UNION BANKSHARES INC
Form 10-Q
August 10, 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: June 30, 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 August 1, 2015:

Common Stock, $2 par value	4,459,853	shares

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

	June 30, 2015 (Unaudited)	December 31, 2014
Assets	(Dollars in thousands)	
Cash and due from banks	$4,096	$4,822
Federal funds sold and overnight deposits	10,558	36,922
Cash and cash equivalents	14,654	41,744
Interest bearing deposits in banks	12,701	12,252
Investment securities available-for-sale	57,390	45,749
Investment securities held-to-maturity (fair value $5.1 million and $7.1 million at June 30, 2015 and December 31, 2014, respectively)	5,216	7,215
Loans held for sale	5,504	10,743
Loans	472,735	479,978
Allowance for loan losses	(4,919)	(4,694)
Net deferred loan costs	451	355
Net loans	468,267	475,639
Accrued interest receivable	1,822	1,854
Premises and equipment, net	12,935	11,853
Core deposit intangible	1,011	1,096
Goodwill	2,223	2,223
Investment in real estate limited partnerships	2,590	2,824
Company-owned life insurance	8,652	3,517
Other assets	8,016	7,354
Total assets	$600,981	$624,063
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits		
Noninterest bearing	$94,430	$90,385
Interest bearing	303,034	302,722
Time	115,515	158,957
Total deposits	512,979	552,064
Borrowed funds	30,601	15,118
Accrued interest and other liabilities	4,645	5,447
Total liabilities	548,225	572,629
Commitments and Contingencies		
Stockholders’ Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,931,796 shares issued at June 30, 2015 and 4,929,296 shares at December 31, 2014	9,864	9,859
Additional paid-in capital	486	418
Retained earnings	47,955	46,462
Treasury stock at cost; 471,943 shares at June 30, 2015 and 470,866 shares at December 31, 2014	(3,951)	(3,925)
Accumulated other comprehensive loss	(1,598)	(1,380)
Total stockholders' equity	52,756	51,434
Total liabilities and stockholders' equity	$600,981	$624,063

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Interest and fees on loans	$5,859	$5,828	$11,591	$11,590
Interest on debt securities:				
Taxable	257	206	472	411
Tax exempt	106	91	213	172
Dividends	9	16	24	31
Interest on federal funds sold and overnight deposits	4	4	12	8
Interest on interest bearing deposits in banks	41	39	81	84
Total interest and dividend income	6,276	6,184	12,393	12,296
Interest expense				
Interest on deposits	434	421	910	893
Interest on borrowed funds	87	108	176	213
Total interest expense	521	529	1,086	1,106
Net interest income	5,755	5,655	11,307	11,190
Provision for loan losses	150	75	250	150
Net interest income after provision for loan losses	5,605	5,580	11,057	11,040
Noninterest income				
Trust income	190	191	367	366
Service fees	1,348	1,285	2,694	2,557
Net gains on sales of investment securities available-for-sale	—	19	—	62
Net gains on sales of loans held for sale	785	508	1,514	941
Other income	203	123	286	153
Total noninterest income	2,526	2,126	4,861	4,079
Noninterest expenses				
Salaries and wages	2,331	2,194	4,654	4,441
Pension and employee benefits	769	703	1,503	1,370
Occupancy expense, net	312	295	693	634
Equipment expense	460	410	867	797
Other expenses	1,684	1,684	3,229	3,223
Total noninterest expenses	5,556	5,286	10,946	10,465
Income before provision for income taxes	2,575	2,420	4,972	4,654
Provision for income taxes	558	501	1,071	971
Net income	$2,017	$1,919	$3,901	$3,683
Earnings per common share	$0.46	$0.43	$0.88	$0.83
Weighted average number of common shares outstanding	4,458,749	4,458,439	4,458,312	4,458,359
Dividends per common share	$0.27	$0.26	$0.54	$0.52

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income	$2,017	$1,919	$3,901	$3,683
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	(492)	357	(218)	742
Reclassification adjustment for net gains on sales of investment securities available-for-sale realized in net income	—	(13)	—	(41)
Total other comprehensive (loss) income	(492)	344	(218)	701
Total comprehensive income	$1,525	$2,263	$3,683	$4,384

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 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	—	—	—	3,901	—	—	3,901
Other comprehensive loss	—	—	—	—	—	(218)	(218)
Cash dividends declared ($0.54 per share)	—	—	—	(2,408)	—	—	(2,408)
Stock based compensation expense	—	—	20	—	—	—	20
Exercise of stock options	2,500	5	48	—	—	—	53
Purchase of treasury stock	(1,077)	—	—	—	(26)	—	(26)
Balances, June 30, 2015	4,459,853	$9,864	$486	$47,955	$(3,951)	$(1,598)	$52,756
Balances, December 31, 2013	4,458,359	$9,855	$363	$43,405	$(3,880)	$77	$49,820
Net income	—	—	—	3,683	—	—	3,683
Other comprehensive income	—	—	—	—	—	701	701
Cash dividends declared ($0.52 per share)	—	—	—	(2,319)	—	—	(2,319)
Stock based compensation expense	—	—	11	—	—	—	11
Exercise of stock options	1,710	3	30	—	—	—	33
Purchase of treasury stock	(1,815)	—	—	—	(42)	—	(42)
Balances, June 30, 2014	4,458,254	$9,858	$404	$44,769	$(3,922)	$778	$51,887

See accompanying notes to unaudited interim consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$3,901	$3,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	502	463
Provision for loan losses	250	150
Deferred income tax (credit) provision	(11)	73
Net amortization of investment securities	97	37
Equity in losses of limited partnerships	248	328
Stock based compensation expense	20	11
Net increase in unamortized loan costs	(96)	(68)
Proceeds from sales of loans held for sale	69,356	43,439
Origination of loans held for sale	(62,603)	(45,320)
Net gains on sales of loans held for sale	(1,514)	(941)
Net loss on disposals of premises and equipment	6	—
Net gains on sales of investment securities available-for-sale	—	(62)
Write-downs of impaired assets	29	—
Net gains on sales of other real estate owned	(3)	(6)
Decrease (increase) in accrued interest receivable	32	(78)
Amortization of core deposit intangible	86	86
Increase in other assets	(800)	(180)
Decrease in other liabilities	(802)	(67)
Net cash provided by operating activities	8,698	1,548
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	2,138	5,779
Purchases	(2,587)	(1,879)
Investment securities held-to-maturity		
Proceeds from maturities, calls and paydowns	2,000	3,571
Purchases	—	(2,000)
Investment securities available-for-sale		
Proceeds from sales	—	4,426
Proceeds from maturities, calls and paydowns	4,878	2,725
Purchases	(16,947)	(12,144)
Net decrease in loans	7,193	5,561
Recoveries of loans charged off	25	20
Purchases of premises and equipment	(1,590)	(764)
Purchase of company-owned life insurance	(5,000)	—
Investments in limited partnerships	(15)	—
Proceeds from sales of other real estate owned	100	365
Net cash (used in) provided by investing activities	(9,805)	5,660

Cash Flows From Financing Activities		
Repayment of long-term debt	(146)	(176)
Net increase in short-term borrowings outstanding	15,629	11,719
Net increase (decrease) in noninterest bearing deposits	4,045	(6,107)
Net increase in interest bearing deposits	312	21,366
Net decrease in time deposits	(43,442)	(42,757)
Issuance of common stock	53	33
Purchase of treasury stock	(26)	(42)
Dividends paid	(2,408)	(2,319)
Net cash used in financing activities	(25,983)	(18,283)
Net decrease in cash and cash equivalents	(27,090)	(11,075)
Cash and cash equivalents		
Beginning of period	41,744	30,719
End of period	$14,654	$19,644
Supplemental Disclosures of Cash Flow Information		
Interest paid	$1,306	$1,307
Income taxes paid	$1,010	$670

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 (together, the Company) as of June 30, 2015, and for the three and six months ended June 30, 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 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	MBS:	Mortgage-backed security
ALL:	Allowance for loan losses	MSRs:	Mortgage servicing rights
ASC:	Accounting Standards Codification	OAO:	Other assets owned
ASU:	Accounting Standards Update	OCI:	Other comprehensive income (loss)
Board:	Board of Directors	OFAC:	U.S. Office of Foreign Assets Control
bp or bps:	Basis point(s)	OREO:	Other real estate owned
Branch Acquisition:	The acquisition of three New Hampshire branches in May 2011	OTTI:	Other-than-temporary impairment
CDARS:	Certificate of Deposit Accounts Registry Service of the Promontory Interfinancial Network	OTT:	Other-than-temporary
Company:	Union Bankshares, Inc. and Subsidiary	Plan:	The Union Bank Pension Plan
FASB:	Financial Accounting Standards Board	RD:	USDA Rural Development
FDIC:	Federal Deposit Insurance Corporation	SBA:	U.S. Small Business Administration
FHA:	U.S. Federal Housing Administration	SEC:	U.S. Securities and Exchange Commission
FHLB:	Federal Home Loan Bank of Boston	TDR:	Troubled-debt restructuring
FRB:	Federal Reserve Board	Union:	Union Bank, the sole subsidiary of Union Bankshares, Inc
FHLMC/Freddie Mac:	Federal Home Loan Mortgage Corporation	USDA:	U.S. Department of Agriculture
GAAP:	Generally accepted accounting principles in the United States	VA:	U.S. Veterans Administration
HTM:	Held-to-maturity	2008 ISO Plan:	2008 Incentive Stock Option Plan of the Company
HUD:	U.S. Department of Housing and Urban Development	2014 Equity Plan:	2014 Equity Incentive Plan
ICS:	Insured Cash Sweeps of the Promontory Interfinancial Network		

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 June 30, 2015 and 2014 and was $86 thousand for the six months ended June 30, 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 June 30, 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	$86
2016	171
2017	171
2018	171
2019	171
Thereafter	241
Total	$1,011

Note 6. Investment Securities

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

June 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$21,332	$48	$(225)	$21,155
Agency mortgage-backed	7,218	86	(22)	7,282
State and political subdivisions	17,248	304	(114)	17,438
Corporate	11,290	63	(180)	11,173
Total debt securities	57,088	501	(541)	57,048
Mutual funds	342	—	—	342
Total	$57,430	$501	$(541)	$57,390
Held-to-maturity				
U.S. Government-sponsored enterprises	$5,216	$—	$(160)	$5,056

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 and six months ended June 30, 2015. Proceeds from the sale of AFS securities were $2.0 million and $4.4 million for the three and six months ended June 30, 2014, respectively. Gross realized gains from the sale of AFS securities were $19 thousand and $62 thousand for the three and six months ended June 30, 2014, respectively, while there were no gross realized losses for either period. 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 June 30, 2015 were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale		
Due in one year or less	$360	$367
Due from one to five years	11,707	11,756
Due from five to ten years	24,552	24,548
Due after ten years	13,251	13,095
	49,870	49,766
Agency mortgage-backed	7,218	7,282
Total debt securities available-for-sale	$57,088	$57,048
Held-to-maturity		
Due from one to five years	$998	$997
Due from five to ten years	1,000	986
Due after ten years	3,218	3,073
Total debt securities held-to-maturity	$5,216	$5,056

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:

June 30, 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	18	$13,780	$(235)	5	$3,953	$(150)	23	$17,733	$(385)
Agency mortgage-backed	5	2,042	(22)	—	—	—	5	2,042	(22)
State and political subdivisions	16	5,343	(106)	1	354	(8)	17	5,697	(114)
Corporate	13	6,118	(136)	2	972	(44)	15	7,090	(180)
Total	52	$27,283	$(499)	8	$5,279	$(202)	60	$32,562	$(701)

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 June 30, 2015 for the foreseeable future and no declines were deemed by management to be OTT.

Investment securities with a carrying amount of $4.8 million and $6.5 million at June 30, 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 June 30,		For The Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance at beginning of period	$274	$354	$292	$374
Loan premium amortization	(18)	(20)	(36)	(40)
Balance at end of period	$256	$334	$256	$334

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 $256 thousand at June 30, 2015 and $292 thousand at December 31, 2014. The balance of the nonaccretable credit risk component was $193 thousand at June 30, 2015 and December 31, 2014. The net carrying amounts of the acquired loans were $8.2 million and $9.1 million at June 30, 2015 and December 31, 2014, respectively, and are included in the loan balances below.

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

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Residential real estate	$164,624	$165,475
Construction real estate	31,045	37,258
Commercial real estate	227,558	211,710
Commercial	21,794	20,620
Consumer	4,125	4,435
Municipal	23,589	40,480
Gross loans	472,735	479,978
Allowance for loan losses	(4,919)	(4,694)
Net deferred loan costs	451	355
Net loans	$468,267	$475,639

Residential real estate loans aggregating $18.7 million and $37.8 million at June 30, 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:

June 30, 2015	Current	30-59 Days	60-89 Days	90 Days and Over and Accruing	Nonaccrual	Total
	(Dollars in thousands)					
Residential real estate	$161,046	$218	$1,539	$274	$1,547	$164,624
Construction real estate	31,014	—	—	—	31	31,045
Commercial real estate	226,041	—	431	546	540	227,558
Commercial	21,723	3	33	—	35	21,794
Consumer	4,121	3	—	1	—	4,125
Municipal	23,589	—	—	—	—	23,589
Total	$467,534	$224	$2,003	$821	$2,153	$472,735

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 five residential real estate loans totaling $151 thousand in process of foreclosure at June 30, 2015. Aggregate interest on nonaccrual loans not recognized was $1.1 million and $1.0 million as of June 30, 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 second 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 and six months ended June 30, 2015 and 2014 were as follows:

For The Three Months Ended June 30, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Balance, March 31, 2015	$1,339	$379	$2,668	$183	$26	$54	$124	$4,773
Provision (credit) for loan losses	6	(1)	151	9	—	(29)	14	150
Recoveries of amounts charged off	—	19	—	—	2	—	—	21
	1,345	397	2,819	192	28	25	138	4,944
Amounts charged off	(23)	—	—	—	(2)	—	—	(25)
Balance, June 30, 2015	$1,322	$397	$2,819	$192	$26	$25	$138	$4,919

For The Three Months Ended June 30, 2014	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Balance, March 31, 2014	$1,237	$374	$2,575	$169	$22	$43	$274	$4,694
Provision (credit) for loan losses	39	12	164	36	3	(25)	(154)	75
Recoveries of amounts charged off	—	3	—	1	2	—	—	6
	1,276	389	2,739	206	27	18	120	4,775
Amounts charged off	(18)	—	(142)	—	(5)	—	—	(165)
Balance, June 30, 2014	$1,258	$389	$2,597	$206	$22	$18	$120	$4,610

For The Six Months Ended June 30, 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	15	(64)	402	29	10	(17)	(125)	250
Recoveries of amounts charged off	—	22	—	—	3	—	—	25
	1,345	397	2,819	205	40	25	138	4,969
Amounts charged off	(23)	—	—	(13)	(14)	—	—	(50)
Balance, June 30, 2015	$1,322	$397	$2,819	$192	$26	$25	$138	$4,919

For The Six Months Ended June 30, 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	60	(7)	95	41	(1)	(17)	(21)	150
Recoveries of amounts charged off	2	6	—	2	10	—	—	20
	1,313	389	2,739	206	32	18	120	4,817
Amounts charged off	(55)	—	(142)	—	(10)	—	—	(207)
Balance, June 30, 2014	$1,258	$389	$2,597	$206	$22	$18	$120	$4,610

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:

June 30, 2015	Residential Real Estate (Dollars in thousands)	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
Individually evaluated for impairment	$36	$—	$331	$—	$—	$—	$—	$367
Collectively evaluated for impairment	1,286	397	2,488	192	26	25	138	4,552
Total allocated	$1,322	$397	$2,819	$192	$26	$25	$138	$4,919
December 31, 2014	Residential Real Estate (Dollars in thousands)	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
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:

June 30, 2015	Residential Real Estate (Dollars in thousands)	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
Individually evaluated for impairment	$685	$95	$4,079	$—	$—	$—	$4,859
Collectively evaluated for impairment	159,499	30,950	219,717	21,794	4,125	23,589	459,674
	160,184	31,045	223,796	21,794	4,125	23,589	464,533
Acquired loans	4,440	—	3,762	—	—	—	8,202
Total	$164,624	$31,045	$227,558	$21,794	$4,125	$23,589	$472,735
December 31, 2014	Residential Real Estate (Dollars in thousands)	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
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	37,258	207,295	20,620	4,435	40,480	470,926
Acquired loans	4,637	—	4,415	—	—	—	9,052
Total	$165,475	$37,258	$211,710	$20,620	$4,435	$40,480	$479,978

Risk and collateral ratings are assigned to loans and are subject to ongoing monitoring by lending and credit personnel with such ratings updated annually or more frequently if warranted. The following is an overview of the Company's loan rating system:

1-3 Rating - Pass
Risk-rating grades "1" through "3" comprise those loans ranging from those with lower than average credit risk, defined as borrowers with high liquidity, excellent financial condition, strong management, favorable industry trends

or loans secured by highly liquid assets, through those with marginal credit risk, defined as borrowers that, while creditworthy, exhibit some characteristics requiring special attention by the account officer.

4/M Rating - Satisfactory/Monitor
Borrowers exhibit potential credit weaknesses or downward trends warranting management's attention. While potentially weak, these borrowers are currently marginally acceptable; no loss of principal or interest is envisioned. When warranted, these credits may be monitored on the watch list.

5-7 Rating - Substandard
Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. The loan may be inadequately protected by the net worth and paying capacity of the obligor and/or the underlying collateral is inadequate.

The following tables summarize the loan ratings applied to the Company's loans by class as of the balance sheet dates:

June 30, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
	(Dollars in thousands)						
Pass	$148,754	$25,464	$165,489	$19,903	$4,053	$23,589	$387,252
Satisfactory/Monitor	9,047	5,412	52,302	1,673	70	—	68,504
Substandard	2,383	169	6,005	218	2	—	8,777
Total	160,184	31,045	223,796	21,794	4,125	23,589	464,533
Acquired loans	4,440	—	3,762	—	—	—	8,202
Total	$164,624	$31,045	$227,558	$21,794	$4,125	$23,589	$472,735

December 31, 2014	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
	(Dollars in thousands)						
Pass	$141,259	$31,519	$159,725	$18,960	$4,360	$40,480	$396,303
Satisfactory/Monitor	17,483	5,347	41,728	1,384	70	—	66,012
Substandard	2,096	392	5,842	276	5	—	8,611
Total	160,838	37,258	207,295	20,620	4,435	40,480	470,926
Acquired loans	4,637	—	4,415	—	—	—	9,052
Total	$165,475	$37,258	$211,710	$20,620	$4,435	$40,480	$479,978

Acquired loans are risk rated, as appropriate, according to the Company's loan rating system, but such ratings are not taken into account in establishing the ALL. Rather, in accordance with applicable accounting principles, acquired loans are initially recorded at fair value, determined based upon an estimate of the amount and timing of both principal and interest cash flows expected to be collected and discounted using a market interest rate, which includes an estimate of future credit losses expected to be incurred over the life of the portfolio. The primary credit quality indicator for acquired loans is whether there has been a decrease in expected cash flows. Monitoring of this portfolio is ongoing to determine if there is evidence of deterioration in credit quality since acquisition. As of June 30, 2015, there was no ALL for acquired loans.

The following table provides information with respect to impaired loans by class of loan as of and for the three and six months ended June 30, 2015:

	As of June 30, 2015			For The Three Months Ended June 30, 2015		For The Six Months Ended June 30, 2015	
	Recorded Investment (1)	Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)						
With an allowance recorded:							
Residential real estate	$207	$216	$36				
Commercial real estate	2,389	2,404	331				
	2,596	2,620	367				
With no allowance recorded:							
Residential real estate	478	589	—				
Construction real estate	95	95	—				
Commercial real estate	1,690	1,746	—				
	2,263	2,430	—				
Total:							
Residential real estate	685	805	36	$689	$2	$776	$14
Construction real estate	95	95	—	174	14	208	17
Commercial real estate	4,079	4,150	331	3,687	71	3,568	105
Commercial	—	—	—	—	—	41	—
Total	$4,859	$5,050	$367	$4,550	$87	$4,593	$136

(1) Does not reflect government guaranties on impaired loans as of June 30, 2015 totaling $240 thousand.

The following table provides information with respect to impaired loans by class of loan as of and for the three and six months ended June 30, 2014:

	As of June 30, 2014			For The Three Months Ended June 30, 2014		For The Six Months Ended June 30, 2014	
	Recorded Investment (1)	Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)						
Total:							
Residential real estate	$645	$830	$40	$648	$5	$706	$10
Construction real estate	301	323	2	325	4	333	8
Commercial real estate	4,227	4,277	134	4,230	45	4,226	87
Commercial	99	99	—	102	2	104	4
Total	$5,272	$5,529	$176	$5,305	$56	$5,369	$109

The following table provides information with respect to impaired loans as of December 31, 2014:

	December 31, 2014		
	Recorded Investment (1)	Principal Balance (1)	Related Allowance
	(Dollars in thousands)		
With an allowance recorded:			
Residential real estate	$537	$546	$73
Commercial real estate	2,127	2,136	70
	2,664	2,682	143
With no allowance recorded:			
Residential real estate	413	602	—
Construction real estate	275	298	—
Commercial real estate	1,205	1,256	—
Commercial	123	172	—
	2,016	2,328	—
Total:			
Residential real estate	950	1,148	73
Construction real estate	275	298	—
Commercial real estate	3,332	3,392	70
Commercial	123	172	—
Total	$4,680	$5,010	$143

(1) Does not reflect government guaranties on impaired loans as of December 31, 2014 totaling $244 thousand.

The following is a summary of TDR loans by class of loan as of the balance sheet dates:

	June 30, 2015		December 31, 2014	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Residential real estate	5	$685	5	$704
Construction real estate	1	95	3	276
Commercial real estate	5	977	3	711
Total	11	$1,757	11	$1,691

The TDR loans above represent loan modifications in which a concession was provided to the borrower, including due date extensions, maturity date extensions, interest rate reductions or the forgiveness of accrued interest. Troubled loans, that are restructured and meet established thresholds, are classified as impaired and a specific reserve amount is allocated to the ALL on the basis 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 following table provides new TDR activity for the three and six months ended June 30, 2015:

	New TDRs During the Three Months Ended June 30, 2015			New TDRs During the Six Months Ended June 30, 2015		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Commercial real estate	2	$281	$281	2	$281	$281

There was no new TDR activity during the three months ended June 30, 2014. The following table provides new TDR activity for the six months ended June 30, 2014:

	New TDRs During the Six Months Ended June 30, 2014		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)		
Commercial real estate	2	$1,018	$1,068

There were no TDR loans modified within the previous twelve months that had subsequently defaulted during the three and six month periods ended June 30, 2015 or June 30, 2014. TDR loans are considered defaulted at 90 days past due.

At June 30, 2015 and December 31, 2014, the Company was not committed to lend any additional funds to borrowers whose loans were nonperforming, impaired or restructured.

Note 9. Defined Benefit Pension Plan

Union sponsors a noncontributory defined benefit pension plan covering all eligible employees employed prior to October 5, 2012. On October 5, 2012, the Company closed the Plan to new participants and froze the accrual of retirement benefits for current participants. It is Union's current intent to continue to maintain the frozen Plan and related Trust account and to distribute benefits to participants at such time and in such manner as provided under the terms of the Plan. The Company will continue to recognize the pension benefit and cash funding obligations for the remaining life of the associated liability for the frozen benefits under the Plan. The Plan provides defined benefits based on years of service and final average salary prior to October 5, 2012.

Net periodic pension benefit for the three and six months ended June 30 consisted of the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Service cost	$—	$—	$—	$—
Interest cost on projected benefit obligation	170	193	340	386
Expected return on plan assets	(286)	(306)	(572)	(604)
Amortization of prior service cost	—	—	—	—
Amortization of net loss	14	—	28	—
Net periodic benefit	$(102)	$(113)	$(204)	$(218)

Note 10. Other Comprehensive Income (Loss)
Accounting principles generally require recognized revenue, expenses, gains and losses be included in net income or loss. Certain changes in assets and liabilities, such as the after tax effect of unrealized gains and losses on investment securities AFS that are not OTTI and the unfunded liability for the defined benefit pension plan, are not reflected in the consolidated statement of income.

The cumulative effect of such items, net of tax effect, is reported as a separate component of the equity section of the consolidated balance sheet (Accumulated OCI). OCI, along with net income, comprises the Company's total comprehensive income or loss.

As of the balance sheet dates, the components of Accumulated OCI, net of tax, were:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Net unrealized (loss) gain on investment securities available-for-sale	$(26)	$192
Defined benefit pension plan net unrealized actuarial loss	(1,572)	(1,572)
Total	$(1,598)	$(1,380)

The following table discloses the tax effects allocated to each component of OCI for the three months ended June 30:

	Three Months Ended					
	June 30, 2015			June 30, 2014		
	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
	(Dollars in thousands)					
Investment securities available-for-sale:						
Net unrealized holding (losses) gains arising during the period on investment securities available-for-sale	$(746)	$254	$ (492)	$541	$(184)	$ 357
Reclassification adjustment for net gains on investment securities available-for-sale realized in net income	—	—	—	(19)	6	(13)
Total other comprehensive (loss) income	$(746)	$254	$ (492)	$522	$(178)	$ 344

The following table discloses the tax effects allocated to each component of OCI for the six months ended June 30:

	Six Months Ended					
	June 30, 2015			June 30, 2014		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
	(Dollars in thousands)					
Investment securities available-for-sale:						
Net unrealized holding (losses) gains arising during the period on investment securities available-for-sale	$(331)	$113	$ (218)	$1,124	$(382)	$ 742
Reclassification adjustment for net gains on investment securities available-for-sale realized in net income	—	—	—	(62)	21	(41)
Total other comprehensive (loss) income	$(331)	$113	$ (218)	$1,062	$(361)	$ 701

The following table discloses information concerning the reclassification adjustments from OCI for the three and six months ended June 30:

Reclassification Adjustment Description	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Affected Line Item in Consolidated Statement of Income
	(Dollars in thousands)				
Investment securities available-for-sale:					
Net gains on investment securities available-for-sale	$—	$(19)	$—	$(62)	Net gains on sales of investment securities available-for-sale
Tax benefit	—	6	—	21	Provision for income taxes
Total reclassifications	$—	$(13)	$—	$(41)	Net income

Note 11. Fair Value Measurements and Disclosures

The Company utilizes FASB ASC Topic 820, Fair Value Measurements and Disclosures, as guidance for accounting for assets and liabilities carried at fair value. This standard defines fair value as the price that would be received, without adjustment for transaction costs, to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The guidance in FASB ASC Topic 820 establishes a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following is a description of the valuation methodologies used for the Company’s assets that are measured on a recurring basis at estimated fair value:

AFS securities: Marketable equity securities and mutual funds have been valued using unadjusted quoted prices from active markets and therefore have been classified as Level 1. However, the majority of the Company’s AFS securities have been valued utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Assets measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014, segregated by fair value hierarchy level, are summarized below:

	Fair Value Measurements			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
June 30, 2015:				
Investment securities available-for-sale (market approach)				
Debt securities:				
U.S. Government-sponsored enterprises	$21,155	$—	$21,155	$—
Agency mortgage-backed	7,282	—	7,282	—
State and political subdivisions	17,438	—	17,438	—
Corporate	11,173	—	11,173	—
Total debt securities	57,048	—	57,048	—
Mutual funds	342	342	—	—
Total	$57,390	$342	$57,048	$—
December 31, 2014:				
Investment securities available-for-sale (market approach)				
Debt securities:				
U.S. Government-sponsored enterprises	$15,441	$—	$15,441	$—
Agency mortgage-backed	6,593	—	6,593	—
State and political subdivisions	16,103	—	16,103	—
Corporate	7,275	—	7,275	—
Total debt securities	45,412	—	45,412	—
Mutual funds	337	337	—	—
Total	$45,749	$337	$45,412	$—

There were no significant transfers in or out of Levels 1 and 2 for the three and six months ended June 30, 2015. Certain other assets and liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets and liabilities measured at fair value on a nonrecurring basis in periods after initial recognition, such as impaired loans, HTM securities, MSRs and OREO, were not considered material at June 30, 2015 or December 31, 2014. The Company has not elected to apply the fair value method to any financial assets or liabilities other than those situations where other accounting pronouncements require fair value measurements.

FASB ASC Topic 825, Financial Instruments, requires disclosure of the estimated fair value of financial instruments. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Management’s estimates and assumptions are inherently subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could dramatically affect the estimated fair values.

Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments may be excluded from disclosure requirements. Thus, the aggregate fair value amounts presented may not necessarily represent the actual underlying fair value of such instruments of the Company.

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

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values and are classified as Level 1.

Interest bearing deposits in banks: Fair values for interest bearing deposits in banks are based on discounted present values of cash flows and are classified as Level 2.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair value measurements consider observable data which may include market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. Investment securities are classified as Level 1 or Level 2 depending on availability of recent trade information.

Loans held for sale: The fair value of loans held for sale is estimated based on quotes from third party vendors, resulting in a Level 2 classification.

Loans: The fair values of loans are estimated for portfolios of loans with similar financial characteristics and segregated by loan class or segment. For variable-rate loan categories that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts adjusted for credit risk. The fair values for other loans (for example, fixed-rate residential, commercial real estate, and rental property mortgage loans as well as commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future cash flows, future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The fair value methods and assumptions that utilize unobservable inputs as defined by current accounting standards are classified as Level 3.

Accrued interest receivable and payable: The carrying amounts of accrued interest approximate their fair values and are classified as Level 1, 2, or 3 in accordance with the classification of the related principal's valuation.

Nonmarketable equity securities: It is not practical to determine the fair value of the nonmarketable securities, such as FHLB stock, due to restrictions placed on their transferability.

Deposits: The fair values disclosed for noninterest bearing deposits are, by definition, equal to the amount payable on demand at the reporting date, resulting in a Level 1 classification. The fair values for time deposits and other interest bearing nontime deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar deposits to a schedule of aggregated expected maturities on such deposits, resulting in a Level 2 classification.

Borrowed funds: The fair values of the Company’s long-term debt are estimated using discounted cash flow analysis based on interest rates currently being offered on similar debt instruments, resulting in a Level 2 classification. The fair values of the Company’s short-term debt approximate the carrying amounts reported in the balance sheet, resulting in a Level 1 classification.

Off-balance-sheet financial instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The only commitments to extend credit that are normally longer than one year in duration are the home equity lines whose interest rates are variable quarterly. The only fees collected for commitments are an annual fee on credit card arrangements and often a flat fee on commercial lines of credit and standby letters of credit. The fair value of off-balance-sheet financial instruments as of the balance sheet dates was not significant.

As of the balance sheet dates, the estimated fair values and related carrying amounts of the Company's significant financial instruments were as follows:

	June 30, 2015				
	Fair Value Measurements				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$14,654	$14,654	$14,654	$—	$—
Interest bearing deposits in banks	12,701	12,675	—	12,675	—
Investment securities	62,606	62,446	342	62,104	—
Loans held for sale	5,504	5,620	—	5,620	—
Loans, net					
Residential real estate	163,458	165,539	—	—	165,539
Construction real estate	30,678	30,675	—	—	30,675
Commercial real estate	224,818	228,819	—	—	228,819
Commercial	21,623	21,025	—	—	21,025
Consumer	4,103	4,138	—	—	4,138
Municipal	23,587	24,996	—	—	24,996
Accrued interest receivable	1,822	1,822	—	390	1,432
Nonmarketable equity securities	2,053	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits					
Noninterest bearing	$94,430	$94,430	$94,430	$—	$—
Interest bearing	303,034	303,035	—	303,035	—
Time	115,515	115,537	—	115,537	—
Borrowed funds					
Short-term	22,510	22,510	22,510	—	—
Long-term	8,091	8,554	—	8,554	—
Accrued interest payable	84	84	—	84	—

	December 31, 2014 Fair Value Measurements				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$41,744	$41,744	$41,744	$—	$—
Interest bearing deposits in banks	12,252	12,248	—	12,248	—
Investment securities	52,964	52,803	337	52,466	—
Loans held for sale	10,743	11,036	—	11,036	—
Loans, net					
Residential real estate	164,267	166,780	—	—	166,780
Construction real estate	36,847				