	1,764
Other comprehensive income	—	—	—	—	—	357	357
Cash dividends declared ($0.26 per share)	—	—	—	(1,160)	—	—	(1,160)
Stock based compensation expense	—	—	5	—	—	—	5
Purchase of treasury stock	(97)	—	—	—	(2)	—	(2)
Balances, March 31, 2014	4,458,262	$9,855	$368	$44,009	$(3,882)	$434	$50,784

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$1,884	$1,764
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	227	226
Provision for loan losses	100	75
Deferred income tax (credit) provision	(4)	82
Net amortization of investment securities	46	17
Equity in losses of limited partnerships	122	164
Stock based compensation expense	12	5
Net (increase) decrease in unamortized loan costs	(33)	11
Proceeds from sales of loans held for sale	32,049	20,767
Origination of loans held for sale	(28,834)	(19,906)
Net gains on sales of loans held for sale	(729)	(433)
Net gains on sales of investment securities available-for-sale	—	(43)
Net loss on sales of other real estate owned	—	10
Increase in accrued interest receivable	(228)	(329)
Amortization of core deposit intangible	43	43
(Increase) decrease in other assets	(50)	237
Decrease in other liabilities	(729)	(119)
Net cash provided by operating activities	3,876	2,571
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	543	1,848
Purchases	(1,393)	(490)
Investment securities held-to-maturity		
Proceeds from maturities, calls and paydowns	2,000	—
Purchases	—	(2,000)
Investment securities available-for-sale		
Proceeds from sales	—	2,462
Proceeds from maturities, calls and paydowns	2,732	100
Purchases	(14,413)	(6,780)
Net increase in loans	(13,060)	(11,813)
Recoveries of loans charged off	4	13
Purchases of premises and equipment	(865)	(297)
Purchase of company-owned life insurance	(5,000)	—
Proceeds from sales of other real estate owned	—	42
Net cash used in investing activities	(29,452)	(16,915)

Cash Flows From Financing Activities		
Repayment of long-term debt	(72)	(87)
Net increase in short-term borrowings outstanding	3,541	621
Net increase in noninterest bearing deposits	6,813	2,291
Net increase in interest bearing deposits	510	11,585
Net decrease in time deposits	(12,579)	(14,573)
Purchase of treasury stock	(26)	(2)
Dividends paid	(1,204)	(1,160)
Net cash used in financing activities	(3,017)	(1,325)
Net decrease in cash and cash equivalents	(28,593)	(15,669)
Cash and cash equivalents		
Beginning of period	41,744	30,719
End of period	$13,151	$15,050
Supplemental Disclosures of Cash Flow Information		
Interest paid	$394	$445
Income taxes paid	$200	$—

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 March 31, 2015, and for the three months ended March 31, 2015 and 2014, have been prepared in conformity with GAAP for interim financial information, general practices within the banking industry, and the accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company's sole subsidiary is Union Bank. In the opinion of the Company’s management, all adjustments, consisting only of normal recurring adjustments and disclosures necessary for a fair presentation of the information contained herein, have been made. This information should be read in conjunction with the Company’s 2014 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, 2015, or any other interim period.

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 presentation.

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

AFS:	Available-for-sale	IRS:	Internal Revenue Service
ALCO:	Asset Liability Committee		
ALL:	Allowance for loan losses	MBS:	Mortgage-backed security
ASC:	Accounting Standards Codification	MSRs:	Mortgage servicing rights
ASU:	Accounting Standards Update	OAO:	Other assets owned
Board:	Board of Directors	OCI:	Other comprehensive income (loss)
bp or bps:	Basis point(s)	OFAC:	U.S. Office of Foreign Assets Control
Branch Acquisition:	The acquisition of three New Hampshire branches in May 2011	OREO:	Other real estate owned
CDARS:	Certificate of Deposit Accounts Registry Service of the Promontory Interfinancial Network	OTTI:	Other-than-temporary impairment
Company:	Union Bankshares, Inc. and Subsidiary	OTT:	Other-than-temporary
FASB:	Financial Accounting Standards Board	Plan:	The Union Bank Pension Plan
FDIC:	Federal Deposit Insurance Corporation	RD:	USDA Rural Development
FHA:	U.S. Federal Housing Administration	SBA:	U.S. Small Business Administration
FHLB:	Federal Home Loan Bank of Boston	SEC:	U.S. Securities and Exchange Commission
FRB:	Federal Reserve Board	TDR:	Troubled-debt restructuring
FHLMC/Freddie Mac:	Federal Home Loan Mortgage Corporation	Union:	Union Bank, the sole subsidiary of Union Bankshares, Inc
GAAP:	Generally accepted accounting principles in the United States	USDA:	U.S. Department of Agriculture
HTM:	Held-to-maturity	VA:	U.S. Veterans Administration
HUD:	U.S. Department of Housing and Urban Development	2008 ISO Plan:	2008 Incentive Stock Option Plan of the Company
ICS:	Insured Cash Sweeps of the Promontory Interfinancial Network	2014 Equity Plan:	2014 Equity Incentive Plan

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 2015, the FASB issued ASU No. 2015-01, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The amendments in this ASU eliminate the concept of extraordinary items by eliminating the requirement to separately classify, present, and disclose extraordinary events and transactions. Although the amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transactions is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. Management has reviewed the ASU and does not believe that it will have a material effect on the Company's consolidated financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis. The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships, and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this ASU are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Management has reviewed the ASU and does not believe that it will have a material effect on the Company's consolidated financial position or results of operations.

Note 5. Goodwill and Other Intangible Assets

As a result of the 2011 Branch Acquisition, 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 accounting 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 2011 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 March 31, 2015 and 2014. The amortization expense is included in other noninterest expense on the consolidated statement of income and is deductible for tax purposes. As of March 31, 2015, the remaining amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

	(Dollars in thousands)
2015	$128

2016	171
2017	171
2018	171
2019	171
Thereafter	241
Total	$1,053

Note 6. Investment Securities

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

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$21,431	$81	$(85)	$21,427
Agency mortgage-backed	6,882	153	(2)	7,033
State and political subdivisions	17,678	429	(30)	18,077
Corporate	10,767	201	(42)	10,926
Total debt securities	56,758	864	(159)	57,463
Mutual funds	335	—	—	335
Total	$57,093	$864	$(159)	$57,798
Held-to-maturity				
U.S. Government-sponsored enterprises	$5,216	$—	$(58)	$5,158

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$15,563	$23	$(145)	$15,441
Agency mortgage-backed	6,516	92	(15)	6,593
State and political subdivisions	15,800	355	(52)	16,103
Corporate	7,243	98	(66)	7,275
Total debt securities	45,122	568	(278)	45,412
Mutual funds	337	—	—	337
Total	$45,459	$568	$(278)	$45,749
Held-to-maturity				
U.S. Government-sponsored enterprises	$7,215	$—	$(161)	$7,054

There were no sales of AFS securities for the three months ended March 31, 2015. Proceeds from the sale of AFS securities were $2.5 million with gross realized gains of $43 thousand for the three months ended March 31, 2014. The specific identification method is used to determine realized gains and losses on sales of securities AFS.

The amortized cost and estimated fair value of debt securities by contractual scheduled maturity as of March 31, 2015 were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale		
Due in one year or less	$430	$440
Due from one to five years	12,515	12,605
Due from five to ten years	22,803	23,170
Due after ten years	14,128	14,215
	49,876	50,430
Agency mortgage-backed	6,882	7,033
Total debt securities available-for-sale	$56,758	$57,463
Held-to-maturity		
Due from one to five years	$998	$998
Due from five to ten years	1,000	997
Due after ten years	3,218	3,163
Total debt securities held-to-maturity	$5,216	$5,158

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

Information pertaining to all 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:

March 31, 2015	Less Than 12 Months			12 Months and over			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
		(Dollars in thousands)							
Debt securities:									
U.S. Government-sponsored enterprises	6	$8,001	$(63)	5	$4,023	$(80)	11	$12,024	$(143)
Agency mortgage-backed	1	322	(2)	—	—	—	1	322	(2)
State and political subdivisions	10	3,529	(30)	—	—	—	10	3,529	(30)
Corporate	4	2,641	(25)	2	1,000	(17)	6	3,641	(42)
Total	21	$14,493	$(120)	7	$5,023	$(97)	28	$19,516	$(217)

December 31, 2014	Less Than 12 Months			12 Months and over			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
		(Dollars in thousands)							
Debt securities:									
U.S. Government-sponsored enterprises	6	$4,431	$(16)	14	$12,307	$(290)	20	$16,738	$(306)
Agency mortgage-backed	2	611	(10)	2	810	(5)	4	1,421	(15)
State and political subdivisions	7	2,326	(40)	3	878	(12)	10	3,204	(52)
Corporate	3	1,181	(21)	3	1,472	(45)	6	2,653	(66)
Total	18	$8,549	$(87)	22	$15,467	$(352)	40	$24,016	$(439)

The Company evaluates all investment securities on a quarterly basis, and more frequently when economic conditions warrant, to determine if OTTI exists. A 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 OTT.

Declines in the fair values of individual equity securities that are deemed to be OTT are reflected in noninterest income when identified. An unrealized loss on a debt security is generally deemed to be OTT 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 OTTI write-down is recorded, net of tax effect, through net income as a component of net OTTI losses in the consolidated statement of income, while the remaining portion of the impairment loss is recognized in OCI, 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 OTTI 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.

The Company has the ability to hold the investment securities that had unrealized losses at March 31, 2015 for the foreseeable future and no declines were deemed by management to be OTT.

Investment securities with a carrying amount of $5.7 million and $6.5 million at March 31, 2015 and December 31, 2014, 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 ALL, 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. Generally, any unpaid interest previously accrued on those loans is reversed against current period interest income. A loan may be restored to accrual status when its financial status has significantly improved and there is no principal or interest past due. A loan may also be restored to accrual status if the borrower makes six consecutive monthly payments or the lump sum equivalent. Income on nonaccrual loans is generally not recognized unless a loan is returned to accrual status or after all principal has been collected. Interest income generally is not recognized on impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally recorded 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 2011 Branch Acquisition were initially 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 March 31,	
	2015	2014
	(Dollars in thousands)	
Balance at beginning of period	$292	$374
Loan premium amortization	(18)	(20)
Balance at end of period	$274	$354

Loan premium amortization has been charged to Interest and fees on loans on the Company's consolidated statements of income for the periods reported. The remaining accretable loan premium component balance was $274 thousand at March 31, 2015 and $292 thousand at December 31, 2014. The balance of the nonaccretable credit risk component was $193 thousand at March 31, 2015 and December 31, 2014. The net carrying amounts of the acquired loans were $9.1 million at March 31, 2015 and December 31, 2014 and are included in the loan balances below.

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

	March 31, 2015	December 31, 2014
	(Dollars in thousands)	
Residential real estate	$165,276	$165,475
Construction real estate	29,822	37,258
Commercial real estate	220,591	211,710
Commercial	20,922	20,620
Consumer	4,127	4,435
Municipal	52,275	40,480
Gross loans	493,013	479,978
Allowance for loan losses	(4,773)	(4,694)
Net deferred loan costs	388	355
Net loans	$488,628	$475,639

Residential real estate loans aggregating $28.5 million and $37.8 million at March 31, 2015 and December 31, 2014, 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 FHLB under a blanket lien.

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

March 31, 2015	Current	30-59 Days	60-89 Days	90 Days and Over and Accruing	Nonaccrual	Total
	(Dollars in thousands)					
Residential real estate	$159,324	$3,794	$448	$264	$1,446	$165,276
Construction real estate	29,660	103	—	—	59	29,822
Commercial real estate	216,882	1,024	—	2,135	550	220,591
Commercial	20,836	42	6	—	38	20,922
Consumer	4,120	4	2	1	—	4,127
Municipal	52,275	—	—	—	—	52,275
Total	$483,097	$4,967	$456	$2,400	$2,093	$493,013

December 31, 2014	Current	30-59 Days	60-89 Days	90 Days and Over and Accruing	Nonaccrual	Total
	(Dollars in thousands)					
Residential real estate	$159,430	$2,278	$1,342	$890	$1,535	$165,475
Construction real estate	37,075	112	10	—	61	37,258
Commercial real estate	207,325	2,194	173	1,454	564	211,710
Commercial	20,462	60	23	—	75	20,620
Consumer	4,391	36	8	—	—	4,435
Municipal	40,480	—	—	—	—	40,480
Total	$469,163	$4,680	$1,556	$2,344	$2,235	$479,978

There were three residential real estate loans in process of foreclosure at March 31, 2015. Aggregate interest on nonaccrual loans not recognized was $1.1 million and $1.0 million as of March 31, 2015 and 2014, respectively, and $1.1 million as of December 31, 2014.

Note 8. Allowance for Loan Losses and Credit Quality

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

The ALL is maintained at a level believed by management to be appropriate to absorb probable credit losses inherent in the loan portfolio as of the balance sheet date. The amount of the ALL is based on management's periodic evaluation of the collectability of the loan portfolio, including the nature, volume and risk characteristics of the portfolio, credit concentrations, trends in historical loss experience, estimated value of any underlying collateral, specific impaired loans and economic conditions. There has been no change to the methodology used to estimate the ALL during the first quarter of 2015. While management uses available information to recognize losses on loans, future additions to the ALL may be necessary based on changes in economic conditions or other relevant factors.

In addition, various regulatory agencies, as an integral part of their examination process, regularly review the Company's ALL. Such agencies may require the Company to recognize additions to the ALL, with a corresponding charge to earnings, based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

The ALL consists of specific, general and unallocated components. The specific component relates to the loans that are classified as impaired. Loans are evaluated for impairment and may be classified as impaired when management believes it is probable that the Company will not collect all the contractual interest and principal payments as scheduled in the loan agreement. Impaired loans may also include troubled loans that are restructured. A TDR occurs when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would otherwise not be granted. A TDR classification may result from the transfer of assets to the Company in partial satisfaction of a troubled loan, a modification of a loan's terms (such as reduction of stated interest rates below market rates, extension of maturity that does not conform to the Company's policies, reduction of the face amount of the loan, reduction of accrued interest, or reduction or deferment of loan payments), or a combination. A specific reserve amount is allocated to the ALL for individual loans that have been classified as impaired based on management's estimate of the fair value of the collateral for collateral dependent loans, an observable market price, or the present value of anticipated future cash flows. The Company accounts for the change in present value attributable to the passage of time in the loan loss reserve. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, real estate or small balance commercial loans for impairment evaluation, unless such loans are subject to a restructuring agreement or have been identified as impaired as part of a larger customer relationship. Management has established the threshold for individual impairment evaluation for commercial loans with balances greater than $500 thousand, based on an evaluation of the Company's historical loss experience on substandard commercial loans.

The general component represents the level of ALL allocable to each loan portfolio segment with similar risk characteristics and is determined based on historical loss experience, adjusted for qualitative factors, for each class of loan. Management deems a five year average to be an appropriate time frame on which to base historical losses for each portfolio segment. Qualitative factors considered include underwriting, economic and market conditions, portfolio composition, collateral values, delinquencies, lender experience and legal issues. The qualitative factors are determined based on the various risk characteristics of each portfolio segment. Risk characteristics relevant to each portfolio segment are as follows:

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

- Construction real estate - Loans in this segment include residential and commercial construction properties, land and land development loans. Repayment is dependent on the credit quality of the individual borrower and/or the underlying cash flows generated by the properties being constructed. The overall health of the economy, including unemployment rates, housing prices, vacancy rates and material costs, could have an effect on the credit quality of this segment.

- Commercial real estate - Loans in this segment are primarily properties occupied by businesses or income-producing properties. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy as evidenced by a general slowdown in business or increased vacancy rates which, in turn, could have an effect on the credit quality of this segment. Management requests business financial statements at least annually and monitors the cash flows of these loans.

- Commercial - Loans in this segment are made to businesses and are generally secured by nonreal estate assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer or business spending, could have an effect on the credit quality of this segment.

- Consumer - Loans in this segment are made to individuals for personal expenditures, such as an automobile purchase, and include unsecured loans. Repayment is primarily dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment, could have an effect on the credit quality of this segment.

- Municipal - Loans in this segment are made to municipalities located within the Company's service area. Repayment is primarily dependent on taxes or other funds collected by the municipalities. Management considers there to be minimal risk surrounding the credit quality of this segment.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the ALL reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

All evaluations are inherently subjective as they require estimates that are susceptible to significant revision as more information becomes available or as changes occur in economic conditions or other relevant factors. Despite the allocation shown in the tables below, the ALL is general in nature and is available to absorb losses from any class of loan.

Changes in the ALL, by class of loans, for the three months ended March 31, 2015 and 2014 were as follows:

For The Three Months Ended March 31, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Balance, December 31, 2014	$1,330	$439	$2,417	$176	$27	$42	$263	$4,694
Provision (credit) for loan losses	9	(63)	251	20	10	12	(139)	100
Recoveries of amounts charged off	—	3	—	—	1	—	—	4
	1,339	379	2,668	196	38	54	124	4,798
Amounts charged off	—	—	—	(13)	(12)	—	—	(25)
Balance, March 31, 2015	$1,339	$379	$2,668	$183	$26	$54	$124	$4,773

For The Three Months Ended March 31, 2014	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Balance, December 31, 2013	$1,251	$390	$2,644	$163	$23	$35	$141	$4,647
Provision (credit) for loan losses	21	(19)	(69)	5	(4)	8	133	75
Recoveries of amounts charged off	2	3	—	1	8	—	—	14
	1,274	374	2,575	169	27	43	274	4,736
Amounts charged off	(37)	—	—	—	(5)	—	—	(42)
Balance, March 31, 2014	$1,237	$374	$2,575	$169	$22	$43	$274	$4,694

The allocation of the ALL, summarized on the basis of the Company's impairment methodology by class of loan, as of the balance sheet dates were as follows:

March 31, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Individually evaluated for impairment	$69	$—	$228	$—	$—	$—	$—	$297
Collectively evaluated for impairment	1,270	379	2,440	183	26	54	124	4,476
Total allocated	$1,339	$379	$2,668	$183	$26	$54	$124	$4,773

December 31, 2014	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Individually evaluated for impairment	$73	$—	$70	$—	$—	$—	$—	$143
Collectively evaluated for impairment	1,257	439	2,347	176	27	42	263	4,551
Total allocated	$1,330	$439	$2,417	$176	$27	$42	$263	$4,694

The recorded investment in loans, summarized on the basis of the Company's impairment methodology by class of loan, as of the balance sheet dates were as follows:

March 31, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
	(Dollars in thousands)						
Individually evaluated for impairment	$692	$252	$3,295	$—	$—	$—	$4,239
Collectively evaluated for impairment	160,020	29,570	212,746	20,922	4,127	52,275	479,660
	160,712	29,822	216,041	20,922	4,127	52,275	483,899
Acquired loans	4,564	—	4,550	—	—	—	9,114
Total	$165,276	$29,822	$220,591	$20,922	$4,127	$52,275	$493,013

December 31, 2014	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
	(Dollars in thousands)						
Individually evaluated for impairment	$950	$275	$3,332	$123	$—	$—	$4,680
Collectively evaluated for impairment	159,888	36,983	203,963	20,497	4,435	40,480	466,246
	160,838						