UNION BANKSHARES INC
Form 10-Q
November 14, 2011

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, 2011

Commission file number: 001-15985

UNION BANKSHARES, INC.
VERMONT 03-0283552

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

Registrant's telephone number: 802-888-6600

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 1, 2011:

Common Stock, $2 par value	4,457,204 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

UNION BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2011	December 31, 2010
Assets	(Dollars in thousands)	
Cash and due from banks	$5,133	$5,447
Federal funds sold and overnight deposits	25,425	8,845
Cash and cash equivalents	30,558	14,292
Interest bearing deposits in banks	20,194	14,041
Investment securities available-for-sale	36,266	23,780
Investment securities held-to-maturity (fair value $5.0 million and $502 thousand at September 30, 2011 and December 31, 2010, respectively)	5,000	500
Loans held for sale	4,242	5,611
Loans	424,610	376,272
Allowance for loan losses	(4,186)	(3,755)
Net deferred loan costs	212	188
Net loans	420,636	372,705
Accrued interest receivable	1,628	1,560
Premises and equipment, net	8,952	7,842
Core deposit intangible	1,651	—
Goodwill	2,223	—
Other assets	14,440	12,664
Total assets	$545,790	$452,995
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits		
Noninterest bearing	$75,528	$64,526
Interest bearing	239,296	180,386
Time	156,701	131,748
Total deposits	471,525	376,660
Borrowed funds	26,017	28,986
Accrued interest and other liabilities	5,653	5,624
Total liabilities	503,195	411,270
Commitments and Contingencies		
Stockholders’ Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,923,286 shares issued at September 30, 2011 and 4,921,786 shares issued at December 31, 2010	9,847	9,844
Additional-paid-in capital	272	244
Retained earnings	37,766	37,623
Treasury stock at cost; 466,082 shares at September 30, 2011 and December 31, 2010	(3,823)	(3,823)
Accumulated other comprehensive loss	(1,467)	(2,163)
Total stockholders' equity	42,595	41,725
Total liabilities and stockholders' equity	$545,790	$452,995

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,	
	2011	2010	2011	2010
	(Dollars in thousands except per share data)			
Interest income				
Interest and fees on loans	$5,751	$5,375	$16,336	$15,973
Interest on debt securities:				
Taxable	193	176	513	556
Tax exempt	85	74	239	221
Dividends	2	1	7	1
Interest on federal funds sold and overnight deposits	9	7	25	15
Interest on interest bearing deposits in banks	78	95	230	327
Total interest income	6,118	5,728	17,350	17,093
Interest expense				
Interest on deposits	754	740	2,139	2,269
Interest on borrowed funds	262	290	840	853
Total interest expense	1,016	1,030	2,979	3,122
Net interest income	5,102	4,698	14,371	13,971
Provision for loan losses	150	200	450	380
Net interest income after provision for loan losses	4,952	4,498	13,921	13,591
Noninterest income				
Trust income	132	126	403	343
Service fees	1,153	1,020	3,206	3,004
Net gains on sales of investment securities available-for-sale	173	—	183	—
Net gains on sales of loans held for sale	483	334	990	601
Other income	71	76	278	248
Total noninterest income	2,012	1,556	5,060	4,196
Noninterest expenses				
Salaries and wages	2,100	1,682	5,722	4,839
Pension and employee benefits	790	699	2,386	2,133
Occupancy expense, net	276	225	827	701
Equipment expense	319	279	882	771
Branch acquisition expenses	62	—	407	—
Other expenses	1,598	1,252	4,510	3,847
Total noninterest expenses	5,145	4,137	14,734	12,291
Income before provision for income taxes	1,819	1,917	4,247	5,496
Provision for income taxes	392	457	761	1,291
Net income	$1,427	$1,460	$3,486	$4,205
Earnings per common share	$0.32	$0.33	$0.78	$0.94
Weighted average number of common shares outstanding	4,457,204	4,456,281	4,456,720	4,459,020
Dividends per common share	$0.25	$0.25	$0.75	$0.75

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2011 and 2010 (Unaudited)

	Common Stock						
	Shares, net of treasury	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total stockholders' equity
	(Dollars in thousands)						
Balances, December 31, 2010	4,455,704	$9,844	$244	$37,623	$(3,823)	$(2,163)	$41,725
Comprehensive income:							
Net income	—	—	—	3,486	—	—	3,486
Other comprehensive income, net of tax:							
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	—	—	—	—	—	601	601
Change in net unrealized loss on unfunded defined benefit plan liability, net of reclassification adjustment and tax effects	—	—	—	—	—	95	95
Total other comprehensive income						696	
Total comprehensive income				—	—	—	4,182
Issuance of common stock	1,500	3	23	—	—	—	26
Cash dividends declared ($0.75 per share)	—	—	—	(3,343)	—	—	(3,343)
Stock based compensation expense	—	—	5	—	—	—	5
Balances, September 30, 2011	4,457,204	$9,847	$272	$37,766	$(3,823)	$(1,467)	$42,595
Balances, December 31, 2009	4,461,208	$9,844	$219	$36,494	$(3,724)	$(1,653)	$41,180
Comprehensive income:							
Net income	—	—	—	4,205	—	—	4,205
Other comprehensive income, net of tax:							
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	—	—	—	—	—	458	458
Change in net unrealized loss on unfunded defined benefit pension plan liability, net of reclassification adjustment and tax effects	—	—	—	—	—	73	73
Total other comprehensive income						531	
Total comprehensive income							4,736

Cash dividends declared ($0.75 per share)	—	—	—	(3,344)	—	—	(3,344)
Stock based compensation expense	—	—	19	—	—	—	19
Purchase of treasury stock	(5,390)	—	—	—	(97)	—	(97)
Balances, September 30, 2010	4,455,818	$9,844	$238	$37,355	$(3,821)	$(1,122)	$42,494

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,	
	2011	2010
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$3,486	$4,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	506	485
Provision for loan losses	450	380
Deferred income tax provision	277	162
Net amortization of investment securities	39	11
Equity in losses of limited partnerships	367	319
Stock based compensation expense	5	19
Net increase in unamortized loan costs	(24)	(130)
Proceeds from sales of loans held for sale	51,257	40,164
Origination of loans held for sale	(48,898)	(33,954)
Net gains on sales of loans held for sale	(990)	(601)
Net losses on disposals of premises and equipment	1	6
Net gains on sale of investment securities available-for-sale	(183)	—
Net gains on sales of repossessed property	(4)	(2)
Write-downs of impaired assets	163	9
Net gains on sales of other real estate owned	(107)	(9)
Decrease in accrued interest receivable	129	184
Amortization of core deposit intangible	57	—
(Increase) decrease in other assets	(2,166)	910
Contribution to defined benefit pension plan	(1,250)	(454)
Increase in other liabilities	869	608
Net cash provided by operating activities	3,984	12,312
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	6,191	15,859
Purchases	(12,344)	(8,056)
Investment securities held-to-maturity		
Proceeds from maturities, calls and paydowns	1,000	500
Purchases	(5,500)	(2,000)
Investment securities available-for-sale		
Proceeds from sales	2,325	—
Proceeds from maturities, calls and paydowns	5,848	10,222
Purchases	(19,604)	(6,304)
Net increase in loans	(15,027)	(14,320)
Recoveries of loans charged off	37	43
Purchases of premises and equipment	(1,100)	(702)
Investments in limited partnerships	(1,157)	(179)
Proceeds from sales of other real estate owned	438	394
Proceeds from sales of repossessed property	4	20
Cash acquired, net of cash paid, in branch acquisitions	29,607	—

Net cash used by investing activities	(9,282)	(4,523)

Cash Flows From Financing Activities		
Repayment of long-term debt	(4,423)	(980)
Net decrease in short-term borrowings outstanding	(1,770)	(5,119)
Net increase (decrease) in noninterest bearing deposits	7,443	(3,024)
Net increase in interest bearing deposits	25,398	16,924
Net decrease in time deposits	(1,767)	(5,727)
Issuance of common stock	26	—
Purchase of treasury stock	—	(97)
Dividends paid	(3,343)	(3,344)
Net cash provided (used) by financing activities	21,564	(1,367)
Net increase in cash and cash equivalents	16,266	6,422
Cash and cash equivalents		
Beginning of period	14,292	22,132
End of period	$30,558	$28,554
Supplemental Disclosures of Cash Flow Information		
Interest paid	$3,087	$3,352
Income taxes paid	$650	$1,305
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$57	$914
Other assets acquired in settlement of loans	$—	$19
Loans originated to finance the sale of other real estate owned	$497	$320
Investment in limited partnerships acquired by capital contributions payable	$407	$—
Assets acquired and liabilities assumed in branch acquisitions (Note 5):		
Loans and other non-cash assets, excluding goodwill and core deposit intangible	$33,624	$—
Deposits and other liabilities	$67,162	$—

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, 2011, and for the three and nine months ended September 30, 2011 and 2010, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, general practices within the banking industry, and the accounting policies described in the Company’s Annual Report to Shareholders and Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of 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 2010 Annual Report to Shareholders and 2010 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, 2011, or any other interim period.

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

Intangible assets, included in the Company's unaudited interim consolidated financial statements, include the excess of the purchase price over the fair value of net assets acquired, goodwill, in the acquisition of three New Hampshire branch offices, as well as a core deposit intangible related to the deposits acquired (see Note 5). The core deposit intangible is amortized on a straight line basis over the estimated average life of the core deposit base of 10 years. The Company evaluates the valuation and amortization of the core deposit intangible asset if events occur that could result in possible impairment. Goodwill is evaluated for impairment at least annually, or more frequently as events or circumstances warrant.

Note 2. Commitments and 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 available outstanding stock options does not result in material dilution and is not included in the calculation.

Note 4. Recent Accounting Pronouncements
In January 2010, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements, to amend the disclosure requirements and clarify existing requirements related to recurring and nonrecurring fair value measurements and employers’ disclosures about postretirement benefit plan assets. The guidance requires new disclosures regarding transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities, separately reporting purchases, sales, issuance, and settlements, for assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The new disclosure requirements apply to interim and annual reporting periods beginning after December 15, 2009, except for the new rules regarding purchases, sales, issuances and settlements associated with Level 3 measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Other than requiring additional disclosures, adoption of this accounting standard did not have a material effect on the Company’s consolidated financial statements. See Note 11.

In January 2011, the FASB issued an ASU, Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring, for public-entity creditors to temporarily delay the effective date of the disclosures about troubled debt restructurings to allow time for FASB to complete its deliberations of what constitutes a troubled debt restructuring. The Company adopted the required portions of the accounting standard as of December 31, 2010 with no material impact on the Company's consolidated financial statements. In April 2011, the FASB issued an ASU, A Creditor's

Determination of Whether a Restructuring is a Troubled Debt Restructuring, which provides companies new criteria for determining whether a particular loan modification represents a troubled debt restructuring for accounting purposes and it signals when a company should also record an impairment loss associated with the same loan. This new guidance was effective for quarterly and annual reports for periods beginning on or after June 15, 2011. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued an ASU, Reconsideration of Effective Controls for Repurchase Agreements, to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The update removes the transferor's ability criterion from the consideration of effective control for repurchase or other agreements. The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. Management has reviewed the ASU and does not believe that it will have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued an ASU, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRSs). The amendments in this update explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. Early application is not permitted. Management is currently reviewing the ASU but does not believe that it will have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued an ASU, Presentation of Comprehensive Income, to improve the comparability, consistency and transparency of financial reporting,to increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRSs. The ASU eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both formats, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and other comprehensive income are presented. The amendments in the ASU are to be applied retrospectively and are effective for annual and interim periods beginning after December 15, 2011. Management is currently reviewing the ASU to determine which of the two remaining formats will be used in the Company's future consolidated financial statements.

In September 2011, the FASB issued an ASU, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment, to address concerns about the cost and complexity of the required test to determine if goodwill is impaired, or inflated on the balance sheet and in need of a writedown. The ASU amends Topic 350 to permit an entity the option to first assess qualitative factors to determine whether it is more likely than not (50% threshold) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim periods have not yet been issued. Management has decided to adopt the ASU as of September 30, 2011. (See Note 5.)

Note 5. Branch Acquisitions

On May 27,2011, the Company's wholly-owned subsidiary, Union Bank ("Union") acquired three New Hampshire branch offices of Northway Bank ("Northway"). In the transaction, Union assumed deposit relationships, and acquired performing loans, branch cash, two banking facilities, and other assets as illustrated below, including one leased branch location. Union paid a 6% premium on assumed deposits, loans were acquired at par, and the banking facilities were purchased at the most recent tax assessed value. The acquisition allows Union to expand its New Hampshire community banking franchise into western Coos County and to expand its presence in northern Grafton County. The transaction was accounted for as a business combination under current regulatory guidelines.

The May 27, 2011 acquisition-date estimated fair values of assets acquired and liabilities assumed were as follows:

Assets:	(Dollars in thousands)
Cash	$29,607
Loans	32,910
Bank premises and equipment	517
Accrued interest receivable	197
Identified intangible asset	1,708
Goodwill	2,223
Liabilities:	
Deposits	(67,015)
Accrued interest and other liabilities	(147)

The purchase premium of $4.2 million was allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition. The fair value of the deposit accounts assumed was compared to the carrying amounts received and the difference of $1.7 million was recorded as core deposit intangible. The excess of the purchase premium over the fair value of the assets acquired, liabilities assumed, and the amount allocated for core deposit intangible was recorded as goodwill.

The loans acquired were recorded at fair value at the time of acquisition. The fair value of the loans acquired resulted in a loan premium of $545 thousand which is included in the loan balances above, less a non-accretable credit risk component of $318 thousand. The loan premium will be amortized as an adjustment to the related loan yield over the estimated average life of the loans.

Acquisition expenses incurred by the Company were approximately $62 thousand for the three months ended September 30, 2011 and $407 thousand for the nine months ended September 30, 2011. These expenses are included on the consolidated statements of income under the caption "Branch acquisition expenses." Management believes that substantially all of the acquisition expenses have been incurred and any additional expenses will not be material to the Company's results of operations.

The Company recorded goodwill of $2.2 million. The goodwill is not amortizable but is deductible for tax purposes. As discussed in the last paragraph of Note 4, 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 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 acquired identified intangible asset in the table above is the core deposit intangible which is subject to amortization over the estimated 10 year average life of the core deposit base. The amortization expense is included in other noninterest expense on the consolidated statement of income and is deductible for tax purposes.

Amortization expense for the core deposit intangible was $43 thousand for the three months ended September 30, 2011 and $57 thousand from the acquisition date to September 30, 2011. As of September 30, 2011, the remaining amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

	(Dollars in thousands)
2011	$43
2012	171
2013	171
2014	171
2015	171
Thereafter	924

Total	$1,651

Management will evaluate the core deposit intangible for impairment if conditions warrant.

The amounts of revenue and expenses related to the acquired branches since the May 27, 2011 acquisition date are included in the unaudited interim consolidated statement of income of the Company for the three and nine month periods ended September 30, 2011 as follows:

	For The Three Months Ended September 30, 2011	For The Nine Months Ended September 30, 2011
	(Dollars in thousands)	
Interest and fees on loans	$428	$596
Interest on deposits and borrowed funds	146	199
Net interest income	282	397
Provision for loan losses	—	—
Net interest income after provision for loan losses	282	397
Noninterest income	35	52
Noninterest expenses	348	757
Loss before income tax benefit	(31)	(308)
Income tax benefit	(11)	(105)
Net loss	$(20)	$(203)

Disclosure of the proforma revenue and earnings of the combined entity for the current and prior reporting periods as though the acquisition had occurred at the beginning of the prior annual reporting period is not considered practicable. Retrospective application to January 1, 2011 and January 1, 2010 requires assumptions about management's intent in prior periods that cannot be independently substantiated. It is impossible to objectively distinguish information about significant estimates of amounts that provide evidence of circumstances that existed on the dates at which those amounts would be recognized, measured, or disclosed under retrospective application and would have been available when the financial statements for that prior period were issued. The Company is unable to obtain certain information from the seller regarding transfer of deposits among branches and deposit activity since January 1, 2010. It is impracticable to estimate historical information.

Note 6. Investment Securities

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

September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$14,551	$91	$(6)	$14,636
Mortgage-backed	3,637	77	(1)	3,713
State and political subdivisions	11,502	916	(2)	12,416
Corporate	4,536	147	(1)	4,682
Total debt securities	34,226	1,231	(10)	35,447
Marketable equity securities	746	8	(54)	700
Mutual funds	119	—	—	119
Total	$35,091	$1,239	$(64)	$36,266
Held-to-maturity				
U.S. Government-sponsored enterprises	$5,000	$12	$(6)	$5,006

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale				
Debt securities:				
U.S. Government-sponsored enterprises	$4,521	$1	$(63)	$4,459
Mortgage-backed	4,735	87	(11)	4,811
State and political subdivisions	9,373	175	(155)	9,393
Corporate	4,737	274	(39)	4,972
Total debt securities	23,366	537	(268)	23,635
Marketable equity securities	50	1	(6)	45
Mutual funds	100	—	—	100
Total	$23,516	$538	$(274)	$23,780
Held-to-maturity				
U.S. Government-sponsored enterprises	$500	$2	$—	$502

Proceeds from the sale of securities available-for-sale were $1.7 million and $2.3 million for the three and nine months ended September 30, 2011, respectively. Gross realized gains from the sale of securities available-for-sale were $173 thousand and $184 thousand for the three and nine months ended September 30, 2011, respectively. Gross realized losses were zero and $1 thousand for the three and nine months ended September 30, 2011 There were no sales of securities available-for-sale for the nine months ended September 30, 2010. The specific identification method is used to determine realized gains and losses on sales of available-for-sale securities.

The amortized cost and estimated fair value of debt securities by contractual scheduled maturity as of September 30, 2011 were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale		
Due in one year or less	$1,251	$1,262
Due from one to five years	10,629	10,813
Due from five to ten years	9,932	10,297
Due after ten years	8,777	9,362
	30,589	31,734
Mortgage-backed securities	3,637	3,713
Total debt securities available-for-sale	$34,226	$35,447
Held-to-maturity		
Due from one to five years	$1,000	$1,006
Due from five to ten years	2,500	2,502
Due after ten years	1,500	1,498
Total debt securities held-to-maturity	$5,000	$5,006

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

Information pertaining to 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, 2011	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(Dollars in thousands)					
Debt securities:						
U.S. Government-sponsored enterprises	$5,489	$(12)	$—	$—	$5,489	$(12)
Mortgage-backed	386	(1)	—	—	386	(1)
State and political subdivisions	292	(2)	—	—	292	(2)
Corporate	504	(1)	—	—	504	(1)
Total debt securities	6,671	(16)	—	—	6,671	(16)
Marketable equity securities	572	(50)	10	(4)	582	(54)
Total	$7,243	$(66)	$10	$(4)	$7,253	$(70)

December 31, 2010	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(Dollars in thousands)					
Debt securities:						
U.S. Government-sponsored enterprises	$3,937	$(63)	$—	$—	$3,937	$(63)
Mortgage-backed	862	(11)	—	—	862	(11)
State and political subdivisions	4,314	(155)	—	—	4,314	(155)
Corporate	202	(39)	—	—	202	(39)
Total debt securities	9,315	(268)	—	—	9,315	(268)
Marketable equity securities	—	—	8	(6)	8	(6)
Total	$9,315	$(268)	$8	$(6)	$9,323	$(274)

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

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

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

- The length of time, and extent to which, the fair value has been less than the amortized cost;

- Adverse conditions specifically related to the security, industry, or geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security and the likelihood of the issuer being able to make payments that may increase in the future;

- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency;
- Recoveries or additional declines in fair value subsequent to the balance sheet date; and
- The nature of the issuer, including whether it is a private company, public entity or government-sponsored enterprise, and the existence or likelihood of any government or third party guaranty.

At September 30, 2011, held-to-maturity and available-for-sale securities, consisting of eight U.S. Government-sponsored enterprises, one agency collateralized mortgage obligation, one tax-exempt municipal security, one corporate bond and eight marketable equity securities had aggregate unrealized losses of $70 thousand. Only one marketable equity security has had an unrealized loss of greater than twelve months and the Company has the ability to hold such security for the foreseeable future. No declines were deemed by management to be other-than-temporary at September 30, 2011.

Investment securities with a carrying amount of $6.0 million and $1.5 million at September 30, 2011 and December 31, 2010, respectively, were pledged as collateral for public deposits and for other purposes as required or permitted by law.

Note 7. Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their unpaid principal balances, adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Loan interest income is accrued daily on outstanding balances. The accrual of interest is discontinued when a loan is specifically determined to be impaired and/or management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Normally, any unpaid interest previously accrued on those loans is reversed against 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 placed back in accrual status or after all principal has been collected. Interest income generally is not recognized on impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Delinquency status is determined based on contractual terms.

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 acquired in the May 27, 2011 branch acquisition (see Note 5) were recorded at fair value at the time of acquisition. The net carrying amount of the acquired loans included in the September 30, 2011 loan balances below total $30.0 million. The fair value adjustment is being amortized as an adjustment to the related loan yield over the estimated average life of the loans.

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Residential real estate	$143,304	$132,533
Construction real estate	30,006	18,578
Commercial real estate	182,368	167,056
Commercial	22,806	20,604
Consumer	6,129	6,046
Municipal loans	39,997	31,455
Gross loans	424,610	376,272
Allowance for loan losses	(4,186)	(3,755)
Net deferred loan costs	212	188
Net loans	$420,636	$372,705

Residential real estate loans aggregating $12.9 million and $9.6 million at September 30, 2011 and December 31, 2010, respectively, were pledged as collateral on deposits of municipalities. Qualified first mortgages held by Union may also be pledged as collateral for borrowings from the Federal Home Loan Bank (FHLB) of Boston under a blanket lien.

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

September 30, 2011	Current	30-89 Days	Over 90 Days and accruing	Nonaccrual	Total
	(Dollars in thousands)				
Residential real estate	$138,260	$1,574	$435	$3,035	$143,304
Construction real estate	29,598	315	—	93	30,006
Commercial real estate	179,427	718	591	1,632	182,368
Commercial	22,488	176	32	110	22,806
Consumer	5,974	83	—	72	6,129
Municipal	39,997	—	—	—	39,997
Total	$415,744	$2,866	$1,058	$4,942	$424,610

December 31, 2010	Current	30-89 Days	Over 90 Days and accruing	Nonaccrual	Total
	(Dollars in thousands)				
Residential real estate	$123,573	$6,446	$587	$1,927	$132,533
Construction real estate	18,369	116	45	48	18,578
Commercial real estate	163,524	2,729	173	630	167,056
Commercial	20,295	161	—	148	20,604
Consumer	5,953	53	1	39	6,046
Municipal	31,455	—	—	—	31,455
Total	$363,169	$9,505	$806	$2,792	$376,272

Aggregate interest on nonaccrual loans not recognized was $909 thousand and $727 thousand as of September 30, 2011 and 2010, respectively, and $677 thousand as of December 31, 2010.

Note 8. Allowance for Loan Losses and Credit Quality

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

The allowance for loan losses 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 allowance 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. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses 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 allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

The allowance consists of specific, general and unallocated components. The specific component relates to the loans that are classified as either monitor, substandard or special mention. For such loans, the level of allowance allocable to those loans is determined through estimating probable loss for each individual credit based on its specific risk attributes. Loans are also 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 also include troubled loans that are restructured. A troubled debt restructuring 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. Troubled debt restructuring may include 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 or procedures, reduction of face amount of loan, reduction of accrued interest, and reduction or deferment of cash payments in the near future), or a combination of both. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, residential 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. A specific reserve amount is allocated to the allowance for individual loans that have been classified as impaired 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 general component represents the level of allowance allocable to each loan portfolio category with similar risk characteristics and is determined based on historical loss experience, adjusted for qualitative factors, for each class of loan. Qualitative factors considered include underwriting, economic and market conditions, portfolio composition, collateral values, delinquencies, lender experience and legal issues. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance 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 Allowance for loan losses is general in nature and is available to absorb losses from any loan type.

As described in Note 5, the $32.9 million of loans purchased in the branch acquisitions on May 27, 2011 were recorded at their estimated fair value as of such date and, consequently, there was no related adjustment to the allowance for loan losses with respect to the acquired loans at September 30, 2011.

Changes in the Allowance for loan losses, by class of loans, for the three and nine months ended September 30, 2011 were as follows:

For The Three Months Ended September 30, 2011	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer, Municipal and Unallocated	Total
	(Dollars in thousands)					
Balance, June 30, 2011	$1,135	$295	$2,238	$289	$103	$4,060
Provision (credit) for loan losses	79	116	(66)	1	20	150
Recoveries of amounts charged off	2	—	—	5	2	9
	1,216	411	2,172	295	125	4,219
Amounts charged off	(7)	(17)	—	(2)	(7)	(33)
Balance, September 30, 2011	$1,209	$394	$2,172	$293	$118	$4,186

For The Nine Months Ended September 30, 2011	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer, Municipal and Unallocated	Total
	(Dollars in thousands)					
Balance, December 31, 2010	$1,033	$240	$2,117	$250	$115	$3,755
Provision for loan losses	189	171	55	35	—	450
Recoveries of amounts charged off	3	—	—	10	24	37
	1,225	411	2,172	295	139	4,242
Amounts charged off	(16)	(17)	—	(2)	(21)	(56)
Balance, September 30, 2011	$1,209	$394	$2,172	$293	$118	$4,186

Changes in the Allowance for loan losses for the three and nine months ended September 30, 2010 were summarized as follows:

	For the Three Months Ended September 30, 2010	For The Nine Months Ended September 30, 2010
	(Dollars in thousands)	
Balance at beginning of period	$3,511	$3,493
Provision for loan losses	200	380
Recoveries of amounts charged off	10	43
	3,721	3,916
Amounts charged off	(24)	(219)
Balance, September 30, 2010	$3,697	$3,697

The allocation of the Allowance for loan losses, summarized on the basis of the Company's impairment methodology by class of loan, as of the balance sheet dates was as follows:

September 30, 2011	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer, Municipal and Unallocated	Total
	(Dollars in thousands)					
Individually evaluated for impairment	$320	$14	$348	$59	$11	$752
Collectively evaluated for impairment	889	380	1,824	234	107	3,434
Total allocated	$1,209	$394	$2,172	$293	$118	$4,186

December 31, 2010	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer, Municipal and Unallocated	Total
	(Dollars in thousands)					
Individually evaluated for impairment	$199	$12	$295	$39	$20	$565
Collectively evaluated for impairment	834	228	1,822	211	95	3,190
Total allocated	$1,033	$240	$2,117	$250	$115	$3,755

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 was as follows:
September 30, 2011