UNION BANKSHARES INC
Form 10-Q
November 12, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2014

Commission file number: 001-15985

UNION BANKSHARES, INC.

VERMONT	03-0283552

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

Registrant's telephone number: 802-888-6600

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of November 3, 2014:

Common Stock, $2 par value 4,458,430 shares

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

	September 30, 2014 (Unaudited)	December 31, 2013
Assets	(Dollars in thousands)	
Cash and due from banks	$4,254	$5,223
Federal funds sold and overnight deposits	19,531	25,496
Cash and cash equivalents	23,785	30,719
Interest bearing deposits in banks	12,112	17,613
Investment securities available-for-sale	43,777	34,281
Investment securities held-to-maturity (fair value $9.3 million and $10.4 million at September 30, 2014 and December 31, 2013, respectively)	9,643	11,211
Loans held for sale	6,065	3,840
Loans	481,006	461,113
Allowance for loan losses	(4,758)	(4,647)
Net deferred loan costs	295	170
Net loans	476,543	456,636
Accrued interest receivable	1,823	1,663
Premises and equipment, net	11,154	10,678
Core deposit intangible	1,139	1,267
Goodwill	2,223	2,223
Investment in real estate limited partnerships	2,627	3,119
Company-owned life insurance	3,497	3,393
Other assets	8,278	8,800
Total assets	$602,666	$585,443
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$94,604	$87,247
Interest bearing	297,444	269,614
Time	138,990	161,493
Total deposits	531,038	518,354
Borrowed funds	14,940	13,216
Accrued interest and other liabilities	4,016	4,053
Total liabilities	549,994	535,623
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,929,296 shares issued at September 30, 2014 and 4,927,286 shares issued at December 31, 2013	9,859	9,855
Additional paid-in capital	414	363
Retained earnings	45,735	43,405
Treasury stock at cost; 470,866 shares at September 30, 2014 and 468,927 shares at December 31, 2013	(3,925)	(3,880)
Accumulated other comprehensive income	589	77
Total stockholders' equity	52,672	49,820
Total liabilities and stockholders' equity	$602,666	$585,443

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Interest and fees on loans	$5,900	$5,944	$17,490	$17,399
Interest on debt securities:				
Taxable	196	138	607	388
Tax exempt	96	71	268	211
Dividends	24	17	55	46
Interest on federal funds sold and overnight deposits	6	3	14	26
Interest on interest bearing deposits in banks	36	59	120	178
Total interest and dividend income	6,258	6,232	18,554	18,248
Interest expense				
Interest on deposits	424	476	1,317	1,480
Interest on borrowed funds	104	133	317	390
Total interest expense	528	609	1,634	1,870
Net interest income	5,730	5,623	16,920	16,378
Provision for loan losses	150	95	300	230
Net interest income after provision for loan losses	5,580	5,528	16,620	16,148
Noninterest income				
Trust income	183	155	549	472
Service fees	1,424	1,326	3,981	3,772
Net gains (losses) on sales of investment securities available-for-sale	234	—	296	(1)
Net gains on sales of loans held for sale	653	541	1,594	1,791
Other income	215	177	368	436
Total noninterest income	2,709	2,199	6,788	6,470
Noninterest expenses				
Salaries and wages	2,253	2,320	6,694	6,712
Pension and employee benefits	692	596	2,062	1,917
Occupancy expense, net	272	249	906	871
Equipment expense	436	385	1,233	1,199
Other expenses	1,899	1,559	5,122	4,806
Total noninterest expenses	5,552	5,109	16,017	15,505
Income before provision for income taxes	2,737	2,618	7,391	7,113
Provision for income taxes	611	545	1,582	1,506
Net income	$2,126	$2,073	$5,809	$5,607
Earnings per common share	$0.47	$0.47	$1.30	$1.26
Weighted average number of common shares outstanding	4,458,422	4,458,025	4,458,380	4,456,891
Dividends per common share	$0.26	$0.25	$0.78	$0.75

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Net income	$2,126	$2,073	$5,809	$5,607
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	(35)	(131)	707	(740)
Reclassification adjustment for net (gains) losses on investment securities available-for-sale realized in net income	(154)	—	(195)	1
Total	(189)	(131)	512	(739)
Defined benefit pension plan:				
Net actuarial loss arising during the period	—	—	—	(33)
Reclassification adjustment for amortization of net actuarial loss realized in net income	—	31	—	94
Total	—	31	—	61
Total other comprehensive (loss) income	(189)	(100)	512	(678)
Total comprehensive income	$1,937	$1,973	$6,321	$4,929

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2014 and 2013 (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, 2013	4,458,359	$9,855	$363	$43,405	$(3,880)	$77	$49,820
Net income	—	—	—	5,809	—	—	5,809
Other comprehensive income	—	—	—	—	—	512	512
Cash dividends declared ($0.78 per share)	—	—	—	(3,479)	—	—	(3,479)
Stock based compensation expense	—	—	16	—	—	—	16
Exercise of stock options	2,010	4	35	—	—	—	39
Purchase of treasury stock	(1,939)	—	—	—	(45)	—	(45)
Balances, September 30, 2014	4,458,430	$9,859	$414	$45,735	$(3,925)	$589	$52,672
Balances, December 31, 2012	4,456,081	$9,848	$295	$40,772	$(3,859)	$(2,010)	$45,046
Net income	—	—	—	5,607	—	—	5,607
Other comprehensive loss	—	—	—	—	—	(678)	(678)
Cash dividends declared ($0.75 per share)	—	—	—	(3,344)	—	—	(3,344)
Stock based compensation expense	—	—	9	—	—	—	9
Exercise of stock options	3,300	7	56	—	—	—	63
Purchase of treasury stock	(1,022)	—	—	—	(21)	—	(21)
Balances, September 30, 2013	4,458,359	$9,855	$360	$43,035	$(3,880)	$(2,688)	$46,682

See accompanying notes to unaudited interim consolidated financial statements.

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

	Nine Months Ended September 30, 2014	2013
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$5,809	$5,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	708	679
Provision for loan losses	300	230
Deferred income tax (credit) provision	(24)	557
Net amortization of investment securities	67	36
Equity in losses of limited partnerships	492	518
Stock based compensation expense	16	9
Net increase in unamortized loan costs	(125)	(7)
Proceeds from sales of loans held for sale	74,327	99,732
Origination of loans held for sale	(74,958)	(91,148)
Net gains on sales of loans held for sale	(1,594)	(1,791)
Net loss on disposals of premises and equipment	19	—
Net (gains) losses on sales of investment securities available-for-sale	(296)	1
Write-downs of impaired assets	—	36
Net gains on sales of other real estate owned	(134)	(8)
Increase in accrued interest receivable	(160)	(126)
Amortization of core deposit intangible	129	129
(Increase) decrease in other assets	(61)	659
(Decrease) increase in other liabilities	(37)	71
Net cash provided by operating activities	4,478	15,184
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	8,622	7,065
Purchases	(3,121)	(4,705)
Investment securities held-to-maturity		
Proceeds from maturities, calls and paydowns	3,571	500
Purchases	(2,000)	(4,216)
Investment securities available-for-sale		
Proceeds from sales	7,323	1,018
Proceeds from maturities, calls and paydowns	3,847	3,448
Purchases	(19,664)	(12,519)
Redemption of nonmarketable stock	—	(77)
Net increase in loans	(20,276)	(27,742)
Recoveries of loans charged off	30	42
Purchases of premises and equipment	(1,203)	(1,159)
Proceeds from sales of other real estate owned	536	563
Net cash used in investing activities	(22,335)	(37,782)

Cash Flows From Financing Activities		
Advances on long-term borrowings	—	2,000
Repayment of long-term debt	(3,517)	(1,030)
Net increase (decrease) in short-term borrowings outstanding	5,241	(2,527)
Net increase in noninterest bearing deposits	7,357	5,008
Net increase (decrease) in interest bearing deposits	27,830	(8,280)
Net (decrease) increase in time deposits	(22,503)	628
Issuance of common stock	39	63
Purchase of treasury stock	(45)	(21)
Dividends paid	(3,479)	(3,344)
Net cash provided by (used in) financing activities	10,923	(7,503)
Net decrease in cash and cash equivalents	(6,934)	(30,101)
Cash and cash equivalents		
Beginning of period	30,719	46,510
End of period	$23,785	$16,409
Supplemental Disclosures of Cash Flow Information		
Interest paid	$1,735	$1,968
Income taxes paid	$1,170	$750
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$464	$122
Loans originated to finance the sale of other real estate owned	$300	$100

See accompanying notes to unaudited interim consolidated financial statements.

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

Note 1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Union Bankshares, Inc. and Subsidiary (the Company) as of September 30, 2014, and for the three and nine months ended September 30, 2014 and 2013, 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, 2013. 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 2013 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 ended December 31, 2014, or any other interim period. Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 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 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this ASU permit institutions to make accounting policy elections to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the ASU requires the investment to be accounted for as an equity method investment or a cost method investment. The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. 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 January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU clarify that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this ASU are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. 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 August 2014, the FASB issued ASU No. 2014-14, Troubled Debt Restructurings by Creditors Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendments in this ASU provide guidance on how to classify and measure certain government-guaranteed mortgage loans upon foreclosure. The amendments require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. 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 Branch Acquisition, representing the core deposit intangible which is subject to straight-line amortization over the estimated 10 year average life of the core deposit base, absent any future impairment. Management will evaluate the core deposit intangible for impairment if conditions warrant.

Amortization expense for the core deposit intangible was $43 thousand for the three months ended September 30, 2014 and 2013 and was $129 thousand for the nine months ended September 30, 2014 and 2013. The amortization expense is included in other noninterest expense on the consolidated statement of income and is deductible for tax purposes. As of September 30, 2014, the remaining amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

	(Dollars in thousands)
2014	$43
2015	171
2016	171
2017	171
2018	171
Thereafter	412
Total	$1,139

Note 6. Investment Securities

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

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$14,651	$4	$(308)	$14,347
Agency mortgage-backed	6,365	40	(44)	6,361
State and political subdivisions	15,373	373	(39)	15,707
Corporate	6,991	40	(83)	6,948
Total debt securities	43,380	457	(474)	43,363
Marketable equity securities	79	15	—	94
Mutual funds	320	—	—	320
Total	$43,779	$472	$(474)	$43,777
Held-to-maturity				
U.S. Government-sponsored enterprises	$9,643	$4	$(313)	$9,334

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$14,327	$11	$(1,101)	$13,237
Agency mortgage-backed	3,804	18	(75)	3,747
State and political subdivisions	11,930	328	(94)	12,164
Corporate	3,994	—	(160)	3,834
Total debt securities	34,055	357	(1,430)	32,982
Marketable equity securities	746	296	(1)	1,041
Mutual funds	258	—	—	258
Total	$35,059	$653	$(1,431)	$34,281
Held-to-maturity				
U.S. Government-sponsored enterprises	$11,211	$2	$(849)	$10,364

Proceeds from the sale of AFS securities were $2.9 million and $7.3 million for the three and nine months ended September 30, 2014, respectively. Gross realized gains from the sale of AFS securities were $312 thousand and $374 thousand for the three and nine months ended September 30, 2014, respectively, while gross realized losses were $78 thousand for both the three and nine months ended September 30, 2014. There were no sales of securities AFS for the three months ended September 30, 2013. Proceeds from the sale of AFS securities were $1.0 million with gross realized gains of $3 thousand and gross realized losses of $4 thousand for the nine months ended September 30, 2013. 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 September 30, 2014 were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale		
Due in one year or less	$823	$824
Due from one to five years	7,227	7,247
Due from five to ten years	17,191	17,214
Due after ten years	11,774	11,717
	37,015	37,002
Agency mortgage-backed	6,365	6,361
Total debt securities available-for-sale	$43,380	$43,363
Held-to-maturity		
Due from one to five years	$1,997	$1,985
Due from five to ten years	2,000	1,937
Due after ten years	5,646	5,412
Total debt securities held-to-maturity	$9,643	$9,334

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:

September 30, 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	9	$6,694	$(41)	15	$13,016	$(580)	24	$19,710	$(621)
Agency mortgage-backed	4	1,963	(23)	2	819	(21)	6	2,782	(44)
State and political subdivisions	7	2,289	(20)	2	585	(19)	9	2,874	(39)
Corporate	5	2,182	(18)	3	1,453	(65)	8	3,635	(83)
Total	25	$13,128	$(102)	22	$15,873	$(685)	47	$29,001	$(787)

December 31, 2013	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	21	$16,213	$(1,292)	6	$4,839	$(658)	27	$21,052	$(1,950)
Agency mortgage-backed	6	2,844	(75)	—	—	—	6	2,844	(75)
State and political subdivisions	9	3,175	(72)	1	329	(22)	10	3,504	(94)
Corporate	6	2,420	(53)	3	1,414	(107)	9	3,834	(160)
Total debt securities	42	24,652	(1,492)	10	6,582	(787)	52	31,234	(2,279)
Marketable equity securities	—	—	—	1	13	(1)	1	13	(1)
Total	42	$24,652	$(1,492)	11	$6,595	$(788)	53	$31,247	$(2,280)

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 September 30, 2014 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 $3.3 million at September 30, 2014 and December 31, 2013, 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 to all loan classes, which the Company considers to be the same as the portfolio segments. 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 September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Balance at beginning of period	$334	$414	$374	$454
Loan premium amortization	(18)	(20)	(58)	(60)
Balance at end of period	$316	$394	$316	$394

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 $316 thousand at September 30, 2014 and $374 thousand at December 31, 2013. During the three and nine months ended September 30, 2014, the nonaccretable credit risk component balance decreased $24 thousand due to a loss recognized on one acquired residential real estate loan. The balance of the nonaccretable credit risk component was $272 thousand