UNION BANKSHARES INC
Form 10-Q
November 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: September 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 November 1, 2015:

Common Stock, $2 par value	4,457,227 shares

UNION BANKSHARES, INC.
TABLE OF CONTENTS

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

	September 30, 2015 (Unaudited)	December 31, 2014
	(Dollars in thousands)	
Assets		
Cash and due from banks	$4,498	$4,822
Federal funds sold and overnight deposits	9,186	36,922
Cash and cash equivalents	13,684	41,744
Interest bearing deposits in banks	12,753	12,252
Investment securities available-for-sale	50,964	45,749
Investment securities held-to-maturity (fair value $5.2 million and $7.1 million at September 30, 2015 and December 31, 2014, respectively)	5,217	7,215
Loans held for sale	7,256	10,743
Loans	497,899	479,978
Allowance for loan losses	(5,044)	(4,694)
Net deferred loan costs	491	355
Net loans	493,346	475,639
Accrued interest receivable	1,888	1,854
Premises and equipment, net	12,860	11,853
Core deposit intangible	968	1,096
Goodwill	2,223	2,223
Investment in real estate limited partnerships	2,491	2,824
Company-owned life insurance	8,729	3,517
Other assets	7,887	7,354
Total assets	$620,266	$624,063
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	$103,614	$90,385
Interest bearing	308,946	302,722
Time	131,325	158,957
Total deposits	543,885	552,064
Borrowed funds	17,421	15,118
Accrued interest and other liabilities	5,142	5,447
Total liabilities	566,448	572,629
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $2.00 par value; 7,500,000 shares authorized; 4,931,796 shares issued at September 30, 2015 and 4,929,296 shares issued at December 31, 2014	9,864	9,859
Additional paid-in capital	495	418
Retained earnings	48,801	46,462
Treasury stock at cost; 474,504 shares at September 30, 2015 and 470,866 shares at December 31, 2014	(4,016)	(3,925)
Accumulated other comprehensive loss	(1,326)	(1,380)
Total stockholders' equity	53,818	51,434
Total liabilities and stockholders' equity	$620,266	$624,063

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,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Interest and dividend income				
Interest and fees on loans	$5,962	$5,900	$17,553	$17,490
Interest on debt securities:				
Taxable	242	196	714	607
Tax exempt	109	96	322	268
Dividends	16	24	40	55
Interest on federal funds sold and overnight deposits	1	6	13	14
Interest on interest bearing deposits in banks	43	36	124	120
Total interest and dividend income	6,373	6,258	18,766	18,554
Interest expense				
Interest on deposits	375	424	1,285	1,317
Interest on borrowed funds	86	104	262	317
Total interest expense	461	528	1,547	1,634
Net interest income	5,912	5,730	17,219	16,920
Provision for loan losses	150	150	400	300
Net interest income after provision for loan losses	5,762	5,580	16,819	16,620
Noninterest income				
Trust income	171	183	538	549
Service fees	1,439	1,424	4,133	3,981
Net gains on sales of investment securities available-for-sale	41	234	41	296
Net gains on sales of loans held for sale	700	653	2,214	1,594
Other income	182	215	468	368
Total noninterest income	2,533	2,709	7,394	6,788
Noninterest expenses				
Salaries and wages	2,426	2,253	7,080	6,694
Pension and employee benefits	739	692	2,242	2,062
Occupancy expense, net	293	272	986	906
Equipment expense	479	436	1,346	1,233
Other expenses	1,737	1,899	4,966	5,122
Total noninterest expenses	5,674	5,552	16,620	16,017
Income before provision for income taxes	2,621	2,737	7,593	7,391
Provision for income taxes	571	611	1,642	1,582
Net income	$2,050	$2,126	$5,951	$5,809
Earnings per common share	$0.45	$0.47	$1.33	$1.30
Weighted average number of common shares outstanding	4,458,345	4,458,422	4,458,323	4,458,380
Dividends per common share	$0.27	$0.26	$0.81	$0.78

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,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income	$2,050	$2,126	$5,951	$5,809
Other comprehensive income (loss), net of tax:				
Investment securities available-for-sale:				
Net unrealized holding gains (losses) arising during the period on investment securities available-for-sale	299	(35)	81	707
Reclassification adjustment for net gains on sales of investment securities available-for-sale realized in net income	(27)	(154)	(27)	(195)
Total other comprehensive income (loss)	272	(189)	54	512
Total comprehensive income	$2,322	$1,937	$6,005	$6,321

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2015 and 2014 (Unaudited)

	Common Stock						
	Shares, net of treasury	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income	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	—	—	—	5,951	—	—	5,951
Other comprehensive income	—	—	—	—	—	54	54
Cash dividends declared ($0.81 per share)	—	—	—	(3,612)	—	—	(3,612)
Stock based compensation expense	—	—	29	—	—	—	29
Exercise of stock options	2,500	5	48	—	—	—	53
Purchase of treasury stock	(3,638)	—	—	—	(91)	—	(91)
Balances, September 30, 2015	4,457,292	$9,864	$495	$48,801	$(4,016)	$(1,326)	$53,818
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

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,	
	2015	2014
	(Dollars in thousands)	
Cash Flows From Operating Activities		
Net income	$5,951	$5,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	785	708
Provision for loan losses	400	300
Deferred income tax provision (credit)	93	(24)
Net amortization of investment securities	151	67
Equity in losses of limited partnerships	365	492
Stock based compensation expense	29	16
Net increase in unamortized loan costs	(136)	(125)
Proceeds from sales of loans held for sale	104,642	74,327
Origination of loans held for sale	(98,941)	(74,958)
Net gains on sales of loans held for sale	(2,214)	(1,594)
Net loss on disposals of premises and equipment	6	19
Net gains on sales of investment securities available-for-sale	(41)	(296)
Write-downs of impaired assets	29	—
Net gains on sales of other real estate owned	(28)	(134)
Increase in accrued interest receivable	(34)	(160)
Amortization of core deposit intangible	129	129
Increase in other assets	(1,105)	(61)
Decrease in other liabilities	(305)	(37)
Net cash provided by operating activities	9,776	4,478
Cash Flows From Investing Activities		
Interest bearing deposits in banks		
Proceeds from maturities and redemptions	2,832	8,622
Purchases	(3,333)	(3,121)
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	11,040	7,323
Proceeds from maturities, calls and paydowns	5,203	3,847
Purchases	(21,487)	(19,664)
Net increase in loans	(18,074)	(20,276)
Recoveries of loans charged off	44	30
Purchases of premises and equipment	(1,798)	(1,203)
Purchase of company-owned life insurance	(5,000)	—
Investments in limited partnerships	(32)	—
Proceeds from sales of other real estate owned	295	536
Net cash used in investing activities	(28,310)	(22,335)

Cash Flows From Financing Activities		
Repayment of long-term debt	(219)	(3,517)
Net increase in short-term borrowings outstanding	2,522	5,241
Net increase in noninterest bearing deposits	13,229	7,357
Net increase in interest bearing deposits	6,224	27,830
Net decrease in time deposits	(27,632)	(22,503)
Issuance of common stock	53	39
Purchase of treasury stock	(91)	(45)
Dividends paid	(3,612)	(3,479)
Net cash (used in) provided by financing activities	(9,526)	10,923
Net decrease in cash and cash equivalents	(28,060)	(6,934)
Cash and cash equivalents		
Beginning of period	41,744	30,719
End of period	$13,684	$23,785
Supplemental Disclosures of Cash Flow Information		
Interest paid	$1,679	$1,735
Income taxes paid	$1,460	$1,170
Supplemental Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$59	$464
Loans originated to finance the sale of other real estate owned	$—	$300

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 September 30, 2015, and for the three and nine months ended September 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 September 30, 2015 and 2014 and was $129 thousand for the nine months ended September 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 September 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	$43
2016	171
2017	171
2018	171
2019	171
Thereafter	241
Total	$968

Note 6. Investment Securities

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

September 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	$11,885	$46	$(66)	$11,865
Agency mortgage-backed	7,361	111	(6)	7,466
State and political subdivisions	18,238	378	(36)	18,580
Corporate	12,757	94	(148)	12,703
Total debt securities	50,241	629	(256)	50,614
Mutual funds	350	—	—	350
Total	$50,591	$629	$(256)	$50,964
Held-to-maturity				
U.S. Government-sponsored enterprises	$5,217	$3	$(43)	$5,177

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

Proceeds from the sale of AFS securities were $11.0 million for both the three and nine months ended September 30, 2015. Gross realized gains from the sale of AFS securities were $54 thousand, while gross realized losses were $13 thousand for both the three and nine months ended September 30, 2015. 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. 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, 2015 were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Available-for-sale		
Due in one year or less	$359	$364
Due from one to five years	2,661	2,700
Due from five to ten years	25,478	25,689
Due after ten years	14,382	14,395
	42,880	43,148
Agency mortgage-backed	7,361	7,466
Total debt securities available-for-sale	$50,241	$50,614
Held-to-maturity		
Due from one to five years	$998	$1,000
Due from five to ten years	1,000	1,001
Due after ten years	3,219	3,176
Total debt securities held-to-maturity	$5,217	$5,177

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, 2015	Less Than 12 Months			12 Months and over			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
		(Dollars in thousands)							
Debt securities:									
U.S. Government-sponsored enterprises	6	$4,948	$(63)	5	$3,669	$(46)	11	$8,617	$(109)
Agency mortgage-backed	1	515	(3)	1	276	(3)	2	791	(6)
State and political subdivisions	9	3,236	(31)	1	354	(5)	10	3,590	(36)
Corporate	12	5,958	(90)	4	1,657	(58)	16	7,615	(148)
Total	28	$14,657	$(187)	11	$5,956	$(112)	39	$20,613	$(299)

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

Investment securities with a carrying amount of $5.1 million and $6.5 million at September 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 September 30,		For The Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance at beginning of period	$256	$334	$292	$374
Loan premium amortization	(26)	(18)	(62)	(58)
Balance at end of period	$230	$316	$230	$316

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 $230 thousand at September 30, 2015 and $292 thousand at December 31, 2014. The balance of the nonaccretable credit risk component was $193 thousand at September 30, 2015 and December 31, 2014. The net carrying amounts of the acquired loans were $7.7 million and $9.1 million at September 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:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Residential real estate	$166,597	$165,475
Construction real estate	37,293	37,258
Commercial real estate	220,017	211,710
Commercial	22,570	20,620
Consumer	4,242	4,435
Municipal	47,180	40,480
Gross loans	497,899	479,978
Allowance for loan losses	(5,044)	(4,694)
Net deferred loan costs	491	355
Net loans	$493,346	$475,639

Residential real estate loans aggregating $20.5 million and $37.8 million at September 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:

September 30, 2015	Current	30-59 Days	60-89 Days	90 Days and Over and Accruing	Nonaccrual	Total
	(Dollars in thousands)					
Residential real estate	$162,684	$146	$1,689	$353	$1,725	$166,597
Construction real estate	37,254	10	—	—	29	37,293
Commercial real estate	219,052	—	324	119	522	220,017
Commercial	22,193	321	19	—	37	22,570
Consumer	4,236	4	2	—	—	4,242
Municipal	47,180	—	—	—	—	47,180
Total	$492,599	$481	$2,034	$472	$2,313	$497,899

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 $171 thousand in process of foreclosure at September 30, 2015. Aggregate interest on nonaccrual loans not recognized was $1.2 million and $1.0 million as of September 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 third 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 nine months ended September 30, 2015 and 2014 were as follows:

For The Three Months Ended September 30, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Balance, June 30, 2015	$1,322	$397	$2,819	$192	$26	$25	$138	$4,919
Provision (credit) for loan losses	62	84	(80)	21	(1)	24	40	150
Recoveries of amounts charged off	10	3	—	6	—	—	—	19
	1,394	484	2,739	219	25	49	178	5,088
Amounts charged off	(28)	—	—	(16)	—	—	—	(44)
Balance, September 30, 2015	$1,366	$484	$2,739	$203	$25	$49	$178	$5,044

For The Three Months Ended September 30, 2014	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Balance, June 30, 2014	$1,258	$389	$2,597	$206	$22	$18	$120	$4,610
Provision (credit) for loan losses	91	44	(136)	(18)	—	34	135	150
Recoveries of amounts charged off	—	3	—	5	2	—	—	10
	1,349	436	2,461	193	24	52	255	4,770
Amounts charged off	(10)	—	—	—	(2)	—	—	(12)
Balance, September 30, 2014	$1,339	$436	$2,461	$193	$22	$52	$255	$4,758

For The Nine Months Ended September 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	77	20	322	50	9	7	(85)	400
Recoveries of amounts charged off	10	25	—	6	3	—	—	44
	1,417	484	2,739	232	39	49	178	5,138
Amounts charged off	(51)	—	—	(29)	(14)	—	—	(94)
Balance, September 30, 2015	$1,366	$484	$2,739	$203	$25	$49	$178	$5,044

For The Nine Months Ended September 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	151	37	(41)	23	(1)	17	114	300
Recoveries of amounts charged off	2	9	—	7	12	—	—	30
	1,404	436	2,603	193	34	52	255	4,977

Amounts charged off	(65)	—	(142)	—	(12)	—	—	(219)
Balance, September 30, 2014	$1,339	$436	$2,461	$193	$22	$52	$255	$4,758

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:

September 30, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Unallocated	Total
	(Dollars in thousands)							
Individually evaluated for impairment	$63	$2	$320	$—	$—	$—	$—	$385
Collectively evaluated for impairment	1,303	482	2,419	203	25	49	178	4,659
Total allocated	$1,366	$484	$2,739	$203	$25	$49	$178	$5,044

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

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

September 30, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
	(Dollars in thousands)						
Individually evaluated for impairment	$1,185	$93	$3,815	$—	$—	$—	$5,093
Collectively evaluated for impairment	161,106	37,200	212,833	22,570	4,242	47,180	485,131
	162,291	37,293	216,648	22,570	4,242	47,180	490,224
Acquired loans	4,306	—	3,369	—	—	—	7,675
Total	$166,597	$37,293	$220,017	$22,570	$4,242	$47,180	$497,899

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

September 30, 2015	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Commercial	Consumer	Municipal	Total
	(Dollars in thousands)						
Pass	$148,904	$31,668	$159,569	$20,519	$4,181	$47,180	$412,021
Satisfactory/Monitor	10,402	5,460	51,249	1,852	60	—	69,023
Substandard	2,985	165	5,830	199	1	—	9,180
Total	162,291	37,293	216,648	22,570	4,242	47,180	490,224
Acquired loans	4,306	—	3,369	—	—	—	7,675
Total	$166,597	$37,293	$220,017	$22,570	$4,242	$47,180	$497,899

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 September 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 nine months ended September 30, 2015:

	As of September 30, 2015			For The Three Months Ended September 30, 2015		For The Nine Months Ended September 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	$521	$529	$63				
Construction real estate	93	93	2				
Commercial real estate	2,373	2,390	320				
	2,987	3,012	385				
With no allowance recorded:							
Residential real estate	664	817	—				
Commercial real estate	1,442	1,502	—				
	2,106	2,319	—				
Total:							
Residential real estate	1,185	1,346	63	$935	$10	$878	$24
Construction real estate	93	93	2	94	1	179	18
Commercial real estate	3,815	3,892	320	3,947	46	3,630	151
Commercial	—	—	—	—	—	31	—
Total	$5,093	$5,331	$385	$4,976	$57	$4,718	$193

(1) Does not reflect government guaranties on impaired loans as of September 30, 2015 totaling $238 thousand.

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

	As of September 30, 2014			For The Three Months Ended September 30, 2014		For The Nine Months Ended September 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	$960	$1,152	$71	$802	$3	$769	$13
Construction real estate	298	321	—	300	3	324	11
Commercial real estate	3,405	3,459	139	3,816	70	4,021	157
Commercial	93	93	—	96	2	102	6
Total	$4,756	$5,025	$210	$5,014	$78	$5,216	$187

(1) Does not reflect government guaranties on impaired loans as of September 30, 2014 totaling $244 thousand.

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:

	September 30, 2015		December 31, 2014	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Residential real estate	10	$1,185	5	$704
Construction real estate	1	93	3	276
Commercial real estate	5	962	3	711
Total	16	$2,240	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 nine months ended September 30, 2015:

	New TDRs During the Three Months Ended September 30, 2015			New TDRs During the Nine Months Ended September 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)					
Residential real estate	5	$ 504	$ 511	5	$ 504	$ 511
Commercial real estate	—	—	—	2	281	281

The following table provides new TDR activity for the three and nine months ended September 30, 2014:

	New TDRs During the Three Months Ended September 30, 2014			New TDRs During the Nine Months Ended September 30, 2014		
	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)					
Residential real estate	1	$ 325	$ 325	1	$ 325	$ 325
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 nine month periods ended September 30, 2015 or September 30, 2014. TDR loans are considered defaulted at 90 days past due.

At September 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 nine months ended September 30 consisted of the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Service cost	$—	$—	$—	$—
Interest cost on projected benefit obligation	170	189	510	575
Expected return on plan assets	(286)	(298)	(858)	(902)
Amortization of prior service cost	—	—	—	—
Amortization of net loss	14	—	42	—

Net periodic benefit	$(102)	$(109)	$(306)	$(327)

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:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Net unrealized gain on investment securities available-for-sale	$246	$192
Defined benefit pension plan net unrealized actuarial loss	(1,572)	(1,572)
Total	$(1,326)	$(1,380)

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

	Three Months Ended September 30, 2015			September 30, 2014		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit	Net-of-Tax Amount
	(Dollars in thousands)					
Investment securities available-for-sale:						
Net unrealized holding gains (losses) arising during the period on investment securities available-for-sale	$453	$(154)	$ 299	$(53)	$18	$ (35)
Reclassification adjustment for net gains on investment securities available-for-sale realized in net income	(41)	14	(27)	(234)	80	(154)
Total other comprehensive income (loss)	$412	$(140)	$ 272	$(287)	$98	$ (189)

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

	Nine Months Ended September 30, 2015			September 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 gains arising during the period on investment securities available-for-sale	$122	$(41)	$ 81	$1,071	$(364)	$ 707
Reclassification adjustment for net gains on investment securities available-for-sale realized in net income	(41)	14	(27)	(296)	101	(195)
Total other comprehensive income	$81	$(27)	$ 54	$775	$(263)	$ 512

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

Reclassification Adjustment Description	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 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	$(41)	$ (234)	$(41)	$ (296)	Net gains on sales of investment securities available-for-sale
Tax benefit	14	80	14	101	Provision for income taxes
Total reclassifications	$(27)	$ (154)	$(27)	$ (195)	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 September 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)			
September 30, 2015:				
Investment securities available-for-sale (market approach)				
Debt securities:				
U.S. Government-sponsored enterprises	$11,865	$—	$11,865	$—
Agency mortgage-backed	7,466	—	7,466	—
State and political subdivisions	18,580	—	18,580	—
Corporate	12,703	—	12,703	—
Total debt securities	50,614	—	50,614	—
Mutual funds	350	350	—	—
Total	$50,964	$350	$50,614	$—
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 nine months ended September 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 September 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:

	September 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	$13,684	$13,684	$13,684	$—	$—
Interest bearing deposits in banks	12,753	12,771	—	12,771	—
Investment securities	56,181	56,141	350	55,791	—
Loans held for sale	7,256	7,436	—	7,436	—
Loans, net					
Residential real estate	165,395	167,257	—	—	167,257
Construction real estate	36,846	36,638	—	—	36,638
Commercial real estate	217,317	220,990	—	—	220,990
Commercial	22,389	21,496	—	—	21,496
Consumer	4,221	4,746	—	—	4,746
Municipal	47,178	47,952	—	—	47,952
Accrued interest receivable	1,888	1,888	—	394	1,494
Nonmarketable equity securities	2,053	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits					
Noninterest bearing	$103,614	$103,614	$103,614	$—	$—
Interest bearing	308,946	308,947	—	308,947	—
Time	131,325	131,506	—	131,506	—
Borrowed funds					
Short-term	11,404	11,403	11,403	—	—
Long-term	6,017	6,441	—	6,441	—
Accrued interest payable	172	172	—	172	—

	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	36,876	—	—	36,876
Commercial real estate	209,187	214,184	—	—	214,184
Commercial	20,459	19,859	—	—	19,859
Consumer	4,411	4,379	—	—	4,379
Municipal	40,468	39,743	—	—	39,743
Accrued interest receivable	1,854	1,854	—	312	1,542
Nonmarketable equity securities	2,053	N/A	N/A	N/A	N/A
Financial liabilities					
Deposits					
Noninterest bearing	$90,385	$90,385	$90,385	$—	$—
Interest bearing	302,722	302,723	—	302,723	—
Time	158,957	159,104	—	159,104	—
Borrowed funds					
Short-term	6,882	6,882	6,882	—	—
Long-term	8,236	8,773	—	8,773	—
Accrued interest payable	304	304	—	304	—

The carrying amounts in the preceding tables are included in the consolidated balance sheets under the applicable captions.

Note 12. Subsequent Events

Subsequent events represent events or transactions occurring after the balance sheet date but before the financial statements are issued. Financial statements are considered “issued” when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP. Events occurring subsequent to September 30, 2015 have been evaluated as to their potential impact to the consolidated financial statements.

On October 21, 2015, the Company declared a regular quarterly cash dividend of $0.27 per share, payable November 9, 2015, to stockholders of record on October 31, 2015.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion and analysis focuses on those factors that, in management's view, had a material effect on the financial position of the Company as of September 30, 2015 and December 31, 2014, and its results of operations for the three and nine months ended September 30, 2015 and 2014. This discussion is being presented to provide a narrative explanation of the consolidated financial statements and should be read in conjunction with the consolidated financial statements and related notes and with other financial data appearing elsewhere in this filing and with the Company's Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of the Company's management, the interim unaudited data reflects all adjustments, consisting only of normal recurring adjustments and disclosures necessary to fairly present the Company's consolidated financial position and results of operations for the interim periods presented. Management is not aware of the occurrence of any events after September 30, 2015 which would materially affect the information presented.

Please refer to Note 1 in the Company's unaudited interim consolidated financial statements at Part I, Item 1 of this Report for definitions of acronyms, abbreviations and capitalized terms used throughout the following discussion and analysis.

CAUTIONARY ADVICE ABOUT FORWARD LOOKING STATEMENTS

The Company may from time to time make written or oral statements that are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include financial projections, statements of plans and objectives for future operations, estimates of future economic performance or conditions and assumptions relating thereto. The Company may include forward-looking statements in its filings with the SEC, in its reports to stockholders, including this quarterly report, in press releases, other written materials, and in statements made by senior management to analysts, rating agencies, institutional investors, representatives of the media and others.

Forward-looking statements reflect management's current expectations and are subject to uncertainties, both general and specific, and risk exists that actual results will differ from those predictions, forecasts, projections and other estimates contained in forward-looking statements. These risks cannot be readily quantified. When management uses any of the words “believes,” “expects,” “anticipates,” “intends,” "projects," “plans,” “seeks,” “estimates,” "targets," "goals," “n "might," “could,” “would,” “should,” or similar expressions, they are making forward-looking statements. Many possible events or factors, including those beyond the control of management, could affect the future financial results and performance of the Company.

Factors that may cause results or performance to differ materially from those expressed in forward-looking statements include, but are not limited to: (1) continuing general economic conditions and financial instability, either nationally, internationally, regionally or locally resulting from elevated unemployment rates, changes in monetary and fiscal policies, and adverse changes in the credit rating of U.S. government debt; (2) increased competitive pressures from tax-advantaged credit unions and other financial service providers in the Company's northern Vermont and New Hampshire market area or in the financial services industry generally, from increasing consolidation and integration of financial service providers, and from changes in technology and delivery systems; (3) interest rates change in such a way that continues to put pressure on the Company's margins, or result in lower fee income and lower gain on sale of real estate loans; (4) changes in laws or government rules, or the way in which courts or government agencies interpret or implement those laws or rules, that increase our costs of doing business or otherwise adversely affect the Company's business; (5) changes in federal or state tax policy; (6) the effect of federal and state health care reform efforts; (7) changes in the level of nonperforming assets and charge-offs; (8) changes in estimates of future reserve requirements based upon relevant regulatory and accounting requirements; (9) changes in information technology that require increased capital spending; (10) changes in consumer and business spending, borrowing and savings habits; (11) further changes to the regulations governing the calculation of the Company’s regulatory capital ratios; (12) the effect of and changes in the United States monetary and fiscal policies, including interest rate policies and regulation of the money supply by the FRB; (13) increased cyber security threats; and (14) the effect of national and state election results.

When evaluating forward-looking statements to make decisions with respect to the Company, investors and others are cautioned to consider these and other risks and uncertainties, and are reminded not to place undue reliance on such statements. Investors should not consider the foregoing list of factors to be a complete list of risks or uncertainties. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update them to reflect new or changed information or events, except as may be required by federal securities laws.

Non-GAAP Financial Measures

Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company’s reasons for utilizing the non-GAAP financial measure. The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. However, two non-GAAP financial measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest margin (as presented in the tables in the section labeled Yields Earned and Rates Paid), have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G. Management believes that these non-GAAP financial measures are useful in evaluating the Company’s financial performance and facilitate comparisons with the performance of other financial institutions. However, that information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

CRITICAL ACCOUNTING POLICIES

The Company has established various accounting policies which govern the application of GAAP in the preparation of the Company's consolidated financial statements. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the reported amount of assets, liabilities, capital, revenues and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require management to make its most difficult and subjective judgments, often as a result of the need to make estimates on matters that are inherently uncertain. Based on this definition, management has identified the accounting policies and judgments most critical to the Company. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from estimates and have a material impact on the carrying value of assets, liabilities, or capital, and/or the results of operations of the Company.

Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for a more in-depth discussion of the Company's critical accounting policies. There have been no changes to the Company's critical accounting policies since the filing of that report.

OVERVIEW

The Company's net income was $2.05 million for the quarter ended September 30, 2015 compared to $2.13 million for the quarter ended September 30, 2014, a decrease of $76 thousand, or 3.6%. These results reflected a decrease in noninterest income of $176 thousand, or 6.5%, and an increase in noninterest expenses of $122 thousand, or 2.2%, partially offset by an increase in net interest income of $182 thousand, or 3.2%, and a decrease in the provision for income taxes of $40 thousand, or 6.5%.

Year to date earnings for 2015 were $6.0 million, or $1.33 per share, compared to $5.8 million, or $1.30 per share, for the same period in 2014, an increase of 2.4% year over year. Net interest income improved $299 thousand, or 1.8% and noninterest income increased $606 thousand, or 8.9%. These positive changes were partially offset by an increase in noninterest expense of $603 thousand, or 3.8%, an increase in the provision for loan losses of $100 thousand, or 33.3%, and an increase in the provision for income taxes of $60 thousand, or 3.8%.

Net loans and loans held for sale increased $14.2 million, or 2.9%, to $500.6 million, or 80.7% of total assets, at September 30, 2015, compared to $486.4 million, or 77.9% of total assets, at December 31, 2014. The increase is primarily attributable to growth in commercial real estate, commercial and municipal loans.

Deposits decreased $8.2 million, or 1.5%, from $552.1 million at December 31, 2014 to $543.9 million at September 30, 2015 primarily related to decreases in time deposits, partially offset by increases in non maturing deposits as it appears that customers may be shifting funds out of time deposits in anticipation of increases in rates. The Company's total capital increased from $51.4 million at December 31, 2014 to $53.8 million at September 30, 2015. This increase primarily reflects net income of $6.0 million for the first nine months of 2015, less regular cash dividends paid of $3.6 million. (See Capital Resources on page 46.)

The following unaudited per share information and key ratios depict several measurements of performance or financial condition for the three and nine months ended September 30, 2015 and 2014, respectively:

	Three Months Ended or At September 30,		Nine Months Ended or At September 30,	
	2015	2014	2015	2014
Return on average assets (ROA) (1)	1.33 %	1.42 %	1.28 %	1.31 %
Return on average equity (1)	15.36 %	16.31 %	15.01 %	15.15 %
Net interest margin (1)(2)	4.21 %	4.17 %	4.10 %	4.20 %
Efficiency ratio (3)	65.97 %	66.10 %	66.00 %	66.80 %
Net interest spread (4)	4.12 %	4.08 %	4.01 %	4.11 %
Loan to deposit ratio	92.88 %	91.72 %	92.88 %	91.72 %
Net loan charge-offs to average loans not held for sale (1)	0.02 %	— %	0.01 %	0.05 %
Allowance for loan losses to loans not held for sale (5)	1.01 %	0.99 %	1.01 %	0.99 %
Nonperforming assets to total assets (6)	0.46 %	0.69 %	0.46 %	0.69 %
Equity to assets	8.68 %	8.74 %	8.68 %	8.74 %
Total capital to risk weighted assets (7)	13.59 %	13.78 %	13.59 %	13.78 %
Book value per share	$12.07	$11.81	$12.07	$11.81
Earnings per share	$0.45	$0.47	$1.33	$1.30
Dividends paid per share	$0.27	$0.26	$0.81	$0.78
Dividend payout ratio (8)	60.00 %	55.32 %	60.90 %	60.00 %

(1) Annualized.

(2) The ratio of tax equivalent net interest income to average earning assets. See pages 30 and 31 for more information.

(3) The ratio of noninterest expense to tax equivalent net interest income and noninterest income, excluding securities gains (losses).

(4) The difference between the average rate earned on earning assets and the average rate paid on interest bearing liabilities. See pages 30 and 31for more information.

(5) Calculation includes the net carrying amount of loans recorded at fair value from the 2011 Branch Acquisition as of September 30, 2015 ($7.7 million) and September 30, 2014 ($15.7 million). Excluding such loans, the allowance for loan losses to loans not purchased and not held for sale was 1.03% at September 30, 2015 and 1.02% at September 30, 2014.

(6) Nonperforming assets are loans or investment securities that are in nonaccrual or 90 or more days past due as well as OREO or OAO.

(7) The September 30, 2015 ratio is calculated under the Basel III capital rules that became effective for the Company and Union on January 1, 2015.

(8) Cash dividends declared and paid per share divided by consolidated net income per share.

RESULTS OF OPERATIONS

Net Interest Income. The largest component of the Company's operating income is net interest income, which is the difference between interest and dividend income received from interest earning assets and interest expense paid on interest bearing liabilities. The Company's net interest income increased $182 thousand, or 3.2%, to $5.9 million for the three months ended September 30, 2015 from $5.7 million for the three months ended September 30, 2014. The net interest spread increased 4 bps to 4.12% for the third quarter of 2015, from 4.08% for the same period last year, despite a 2 bps drop in the average yield earned on interest earning assets from 4.54% for the three months ended September 30, 2014 to 4.52% for the three months ended September 30, 2015, primarily due to a decrease in the average yield on loans of 8 bps. The decline in the average yield on interest earning assets was more than offset by a decline of 6 bps in the average rate paid on interest bearing liabilities, from 0.46% for the third quarter of 2014 to 0.40% for the third quarter of 2015. The net interest margin for the third quarter of 2015 increased 4 bps to 4.21%

from 4.17% for the third quarter of 2014. Although the cost of borrowed funds decreased 68 bps from September 30, 2014 to September 30, 2015, the prolonged low rate environment continues to put pressure on the Company's net interest spread and margin, as interest earning assets continue to reprice at lower rates while the cost of average non maturing deposits has remained flat period over period.

Yields Earned and Rates Paid. The following table shows for the periods indicated the total amount of income recorded from average interest earning assets, the related average tax equivalent yields, the interest expense associated with average interest bearing liabilities, the related average rates paid, and the resulting tax equivalent net interest spread and margin. Yield and rate information is average information for the period, and is calculated by dividing the annualized tax equivalent income or expense item for the period by the average balance of the appropriate balance sheet item during the period. Net interest margin is annualized tax equivalent net interest income divided by average earning assets. Nonaccrual loans or investments are included in asset balances for the appropriate periods, but recognition of interest on such loans or investments is discontinued and any remaining accrued interest receivable is reversed in conformity with federal regulations.

	Three Months Ended September 30,							
	2015				2014			
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate		Average Balance	Interest Earned/ Paid	Average Yield/ Rate	
	(Dollars in thousands)							
Average Assets:								
Federal funds sold and overnight deposits	$8,123	$1	0.06	%	$15,740	$6	0.13	%
Interest bearing deposits in banks	12,922	43	1.33	%	12,699	36	1.14	%
Investment securities (1), (2)	57,847	351	2.76	%	50,315	309	2.80	%
Loans, net (1), (3)	495,678	5,962	4.89	%	482,990	5,900	4.97	%
Nonmarketable equity securities	2,053	16	3.16	%	2,053	7	1.43	%
Total interest earning assets (1)	576,623	6,373	4.52	%	563,797	6,258	4.54	%
Cash and due from banks	4,465				4,479			
Premises and equipment	12,914				11,029			
Other assets	21,274				17,470			
Total assets	$615,276				$596,775			
Average Liabilities and Stockholders' Equity:								
Interest bearing checking accounts	$117,497	$23	0.08	%	$115,280	$22	0.08	%
Savings/money market accounts	187,777	81	0.17	%	180,034	77	0.17	%
Time deposits	132,348	271	0.81	%	141,245	325	0.91	%
Borrowed funds	21,621	86	1.55	%	18,171	104	2.23	%
Total interest bearing liabilities	459,243	461	0.40	%	454,730	528	0.46	%
Noninterest bearing deposits	99,126				86,496			
Other liabilities	3,510				3,415			
Total liabilities	561,879				544,641			
Stockholders' equity	53,397				52,134			
Total liabilities and stockholders’ equity	$615,276				$596,775			
Net interest income		$5,912				$5,730		
Net interest spread (1)			4.12	%			4.08	%
Net interest margin (1)			4.21	%			4.17	%

	Nine Months Ended September 30, 2015				2014			
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate		Average Balance	Interest Earned/ Paid	Average Yield/ Rate	
	(Dollars in thousands)							
Average Assets:								
Federal funds sold and overnight deposits	$12,125	$13	0.14	%	$13,482	$14	0.13	%
Interest bearing deposits in banks	12,729	124	1.31	%	14,762	120	1.09	%
Investment securities (1), (2)	58,814	1,042	2.69	%	50,919	908	2.70	%
Loans, net (1), (3)	496,109	17,553	4.86	%	475,414	17,490	5.04	%
Nonmarketable equity securities	2,053	34	2.20	%	2,053	22	1.45	%
Total interest earning assets (1)	581,830	18,766	4.45	%	556,630	18,554	4.59	%
Cash and due from banks	4,555				4,495			
Premises and equipment	12,553				10,920			
Other assets	20,585				17,559			
Total assets	$619,523				$589,604			
Average Liabilities and Stockholders' Equity:								
Interest bearing checking accounts	$116,576	$68	0.08	%	$105,484	$60	0.08	%
Savings/money market accounts	187,239	241	0.17	%	180,657	239	0.18	%
Time deposits	143,628	976	0.91	%	146,617	1,018	0.93	%
Borrowed funds	20,039	262	1.73	%	16,894	317	2.48	%
Total interest bearing liabilities	467,482	1,547	0.44	%	449,652	1,634	0.48	%
Noninterest bearing deposits	95,437				85,551			
Other liabilities	3,729				3,272			
Total liabilities	566,648				538,475			
Stockholders' equity	52,875				51,129			
Total liabilities and stockholders’ equity	$619,523				$589,604			
Net interest income		$17,219				$16,920		
Net interest spread (1)			4.01	%			4.11	%
Net interest margin (1)			4.10	%			4.20	%

(1) Average yields reported on a tax equivalent basis using a marginal tax rate of 34%.

(2) Average balances of investment securities are calculated on the amortized cost basis and include nonaccrual securities, if applicable.

(3) Includes loans held for sale as well as nonaccrual loans, unamortized costs and unamortized premiums and is net of the allowance for loan losses.

Tax exempt interest income amounted to $436 thousand and $435 thousand for the three months ended September 30, 2015 and 2014, respectively, and $1.4 million and $1.2 million for the 2015 and 2014 nine month comparison periods, respectively. The following table presents the effect of tax exempt income on the calculation of net interest income, using a marginal tax rate of 34% for the 2015 and 2014 three and nine month comparison periods:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net interest income as presented	$5,912	$5,730	$17,219	$16,920
Effect of tax-exempt interest				
Investment securities	49	44	145	125

Loans	147	153	464	441
Net interest income, tax equivalent	$6,108	$5,927	$17,828	$17,486

Rate/Volume Analysis. The following table describes the extent to which changes in average interest rates (on a fully tax-equivalent basis) and changes in volume of average interest earning assets and interest bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. For each category of interest earning assets and interest bearing liabilities, information is provided on changes attributable to:

- changes in volume (change in volume multiplied by prior rate);
- changes in rate (change in rate multiplied by prior volume); and
- total change in rate and volume.

Changes attributable to both rate and volume have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014 Increase/(Decrease) Due to Change In			Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014 Increase/(Decrease) Due to Change In		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Interest earning assets:						
Federal funds sold and overnight deposits	$(3)	$(2)	$(5)	$(1)	$—	$(1)
Interest bearing deposits in banks	1	6	7	(18)	22	4
Investment securities	51	(9)	42	140	(6)	134
Loans, net	160	(98)	62	753	(690)	63
Nonmarketable equity securities	—	9	9	—	12	12
Total interest earning assets	$209	$(94)	$115	$874	$(662)	$212
Interest bearing liabilities:						
Interest bearing checking accounts	$—	$1	$1	$7	$1	$8
Savings/money market accounts	3	1	4	8	(6)	2
Time deposits	(19)	(35)	(54)	(20)	(22)	(42)
Borrowed funds	17	(35)	(18)	51	(106)	(55)
Total interest bearing liabilities	$1	$(68)	$(67)	$46	$(133)	$(87)
Net change in net interest income	$208	$(26)	$182	$828	$(529)	$299

Three Months Ended September 30, 2015, Compared to Three Months Ended September 30, 2014

Interest and Dividend Income. The Company’s interest and dividend income increased $115 thousand for the third quarter amounting to $6.4 million for the three months ended September 30, 2015 versus $6.3 million for the three months ended September 30, 2014 due to an overall increase in average earning assets of $12.8 million, or 2.3%, to $576.6 million, from $563.8 million for the three months ended September 30, 2014. The positive effect on interest income resulting from the rise in the average volume of earning assets was partially offset by the lower rates earned on loans. Average loan volume approximated $495.7 million at an average yield of 4.89% for the three months ended September 30, 2015, up $12.7 million, or 2.6%, from an average volume of $483.0 million at an average yield of 4.97% for the three months ended September 30, 2014, with interest income on loans increasing $62 thousand, or 1.1%, compared to the third quarter of 2014.

The average balance of nonloan instruments increased $138 thousand, or 0.2%, with the average balance of investments increasing $7.5 million, or 15.0%, to $57.8 million for the quarter ended September 30, 2015, from $50.3

million for the quarter ended September 30, 2014, and the average balance of federal funds sold and overnight deposits decreasing $7.6 million, or 48.4%, to $8.1 million for the three months ended September 30, 2015, from $15.7 million for the three months ended September 30, 2014. The average balance in interest bearing deposits in banks for the quarter ended September 30, 2015 increased $223 thousand, or 1.8%, to $12.9 million versus $12.7 million for the 2014 comparison period. These changes in average volume combined with changes in yields resulted in an increase in interest income from average nonloan instruments of $53 thousand between periods.

Interest Expense. The Company’s interest expense decreased $67 thousand, or 12.7%, to $461 thousand for the three months ended September 30, 2015, from $528 thousand for the three months ended September 30, 2014, despite an increase of $4.5

million, or 1.0%, in the average volume of interest bearing liabilities between periods. The decrease in expense was attributable to lower rates paid on time deposits and borrowed funds, reflecting the payoff of higher rate FHLB advances that were outstanding during the third quarter of 2014, as well as new lower rate short term advances obtained during the second quarter of 2015.

Interest expense on deposits decreased $49 thousand, or 11.6%, to $375 thousand for the quarter ended September 30, 2015, from $424 thousand for the quarter ended September 30, 2014, despite an increase of $1.1 million, or 0.2%, in the average balance of interest bearing deposits to $437.6 million for the quarter ended September 30, 2015, compared to $436.6 million for the same period last year. Average time deposits decreased $8.9 million, to $132.3 million for the three months ended September 30, 2015, from $141.2 million for the three months ended September 30, 2014 with the average rate paid on time deposits during the third quarter of 2015 decreasing 10 bps, to 0.81% from 0.91% for the third quarter of 2014. The average balances for savings and money market accounts increased $7.7 million, or 4.3%, to $187.8 million for the quarter ended September 30, 2015, from $180.0 million for the quarter ended September 30, 2014, while the average rate paid on these accounts did not change between periods. Average interest bearing checking accounts increased $2.2 million, or 1.9%, to $117.5 million for the three months ended September 30, 2015 from $115.3 million for the three months ended September 30, 2014, while the average rate paid on these accounts remained at 0.08% for the two comparison periods.

Interest expense on borrowed funds decreased $18 thousand, or 17.3%, to $86 thousand for the three months ended September 30, 2015, from $104 thousand for the three months ended September 30, 2014, despite an increase of $3.5 million, or 19.0%, in the average balance. Average borrowings from the FHLB increased $2.0 million for the quarter, average federal funds purchased increased $1.6 million, and average customer overnight collateralized repurchase sweeps increased $130 thousand. The net effect of the pay off of higher rate advances in prior periods and new, short term, low rate advances utilized during the third quarter of 2015, contributed to the decrease in the average rate paid on borrowings from 2.23% for the three months ended September 30, 2014 to 1.55% for the three months ended September 30, 2015.

Nine Months Ended September 30, 2015, Compared to Nine Months Ended September 30, 2014

Interest and Dividend Income. The Company’s interest and dividend income increased to $18.8 million for the nine months ended September 30, 2015 compared to $18.6 million for the same period last year, driven by an overall increase in average earning assets of $25.2 million, or 4.5%, to $581.8 million, from $556.6 million for the nine months ended September 30, 2014. However, the positive effect resulting from the rise in the average volume of earning assets was partially offset by the lower rates earned on loans. Average loan volume approximated $496.1 million at an average yield of 4.86% for the nine months ended September 30, 2015, up $20.7 million, or 4.4%, from an average volume of $475.4 million at an average yield of 5.04% for the nine months ended September 30, 2014. The positive impact of the increase in average total loan volume was almost entirely offset by a 18 bps decrease in average yield, resulting in interest income on loans remaining flat for the comparison periods.

The average balance of nonloan instruments increased $4.5 million, or 5.5%, with the average balance of investments increasing $7.9 million, or 15.5%, to $58.8 million for the nine months ended September 30, 2015, from $50.9 million for the nine months ended September 30, 2014 and the average balances of federal funds sold and overnight deposits increasing $1.4 million, or 10.1%, to $12.1 million for the nine months ended September 30, 2015, from $13.5 million for the nine months ended September 30, 2014. These increases were partially offset by a decrease in the average balance in interest bearing deposits in banks of $2.1 million, or 14.4%, to $12.7 million for the nine months ended September 30, 2015, versus $14.8 million for the 2014 comparison period. These combined changes in average volume and net increases in yields resulted in an increase in interest income from average nonloan instruments of $149 thousand between periods.

Interest Expense. The Company's interest expense decreased $87 thousand, or 5.3%, for the nine month comparison period ended September 2015 compared to the same period for 2014, despite an increase of $17.8 million, or 4.0%, in the average volume of interest bearing liabilities between periods. The decrease in expense was attributable to lower rates paid on time deposits and the subsequent payoff of higher rate FHLB advances that were outstanding during the first nine months of 2014.

Interest expense on deposits decreased by $32 thousand, or 2.4%, to $1.29 million for the nine months ended September 30, 2015, from $1.32 million for the nine months ended September 30, 2014 despite an increase of $14.7 million, or 3.4%, in the average balance of interest bearing deposits, reflecting the overall growth in the franchise. Rates paid on interest bearing deposits have decreased slightly for the nine months of 2015 compared to 2014 as a result the current interest rate environment.

Interest expense on borrowed funds decreased $55 thousand, or 17.4%, to $262 thousand for the nine months ended September 30, 2015, from $317 thousand for the nine months ended September 30, 2014 despite an increase in average borrowed funds of $3.1 million, or 18.6%, to $20.0 million for the nine months ended September 30, 2015, compared to $16.9 million for the same period last year. Average customer overnight collateralized repurchase sweeps decreased $224 thousand for the comparable period, partially offset by an increase in average borrowings from the FHLB of $2.0 million. Despite the increase in average borrowings from the FHLB, higher rate advances had been paid off during 2014 while lower rate advances were taken subsequently in 2015, contributing to the decrease in the average rate paid on borrowings from 2.48% for the nine months ended September 30, 2014 to 1.73% for the nine months ended September 30, 2015.

Provision for Loan Losses. There was a $150 thousand and $400 thousand loan loss provision for the quarter and nine months ended September 30, 2015, respectively, compared to a $150 thousand and $300 thousand loan loss provision for the quarter and nine months ended September 30, 2014, respectively. The provision for the third quarter and the first nine months of 2015 was deemed appropriate by management based on the size and mix of the loan portfolio, the level of nonperforming loans, the results of the qualitative factor review and the outlook for future economic conditions. For further details, see FINANCIAL CONDITION Allowance for Loan Losses and Asset Quality below.

Noninterest Income. Noninterest income was $2.5 million, or 28.4% of total income for the three months ended September 30, 2015, compared to $2.7 million, or 30.2% of total income for the three months ended September 30, 2014 and $7.4 million, or 28.3% of total income for the nine months ended September 30, 2015 compared to $6.8 million, or 26.8% of total income for the nine months ended September 30, 2014. The following table sets forth the components of noninterest income and changes from 2014 to 2015:

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2015	2014	$ Variance	% Variance	2015	2014	$ Variance	% Variance
	(Dollars in thousands)							
Trust income	$171	$183	$(12)	(6.6)	$538	$549	$(11)	(2.0)
Service fees	1,439	1,424	15	1.1	4,133	3,981	152	3.8
Net gains on sales of loans held for sale	700	653	47	7.2	2,214	1,594	620	38.9
Income from Company-owned life insurance	77	20	57	285.0	212	105	107	101.9
Gain on sale of OREO	25	127	(102)	(80.3)	28	134	(106)	(79.1)
Other income	80	68	12	17.6	228	129	99	76.7
Net gains on sales of investment securities AFS	41	234	(193)	82.5	41	296	(255)	86.1
Total noninterest income	$2,533	$2,709	$(176)	(6.5)	$7,394	$6,788	$606	8.9

The significant changes in noninterest income for the third quarter and nine months ended September 30, 2015 compared to the same periods of 2014 are described below:

- Service fees. A new fee structure implemented on deposit accounts during the third quarter of 2014 increased service charges on deposit accounts approximately $24 thousand and $161 thousand for the three and nine month comparison periods, respectively. Loan servicing fees increased $6 thousand and $110 thousand for the three and nine month comparison periods, respectively, due to growth in the serviced loan portfolio. These increases were partially offset by decreases of $19 thousand and $54 thousand in debit card and ATM fees for the three and nine month comparison periods, respectively, and a decrease of $47 thousand overdraft fee income for the nine month period ended September 30, 2015.

- Net gains on sales of loans held for sale. Continuing the Company's strategy to mitigate long-term interest rate risk, residential loans totaling $34.6 million were sold to the secondary market during the third quarter of 2015, versus residential loan sales of $30.2 million during the third quarter of 2014, with sales of $102.4 million the first nine months of 2015, versus sales of $72.7 million the first nine months of 2014. The increase in volume of loans sold for the three and nine months ended September 30, 2015 has resulted in an increase in the net gains on sales of loans as illustrated in the table above.

- Income from Company-owned life insurance. The Company purchased $5.0 million of company-owned life insurance covering certain officers of Union during the first quarter of 2015. Income from the new policies was recorded starting in the first quarter of 2015, resulting in increased income for the three and nine months ended September 30, 2015 compared to the same periods in 2014.

- Gain on sale of OREO. During the third quarter of 2014, the Company sold a commercial OREO property resulting in a gain on the sale of $127 thousand, compared to a gain of $25 thousand on the sale of a residential OREO property during the third quarter of 2015.

- Other income. The increase in other income for the three and nine months ended September 30, 2015 resulted from an increase in income from MSR, net of amortization, due to the increase in loan sales with servicing retained.

- Net gains on sales of investment securities AFS. Sales of securities for the three and nine months ended September 30, 2014 were not repeated in 2015.

Noninterest Expense. Noninterest expense increased $122 thousand, or 2.2%, for the three months ended September 30, 2015 and increased $603 thousand, or 3.8%, for the nine months ended September 30, 2015 compared to the same periods in 2014. The following table sets forth the components of noninterest expense and changes between the three and nine month comparison periods of 2015 and 2014:

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2015	2014	$ Variance	% Variance	2015	2014	$ Variance	% Variance
	(Dollars in thousands)							
Salaries and wages	$2,426	$2,253	$173	7.7	$7,080	$6,694	$386	5.8
Pension and employee benefits	739	692	47	6.8	2,242	2,062	180	8.7
Occupancy expense, net	293	272	21	7.7	986	906	80	8.8
Equipment expense	479	436	43	9.9	1,346	1,233	113	9.2
Expenses of OREO and other assets owned, net	6	12	(6)	(50.0)	54	34	20	58.8
Vermont franchise tax	136	127	9	7.1	402	378	24	6.3
FDIC insurance assessment	79	85	(6)	(7.1)	266	265	1	0.4
Equity in losses of affordable housing investments	118	164	(46)	(28.0)	365	492	(127)	(25.8)
Other expenses	1,398	1,511	(113)	(7.5)	3,879	3,953	(74)	(1.9)
Total noninterest expense	$5,674	$5,552	$122	2.2	$16,620	$16,017	$603	3.8

The significant changes in noninterest expense for the third quarter and nine months ended September 30, 2015 compared to the same periods of 2014 are described below:

- Salaries and wages. The amount of commissions paid to mortgage loan originators increased $60 thousand and $155 thousand for the third quarter and nine months ended September 30, 2015, respectively. The increase also reflects normal annual salary increases, partially offset by a decrease in the deferral of salary expense due to accounting methods utilized to account for loan origination costs.
- Pension and employee benefits. The cost of the Company's medical and dental plans increased $13 thousand and $83 thousand for the three and nine month comparison periods, respectively, as premium rates and dental claims increased between years. Payroll related taxes increased $11 thousand and $52 thousand for the three and nine month comparison periods, respectively.
- Equipment expense. During the second quarter of 2015, Union completed a rollout of new computers for all employees as well as teller capture technology at branch locations. As a result, equipment depreciation increased $23 thousand and $43 thousand for the three and nine months ended September 30, 2015. Additionally, maintenance and service contract expenses increased $39 thousand and $91 thousand for the three and nine month comparison periods, respectively.
- Equity in losses of affordable housing investments. In the fourth quarter of 2014, the Company exited three limited partnerships that had reached the final year of tax credits and were near or at the end of the limited partnership compliance period. This resulted in a decrease in the provision for undistributed net losses recognized between years.
- Other expenses. Expenses decreased for the three and nine month comparison periods primarily due to the non recurrence of a prepayment penalty in the amount of $256 thousand on the early payoff of a long-term FHLB advance

during the third quarter of 2014. This decrease was partially offset by an increase in advertising and marketing expenses of $65 thousand and $107 thousand for the three and nine month comparison periods, respectively. Increases were also seen in ATM and Debit card expenses of $36 thousand and $51 thousand for the three and nine month comparison periods, respectively, as well as in other employment costs of $33 thousand and $27 thousand, respectively.

Provision for Income Taxes. The Company has provided for current and deferred federal income taxes for the quarters and nine months ended September 30, 2015 and 2014. The Company's net provision for income taxes was $571 thousand and $1.6 million for the quarter and nine months ended September 30, 2015, respectively, compared to $611 thousand and $1.6 million for the same periods in 2014. The Company's effective tax rate was 21.8% and 21.6% for the quarter and nine months ended September 30, 2015, compared to an effective tax rate of 22.3% and 21.4% for the same periods in 2014.

FINANCIAL CONDITION

At September 30, 2015, the Company had total consolidated assets of $620.3 million, including gross loans and loans held for sale (total loans) of $505.2 million, deposits of $543.9 million and stockholders' equity of $53.8 million. The Company's total assets at September 30, 2015 decreased $3.8 million, or 0.6%, from $624.1 million at December 31, 2014, but grew $17.6 million, or 2.9%, compared to September 30, 2014.

Net loans and loans held for sale increased a total of $14.2 million, or 2.9%, to $500.6 million, or 80.7% of total assets at September 30, 2015, compared to $486.4 million, or 77.9% of total assets at December 31, 2014. (See Loans Held for Sale and Loan Portfolio below.)

Total deposits decreased $8.2 million, or 1.5%, to $543.9 million at September 30, 2015, from $552.1 million at December 31, 2014. Noninterest bearing deposits increased $13.2 million, or 14.6%, from $90.4 million at December 31, 2014 to $103.6 million at September 30, 2015 and interest bearing deposits increased $6.2 million, or 2.1%, from $302.7 million at December 31, 2014 to $308.9 million at September 30, 2015. These increases were more than offset by a decrease of $27.6 million, or 17.4%, in time deposits from $159.0 million at December 31, 2014 to $131.3 million at September 30, 2015. (See average balances and rates in the Yields Earned and Rates Paid table on pages 30 and 31.)

Total borrowings increased $2.3 million, or 15.2%, at September 30, 2015, from $15.1 million at December 31, 2014 to $17.4 million at September 30, 2015. There was $4.9 million in fed funds purchased at September 30, 2015, while FHLB advances decreased $2.2 million, and customer overnight collateralized repurchase sweeps decreased $388 thousand between December 31, 2014 and September 30, 2015. (See Borrowings on page 41.)

Total stockholders' equity increased $2.4 million to $53.8 million at September 30, 2015 from $51.4 million at December 31, 2014. This increase primarily reflects net income of $6.0 million for the first nine months of 2015, less regular cash dividends paid of $3.6 million. (See Capital Resources on page 46.)

Loans Held for Sale and Loan Portfolio. Total loans (including loans held for sale) increased $14.4 million, or 2.9%, to $505.2 million, representing 81.4% of assets at September 30, 2015, from $490.7 million, representing 78.6% of assets at December 31, 2014. The total loan portfolio at September 30, 2015 also increased compared to the September 30, 2014 level of $487.1 million, representing 80.8% of assets. The Company's loans consist primarily of adjustable-rate and fixed-rate mortgage loans secured by one-to-four family, multi-family residential or commercial real estate. Real estate secured loans represented $431.2 million, or 85.4% of total loans at September 30, 2015 and $425.2 million, or 86.7% of total loans at December 31, 2014. Although competition for good loans is strong, especially in the commercial sector, the Company has been able to originate loans to both current and new customers while maintaining credit quality. The composition of the Company's loan portfolio remained relatively unchanged from December 31, 2014, and there was no material change in the Company's lending programs or terms during the nine months ended September 30, 2015.

The composition of the Company's loan portfolio as of September 30, 2015 and December 31, 2014 was as follows:

Loan Class	September 30, 2015 Amount	Percent	December 31, 2014 Amount	Percent
	(Dollars in thousands)			
Residential real estate	$166,597	33.0	$165,475	33.7
Construction real estate	37,293	7.4	37,258	7.6
Commercial real estate	220,017	43.6	211,710	43.1
Commercial	22,570	4.5	20,620	4.2
Consumer	4,242	0.8	4,435	0.9
Municipal	47,180	9.3	40,480	8.3
Loans held for sale	7,256	1.4	10,743	2.2
Total loans	505,155	100.0	490,721	100.0
Allowance for loan losses	(5,044	)	(4,694	)
Unamortized net loan costs	491		355	
Net loans and loans held for sale	$500,602		$486,382	

The Company originates and sells qualified residential mortgage loans in various secondary market avenues, with a majority of sales made to the FHLMC/Freddie Mac. At September 30, 2015, the Company serviced a $554.0 million residential real estate mortgage portfolio, of which $7.3 million was held for sale and approximately $380.1 million was serviced for unaffiliated third parties.

The Company sold $102.4 million of qualified residential real estate loans primarily originated during the first nine months of 2015 to the secondary market to mitigate long-term interest rate risk and to generate fee income, compared to sales of $72.7 million during the first nine months of 2014. The Company generally retains the servicing rights on sold residential mortgage loans. The Company originates and sells FHA, VA, and RD residential mortgage loans, and also has an Unconditional Direct Endorsement Approval from HUD which allows the Company to approve FHA loans originated in any of its Vermont or New Hampshire locations without needing prior HUD approval. The Company sells VA and FHA loans as originated with servicing released. Some of the government backed loans qualify for zero down payments without geographic or income restrictions. These loan products increase the Company's ability to serve the borrowing needs of residents in the communities we serve, including low and moderate income borrowers, while the government guaranty mitigates our exposure to credit risk.

The Company also originates commercial real estate and commercial loans under various SBA, USDA and State sponsored programs which provide a government agency guaranty for a portion of the loan amount. There was $5.0 million guaranteed under these various programs at September 30, 2015 on an aggregate balance of $6.3 million in subject loans. The Company occasionally sells the guaranteed portion of the loan to other financial concerns and retains servicing rights, which generates fee income. There were no commercial real estate loans sold in the first nine months of 2015 or 2014. The Company recognizes gains and losses on the sale of the principal portion of these loans as they occur.

The Company serviced $33.3 million of commercial and commercial real estate loans for unaffiliated third parties as of September 30, 2015. This includes $29.6 million of commercial or commercial real estate loans the Company has participated out to other financial institutions, in the ordinary course of business on a nonrecourse basis, for liquidity or credit concentration management purposes.

The Company capitalizes servicing rights for all loans sold with servicing retained and recognizes gains and losses on the sale of the principal portion of these loans as they occur. The unamortized balance of servicing rights on loans sold with servicing retained was $1.5 million at September 30, 2015, with an estimated market value in excess of the carrying value as of such date. Management periodically evaluates and measures the servicing assets for impairment.

There were $20.5 million of residential real estate loans pledged to secure municipal deposits above the FDIC insurance coverage level as of September 30, 2015. Qualified residential first mortgage loans held by Union are eligible to be pledged as collateral for borrowings from the FHLB under a blanket lien.

Asset Quality. The Company, like all financial institutions, is exposed to certain credit risks, including those related to the value of the collateral that secures its loans and the ability of borrowers to repay their loans. Consistent application of the Company’s conservative loan policies has helped to mitigate this risk and has been prudent for both the Company and its customers. Renewed market volatility, high unemployment rates or weakness in the general economic condition of the country or our market area, may have a negative effect on our customers' ability to make their loan payments on a timely basis and/or on underlying collateral values. Management closely monitors the Company's loan and investment portfolios, OREO and OAO for potential problems and reports to the Company's and Union's Board at regularly scheduled meetings. Repossessed assets and loans or investments that are 90 days or more past due are considered to be nonperforming assets. Board approved policies set forth portfolio diversification levels to mitigate concentration risk and the Company participates large credits out to other financial institutions to further mitigate that risk.

The following table shows the composition of nonperforming assets at the dates indicated and trends of certain ratios monitored by Company's management in reviewing asset quality:

	As of or for the nine months ended September 30, 2015	As of or for the year ended December 31, 2014	As of or for the nine months ended September 30, 2014
	(Dollars in thousands)		
Nonaccrual loans	$2,313	$2,235	$2,126
Accruing loans 90+ days delinquent	472	2,344	1,735
Total nonperforming loans (1)	2,785	4,579	3,861
OREO	59	297	320
Total nonperforming assets	$2,844	$4,876	$4,181
Allowance for loan losses to loans not held for sale (2)	1.01 %	0.98 %	0.99 %
Allowance for loan losses to nonperforming loans	181.11 %	102.51 %	123.23 %
Nonperforming loans to total loans	0.55 %	0.93 %	0.79 %
Nonperforming assets to total assets	0.46 %	0.78 %	0.69 %
Delinquent loans (30 days to nonaccruing) to total loans	1.05 %	2.20 %	1.67 %
Net charge-offs (annualized) to average loans not held for sale	0.01 %	0.06 %	0.05 %
Loan loss provision to net charge-offs, year-to-date	799.81 %	115.87 %	158.73 %

(1) The Company had guarantees of U.S. or state government agencies on the above nonperforming loans totaling $346 thousand at September 30, 2015, $259 thousand at December 31, 2014, and $261 thousand at September 30, 2014.

(2) Calculation includes the net carrying amount of loans recorded at fair value from the 2011 Branch Acquisition as of September 30, 2015 ($7.7 million), December 31, 2014 ($9.1 million) and September 30, 2014 ($15.7 million). Excluding such loans, the ALL to loans not purchased and not held for sale was 1.03% at September 30, 2015, 1.00% at December 31, 2014 and 1.02% at September 30, 2014.

The level of nonaccrual loans increased $78 thousand, or 3.5%, since December 31, 2014, and accruing loans delinquent 90 days or more decreased $1.9 million, or 79.9%, during the same time period. The percentage of nonperforming loans to total loans decreased from 0.93% to 0.55%. There were five residential real estate loans totaling $171 thousand in process of foreclosure at September 30, 2015 included in nonperforming loans. The aggregate interest income not recognized on nonaccrual loans amounted to approximately $1.2 million and $1.0 million as of September 30, 2015 and 2014, respectively and $1.1 million as of December 31, 2014.

At September 30, 2015, the Company had loans rated substandard that were on a performing status totaling $2.5 million, compared to $2.4 million at December 31, 2014. In management's view, substandard loans represent a higher degree of risk of becoming nonperforming loans in the future. The Company's management is focused on the impact that the prolonged weak economy may have on its borrowers and closely monitors industry and geographic concentrations for evidence of financial problems. Improvement in local economic indicators has been identified over the past year. The unemployment rate has stabilized in Vermont and was at a 3.7% level for September 2015 compared to 4.4% for September 2014. The New Hampshire unemployment rate was 3.4% for September 2015 compared to 4.3% for September 2014. These rates compare favorably with the nationwide unemployment rate at 5.1% and 5.9% for the comparable periods. Management will continue to monitor the national, regional and local economic environment and its impact on unemployment, business failures and real estate values in the Company's market area.

On occasion, the Company acquires residential or commercial real estate properties through or in lieu of loan foreclosure. These properties are held for sale and are initially recorded as OREO at fair value less estimated selling costs at the date of the Company's acquisition of the property, with fair value based on an appraisal for more significant properties and on a broker's price opinion for less significant properties. Holding costs and declines in the fair value of properties acquired are expensed as incurred. Declines in the fair value after acquisition of the property result in charges against income before tax. There were no such declines for the three months ended September 30, 2015 and 2014, or the nine months ended September 30, 2014, compared to a $29 thousand decline for the nine months ended September 30, 2015. The Company evaluates each OREO property at least quarterly for changes in the fair value. Further softening in the local real estate market would make the potential to recover all principal and related costs for OREO properties uncertain. The Company had one residential property totaling $59 thousand classified as OREO at September 30, 2015 and three residential properties totaling $297 thousand at December 31, 2014. There was no allowance for losses on OREO at September 30, 2015 and a $77 thousand allowance at December 31, 2014, which was netted out of the above values.

Allowance for Loan Losses. Some of the Company’s loan customers ultimately do not make all of their contractually scheduled payments, requiring the Company to charge off a portion or all of the remaining principal balance due. The Company maintains an ALL to absorb such losses. 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 evaluation date; however, actual loan losses may vary from current estimates. The Company's policy and methodologies for establishing the ALL, described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, did not change during the first nine months of 2015.

Impaired loans, including $2.2 million of TDR loans, were $5.1 million at September 30, 2015, with government guaranties of $238 thousand and a specific reserve amount allocated of $385 thousand, which is estimated by management to represent the Company’s loss exposure. Impaired loans, including $1.7 million of TDR loans, at December 31, 2014 were $4.7 million, with government guaranties of $244 thousand and a specific reserve amount allocated of $143 thousand as of such date. Based on management's evaluation of the Company's historical loss experience on substandard commercial loans, commercial loans with balances greater than $500 thousand was established as the threshold for individual impairment evaluation with a specific reserve allocated when warranted. Commercial loans with balances under this threshold are collectively evaluated for impairment as a homogeneous pool of loans, unless such loans are subject to a restructuring agreement or have been identified as impaired as part of a larger customer relationship. The specific reserve amount allocated to individually identified impaired loans increased $242 thousand as a result of the September 30, 2015 impairment evaluation.

The following table reflects activity in the ALL for the nine month periods ended September 30, 2015 and 2014:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance at beginning of period	$4,919	$4,610	$4,694	$4,647
Charge-offs	(44)	(12)	(94)	(219)
Recoveries	19	10	44	30
Net charge-offs	(25)	(2)	(50)	(189)
Provision for loan losses	150	150	400	300
Balance at end of period	$5,044	$4,758	$5,044	$4,758

The following table (net of loans held for sale) shows the internal breakdown by risk component of the Company's ALL and the percentage of loans in each category to total loans in the respective portfolios at the dates indicated:

	September 30, 2015		December 31, 2014	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate	$1,366	33.4	$1,330	34.5
Construction real estate	484	7.5	439	7.8
Commercial real estate	2,739	44.2	2,417	44.1
Commercial	203	4.5	176	4.3
Consumer	25	0.9	27	0.9
Municipal	49	9.5	42	8.4

Unallocated	178	—	263	—
Total	$5,044	100.0	$4,694	100.0

Notwithstanding the categories shown in the table above, all funds in the ALL are available to absorb loan losses in the portfolio, regardless of loan category or specific allocation.

There were no changes to the reserve factors assigned to any of the loan portfolios based on the qualitative factor reviews performed during the first nine months of 2015, however, a sub-category of the construction real estate portfolio was established during the first quarter of 2015 for commercial real estate development loans, while in the construction phase of the projects, due to the volatility and increased risk identified within this portfolio. The reserve factor assigned to the construction real estate portfolio was increased 0.20% for the economic and business conditions component and 0.15% for the value of underlying collateral component for this commercial real estate development portion of the construction portfolio. Management of the Company believes, in its best estimate, that the ALL at September 30, 2015 is appropriate to cover probable credit losses inherent in the Company’s loan portfolio as of such date. However, there can be no assurance that the Company will not sustain losses in future periods which could be greater than the size of the ALL at September 30, 2015. In addition, our banking regulators, as an integral part of their examination process, periodically review our ALL. Such agencies may require us to recognize adjustments to the ALL based on their judgments about information available to them at the time of their examination. A large adjustment to the ALL for losses in future periods may require increased provisions to replenish the ALL, which could negatively affect earnings. While the Company recognizes that economic slowdowns or financial and credit market turmoil may adversely impact its borrowers' financial performance and ultimately their ability to repay their loans, management continues to be cautiously optimistic about the collectability of the Company's loan portfolio.

Investment Activities. At September 30, 2015, investment securities classified as AFS totaled $51.0 million and securities classified as HTM totaled $5.2 million, or $56.2 million combined, comprising 9.1% of assets. Total investment securities increased $3.2 million, or 6.1%, from $53.0 million, or 8.5% of total assets at December 31, 2014. There was $5.1 million of investment securities pledged to secure various public deposits or customer repurchase agreements as of September 30, 2015, compared to $6.5 million at December 31, 2014. Net unrealized gains for the Company’s AFS investment securities portfolio were $373 thousand as of September 30, 2015, compared to net unrealized gains of $290 thousand as of December 31, 2014. Net unrealized gains of $246 thousand, net of income tax effect, were reflected in the Company’s accumulated OCI component of stockholders’ equity at September 30, 2015. Net unrealized losses in the Company's HTM investment securities portfolio were $43 thousand at September 30, 2015 compared to net unrealized losses of $161 thousand at December 31, 2014. No declines in value were deemed by management to be OTT at September 30, 2015. Deterioration in credit quality and/or imbalances in liquidity that may exist in the financial marketplace might adversely affect the fair values of the Company’s investment portfolio and the amount of gains or losses ultimately realized on the sale of such securities, and may also increase the potential that certain resulting unrealized losses will be designated as OTT in future periods, resulting in write-downs and charges to earnings.

Deposits. The following table shows information concerning the Company's average deposits by account type and weighted average nominal rates at which interest was paid on such deposits for the nine months ended September 30, 2015 and year ended December 31, 2014:

	Nine Months Ended September 30, 2015				Year Ended December 31, 2014			
	Average Amount	Percent of Total Deposits	Average Rate		Average Amount	Percent of Total Deposits	Average Rate	
	(Dollars in thousands)							
Nontime deposits:								
Noninterest bearing deposits	$95,437	17.6	—		$87,777	16.8	—	
Interest bearing checking accounts	116,576	21.4	0.08	%	109,944	21.0	0.08	%
Money market accounts	100,508	18.5	0.19	%	101,365	19.3	0.20	%

Savings accounts	86,731	16.0	0.15	% 79,150	15.1	0.14	%
Total nontime deposits	399,252	73.5	0.10	% 378,236	72.2	0.11	%
Time deposits:							
Less than $100,000	65,042	12.0	0.67	% 70,131	13.4	0.74	%
$100,000 and over	78,586	14.5	1.10	% 75,519	14.4	1.09	%
Total time deposits	143,628	26.5	0.91	% 145,650	27.8	0.92	%
Total deposits	$ 542,880	100.0	0.32	% $ 523,886	100.0	0.33	%

The Company participates in CDARS, which permits the Company to either offer full deposit insurance coverage to its customers by exchanging deposit balances with other CDARS participants or purchase deposits. There were $14.2 million of time deposits of $250,000 or less on the balance sheet at September 30, 2015 and $11.0 million at December 31, 2014, which were exchanged with other CDARS participants and are therefore considered for certain regulatory purposes to be “brokered” deposits. At September 30, 2015, $3.0 million of the Company’s CDARS deposits represented purchased deposits. There were no purchased deposits as of December 31, 2014.

The Company also participates in the ICS program, a service through which Union can offer its customers a savings product with access to unlimited FDIC insurance, while receiving reciprocal deposits from other banks. Like the exchange of certificate of deposit accounts through CDARS, exchange of savings deposits through ICS provides full deposit insurance coverage for the customer, thereby helping Union retain the full amount of the deposit on its balance sheet. There were $2.1 million and $2.2 million in ICS money market deposits on the balance sheet at September 30, 2015 and December 31, 2014, respectively.

The following table provides a maturity distribution of the Company’s time deposits in amounts of $100,000 and over at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Within 3 months	$11,411	$5,491
3 to 6 months	8,083	56,097
6 to 12 months	36,719	15,664
Over 12 months	12,965	15,506
	$69,178	$92,758

In total, the Company’s time deposits in amounts of $100 thousand and over decreased $23.6 million, or 25.4%, between December 31, 2014 and September 30, 2015, and the average total balance increased from $75.5 million to $78.6 million. There was a change in each of the maturity time frames, especially the within 3 months, 3 to 6 months and 6 to 12 months categories. In Vermont, the fiscal year ends on June 30 for the majority of municipalities and school districts, with most of their time deposits maturing on that date, causing the majority of the swing between time periods.

During the first nine months of 2015, average total deposits grew $19.0 million, or 3.6%, compared to the year ended December 31, 2014, with growth in all categories except time deposits less than $100 thousand and money market accounts. Time deposits have trended towards short duration or migrated to nontime deposits because of the low interest rate environment and the perceived customer desire to be in a position to redeploy funds should there be a rise in interest rates. Time deposits at September 30, 2015 decreased $27.6 million, or 17.4%, from December 31, 2014 primarily as a result of normal seasonal fluctuations in municipal time deposit accounts.

A provision of the Dodd-Frank Act permanently raised FDIC deposit insurance coverage to $250 thousand per depositor per insured depository institution for each account ownership category. At September 30, 2015, the Company had deposit accounts with less than $250 thousand totaling $394.6 million, or 72.6% of its deposits, with FDIC insurance protection. An additional $23.5 million of municipal deposits were over the FDIC insurance coverage limit at September 30, 2015 and were collateralized by Union under applicable state regulations by investment securities or loans.

Borrowings. Total borrowed funds at September 30, 2015 were $17.4 million compared to $15.1 million at December 31, 2014, a net increase of $2.3 million, or 15.2%. The FHLB option advance borrowings were $11.0 million at September 30, 2015, at a weighted average rate of 2.60%, and $13.2 million at December 31, 2014, at a weighted average rate of 2.30%. The decrease in option advance borrowings reflects the maturity of a $5.0 million one year bullet advance and scheduled monthly payments of $219 thousand on long-term FHLB amortizing advances, partially offset by a $3.0 million three month bullet advance at 0.27% taken during the third quarter of 2015 for liquidity purposes. The Company also had $4.9 million in overnight federal funds purchased at a rate of 0.30% from

FHLB at September 30, 2015, while there were no federal funds purchased at December 31, 2014. In addition, the Company had overnight secured customer repurchase agreement sweeps at September 30, 2015 of $1.5 million, at a weighted average rate of 0.25%, compared to $1.9 million, at a weighted average rate of 0.25% at December 31, 2014, a decrease of $388 thousand, or 20.6%. The volume of the overnight secured customer repurchase agreement sweeps is volatile and is a function of the customer's cash flow needs.

OTHER FINANCIAL CONSIDERATIONS

Market Risk and Interest Rate Risk. Market risk is the potential of loss in a financial instrument arising from adverse changes in market prices, interest rates, foreign currency exchange rates, commodity prices, and equity prices. As of September 30, 2015, the Company did not have any market risk sensitive instruments acquired for trading purposes. The Company’s market risk arises primarily from interest rate risk inherent in its lending, investing, deposit taking and borrowing activities. Management of interest rate risk is an important component of our asset and liability management process, which is governed by established policies that are reviewed and approved annually. Our investment policy details the types of securities that may be purchased, and establishes portfolio limits and maturity limits for the various sectors. Our investment policy also establishes specific investment quality limits. The ALCO develops guidelines and strategies impacting our asset and liability management-related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels and trends. Members of the ALCO also manage the investment portfolio to maximize net interest income while mitigating market and interest rate risk.

Interest rate risk arises naturally from imbalances in repricing, maturity and cash flow characteristics of our assets and liabilities. The ALCO takes into consideration the cash flow and repricing attributes of balance sheet and off-balance sheet items and their relation to possible changes in interest rates. The ALCO manages interest rate exposure primarily by using on-balance sheet strategies, generally accomplished through the management of the duration, rate sensitivity and average lives of our various investments, and by extending or shortening maturities of borrowed funds, as well as carefully managing and monitoring the maturities and pricing of loans and deposits.

An outside consultant is utilized to perform rate shocks of our balance sheet to assess our risk to earnings in different interest rate environments, and to perform a variety of other analyses. The consultant’s most recent analysis was as of September 30, 2015. The base simulation assumed no changes in rates, as well as 200 and 300 basis point rising interest rate scenarios which assume a parallel shift of the yield curve over a one-year period, and no growth assumptions. A summary of the results is as follows:

- Current/Flat Rates: If rates remain at current levels net interest income is projected to trend downward for the entire simulation as asset yields will continue to erode while funding costs provide little to no relief.
- Rising Rates: Higher rates indicate positive results under all scenarios. Under the rising rate scenarios if rates rise in a parallel fashion, net interest income is projected to increase throughout the simulation as asset yields will reset in the higher rate environment and funding cost increases will lag.

The net interest income simulation as of September 30, 2015 showed that the change in net interest income for the next 12 months from our expected or “most likely” forecast was as follows:

Rate Change	Percent Change in Net Interest Income Limit	Percent Change in Net Interest Income
Up 300 basis points	(21.00)%	7.7%
Up 200 basis points	(14.00)%	4.8%

The preceding sensitivity analysis does not represent our forecast and should not be relied upon as being indicative of expected operating results. These estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit run-off rates, pricing decisions on loans and deposits and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

The model used to perform the base case balance sheet simulation assumes a parallel shift of the yield curve over twelve months and reprices every interest earning asset and interest bearing liability on our balance sheet, simultaneously. The use of pricing betas help simulate the expected pricing behavior regarding non-maturing deposits, limiting the rate increases that occur when market rates rise. A historic analysis of the bank's prepayment history was performed and the results were used as a basis for future prepayment expectations. Investment securities with call provisions are examined on an individual basis to estimate the likelihood of a call.

As market conditions vary from those assumed in the sensitivity analysis, actual results will likely differ due to: the varying impact of changes in the balances and mix of loans and deposits differing from those assumed, the impact of possible off balance sheet commitments, and other internal/external variables. Furthermore, the sensitivity analysis does not reflect all actions that the ALCO might take in responding to or anticipating changes in interest rates.

Commitments, Contingent Liabilities, and Off-Balance-Sheet Arrangements. The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers, to reduce its own exposure to fluctuations in interest rates and to implement its strategic objectives. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable-rate loans, commitments to participate in or sell loans, commitments to buy or sell securities, certificates of deposit or other investment instruments and risk-sharing commitments or guarantees on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contractual or notional amounts of these instruments reflect the extent of involvement the Company has in a particular class of financial instruments.

The Company's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable-rate loans, the contractual or notional amounts do not represent the Company's exposure to credit loss. The Company controls the risk of interest rate cap agreements through credit approvals, limits, and monitoring procedures. The Company generally requires collateral or other security to support financial instruments with credit risk.

The following table details the contractual or notional amount of financial instruments that represented credit risk at the dates indicated:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Commitments to originate loans	$18,897	$27,538
Unused lines of credit	84,998	59,160
Standby and commercial letters of credit	1,514	1,725
Credit card arrangements	1,252	1,201
FHLB Mortgage Partnership Finance credit enhancement obligation, net	562	498
Commitment to purchase investment in a real estate limited partnership	980	—
Total	$108,203	$90,122

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have a fixed expiration date or other termination clause and may require payment of a fee. Since many of the loan commitments are expected to expire without being drawn upon and not all credit lines will be utilized, the total commitment amounts do not necessarily represent future cash requirements. Lines of credit incur seasonal volume fluctuations due to the nature of some customers' businesses, such as tourism and maple syrup products production. The Company established an overdraft privilege program in the second quarter of 2015 in which qualifying customers were automatically assigned an overdraft limit of $400 or $1,000 for certain deposit accounts. The increase in unused lines of credit at September 30, 2015 from December 31, 2014 is primarily the result of the implementation of this program, with $11.0 million available at September 30, 2015 under this program. In addition, there was a $9.7 million increase in the available balance of residential and commercial real estate construction lines of credit at September 30, 2015 compared to December 31, 2014.

The Company did not hold derivative or hedging instruments at September 30, 2015 or December 31, 2014.

The Company's subsidiary bank is required (as are all banks) to maintain vault cash or a noninterest bearing reserve balance as established by Federal Reserve regulations. The Bank's average total required reserve for the 14 day maintenance period including September 30, 2015 was $773 thousand and for December 31, 2014 was $738 thousand, both of which were satisfied by vault cash.

Contractual Obligations. The Company and Union have various financial obligations, including contractual obligations that may require future cash payments. The following table presents, as of September 30, 2015, significant fixed and determinable contractual obligations to third parties:

	September 30, 2015
	(Dollars in thousands)
Operating lease commitments	$349
Contractual payments on borrowed funds (1)	17,421
Deposits without stated maturity (1) (2)	412,560
Certificates of deposit (1) (2)	131,325
Deferred compensation payouts	991

Total	$562,646

(1) The amounts exclude interest payable.

(2) While Union has a contractual obligation to depositors should they wish to withdraw all or some of the funds on deposit, management believes, based on historical analysis as well as current conditions in the financial markets, that the majority of these deposits will remain on deposit for the foreseeable future.

Interest Rate Sensitivity "Gap" Analysis. An interest rate sensitivity "gap" is defined as the difference between interest earning assets and interest bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market interest rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The Company prepares its interest rate sensitivity “gap” analysis by scheduling interest earning assets and interest bearing liabilities into periods based upon the next date on which such assets and liabilities could mature or reprice. The amount of assets and liabilities shown in the table below within a particular period was determined in accordance with the contractual terms of the assets and liabilities, except that:

- adjustable-rate loans, investment securities, variable rate interest bearing deposits in banks, variable rate time deposits, FHLB advances and other secured borrowings are included in the period when they are first scheduled to adjust and not in the period in which they mature;
- fixed-rate mortgage-related securities and residential loans reflect estimated prepayments, which were estimated based on analyses of broker estimates, the results of a prepayment model utilized by the Company, and empirical data;
- other nonmortgage related fixed-rate loans reflect scheduled contractual amortization, with no estimated prepayments; and
- interest bearing checking, money markets and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on detailed studies by the Company of the sensitivity of each such category of deposit to changes in interest rates.

Management believes that these assumptions approximate actual experience and considers them reasonable. However, the interest rate sensitivity of the Company’s assets and liabilities in the tables could vary substantially if different assumptions were used, callable investment options were modeled, prepayment speeds changed or actual experience differs from the historical experience on which the assumptions are based.

The following table shows the Company's rate sensitivity analysis as of September 30, 2015:

	Repriced within 3 Months or Less	4 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	(Dollars in thousands, by repricing date)					
Interest sensitive assets:						
Overnight deposits	$9,186	$—	$—	$—	$—	$9,186
Interest bearing deposits in banks	747	2,889	3,986	4,044	1,087	12,753
Investment securities (1)(3)	11,139	3,102	10,318	6,345	24,927	55,831
Nonmarketable securities	—	—	—	—	2,053	2,053
Loans and loans held for sale (2)(3)	185,408	92,277	86,801	90,273	50,887	505,646
Total interest sensitive assets	$206,480	$98,268	$101,105	$100,662	$78,954	$585,469
Interest sensitive liabilities:						
Time deposits	$45,825	$46,197	$33,107	$6,196	$—	$131,325
Money markets	19,383	—	—	—	83,014	102,397
Regular savings	19,016	—	—	—	70,530	89,546
Interest bearing checking	44,662	—	—	—	72,341	117,003
Borrowed funds	9,479	2,230	5,712	—	—	17,421
Total interest sensitive liabilities	$138,365	$48,427	$38,819	$6,196	$225,885	$457,692
Net interest rate sensitivity gap	$68,115	$49,841	$62,286	$94,466	$(146,931)	$127,777
Cumulative net interest rate sensitivity gap	$68,115	$117,956	$180,242	$274,708	$127,777	
Cumulative net interest rate sensitivity gap as a percentage of total assets	11.0%	19.0%	29.1%	44.3%	20.6%	
Cumulative net interest rate sensitivity gap as a percentage of total interest sensitive assets	11.6%	20.1%	30.8%	46.9%	21.8%	
Cumulative net interest rate sensitivity gap as a percentage of total interest sensitive liabilities	14.9%	25.8%	39.4%	60.0%	27.9%	

(1) Investment securities exclude mutual funds shares with a fair value of $350 thousand that may be sold by the Company at any time.
(2) Balances shown include deferred unamortized loan costs of $491 thousand.
(3) Estimated repayment assumptions considered in Asset/Liability model.

Liquidity. Liquidity is a measurement of the Company’s ability to meet potential cash requirements, including ongoing commitments to fund deposit withdrawals, repay borrowings, fund investment and lending activities, and for other general business purposes. The primary objective of liquidity management is to maintain a balance between sources and uses of funds to meet our cash flow needs in the most economical and expedient manner. The Company’s principal sources of funds are deposits; amortization, prepayment and maturity of loans, investment securities, interest bearing deposits and other short-term investments; sales of securities and loans AFS; earnings; and funds provided from operations. Contractual principal repayments on loans are a relatively predictable source of funds, however, deposit flows and loan and investment prepayments can be significantly influenced by market interest rates, economic conditions, and rates offered by our competitors. Managing liquidity risk is essential to maintaining both depositor confidence and earnings stability.

As of September 30, 2015, Union, as a member of FHLB, had access to unused lines of credit up to $15.6 million over and above the $15.9 million term advances already drawn. These lines can be used for either short-or-long-term liquidity or other needs. In addition to its borrowing arrangements with the FHLB, Union maintains two pre-approved Federal Funds lines of credit totaling $12.0 million with two upstream correspondent banks, one-way buy options with CDARS and access to the Federal Reserve discount window, which would require pledging of qualified assets. There were no outstanding advances on the federal funds lines or at the discount window at September 30, 2015, and $3.0 million of purchased CDARS deposits as of such date.

Union's investment and residential loan portfolios provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales of those portfolios. We also have additional contingent liquidity sources with access to the brokered deposit market and the FRB discount window. These sources are considered as liquidity alternatives in our contingent liquidity plan. Management believes the Company has sufficient liquidity to meet all reasonable borrower, depositor, and creditor needs in the present economic environment. However, any projections of future cash needs and flows are subject to substantial uncertainty, including factors outside the Company's control.

Capital Resources. Capital management is designed to maintain an optimum level of capital in a cost-effective structure that meets target regulatory ratios, supports management’s internal assessment of economic capital, funds the Company’s business strategies and builds long-term stockholder value. Dividends are generally in line with long-term trends in earnings per share and conservative earnings projections, while sufficient profits are retained to support anticipated business growth, fund strategic investments, maintain required regulatory capital levels and provide continued support for deposits. The Company continues to evaluate growth opportunities both through internal growth or potential acquisitions.

The total dollar value of the Company’s stockholders’ equity at September 30, 2015 of $53.8 million increased $2.4 million from $51.4 million at December 31, 2014, reflecting net income of $6.0 million for the first nine months of 2015, an increase of $29 thousand from stock based compensation, an increase of $54 thousand in accumulated OCI and a $53 thousand increase due to the issuance of 2,500 shares of common stock resulting from the exercise of 2,500 incentive stock options. These increases were partially offset by cash dividends paid of $3.6 million and stock repurchases of $91 thousand during the nine months ended September 30, 2015.

Union Bankshares, Inc. has 7,500,000 shares of $2.00 par value common stock authorized. As of September 30, 2015, the Company had 4,931,796 shares issued, of which 4,457,292 were outstanding and 474,504 were held in treasury.

In January 2015, the Company's Board reauthorized a limited stock repurchase program initially adopted in May 2010, which permits the repurchase of up to 2,500 shares of the Company's common stock each calendar quarter in open market purchases or privately negotiated transactions, as management deems advisable and as market conditions warrant. The repurchase authorization for a calendar quarter expires at the end of that quarter to the extent it has not been exercised, and is not carried forward into future quarters. The quarterly repurchase authorization expires on December 31, 2015, unless reauthorized. The Company repurchased 3,638 shares during the first nine months of 2015, of which 3,522 shares were pursuant to that authorization, at a total cost of $91 thousand.

Effective May 21, 2014 upon approval by the stockholders, the Company adopted the 2014 Equity Plan, which replaced the 2008 ISO Plan. Under the 2014 Equity Plan, 50,000 shares of the Company’s common stock (including approximately 25,000 unused shares from the 2008 ISO Plan) are available for equity awards of incentive stock options, nonqualified stock options, restricted stock and restricted stock units to eligible officers and (except for awards of incentive stock options) nonemployee directors. Shares available for issuance of awards under the 2014 Equity Plan consist of unissued shares of the Company’s common stock and/or shares held in treasury. There were 6,000 options granted under the 2014 Equity Plan in the fourth quarter of 2014 that will become exercisable in the fourth quarter of 2015. Unrecognized compensation cost related to the unvested stock options as of September 30, 2015 was $6 thousand.

The Company's 2008 ISO Plan was replaced by the 2014 Equity Plan. As of September 30, 2015, 5,000 options granted under the 2008 ISO Plan remained outstanding and exercisable, with the last of such options expiring in December 2020. All exercisable options were “in the money” at September 30, 2015.

The FDIC and other federal bank regulatory agencies have adopted a final rule revising their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 capital ratio with a minimum requirement of 4.5%, increases the minimum Tier 1 risk based ratio from 4.0% to 6.0%, and assigns a higher risk weight of 150% to exposures that are more than 90 days past due or in nonaccrual status as well as certain commercial real estate loans that finance the acquisition, development or construction of real property. The final rule also requires accumulated OCI be included for purposes of calculating regulatory capital unless a one time opt-out election was made during the first quarter of 2015. The Company and the Bank both made the election. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% above the minimum capital ratio requirements. The final rule became effective for the Company and the Bank on January 1, 2015. The 2.5% capital conservation buffer requirement will be phased in over a four-year period ending January 1, 2019. Effective January 1, 2015, the FDIC adopted conforming changes to its prompt corrective action regulations. These changes include a new common equity Tier 1 ratio requirement, with a required minimum ratio of 6.5% for well-capitalized status. The new regulations also increase the minimum ratio of Tier 1 capital to risk weighted assets for well-capitalized status to 8.0%, from the current 6.0%.

Management believes that as of September 30, 2015, both companies met all capital adequacy requirements to which they are subject. As of September 30, 2015, the most recent calculation date, Union was categorized as well capitalized under the regulatory framework for prompt corrective action. The prompt corrective action capital category framework applies to FDIC insured depository institutions such as Union but does not apply directly to bank holding companies such as the Company. To be categorized as well capitalized, Union must maintain minimum total risk-based, Tier I risk-based, common equity Tier 1 risk based, and Tier I leverage ratios as set forth in the table below. As a bank holding company, the Company is subject to substantially similar capital adequacy requirements of the FRB. There were no conditions or events between September 30, 2015 and the date of this report that management believes have changed either Company's regulatory capital category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of September 30, 2015	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total capital to risk weighted assets						
Union	$57,139	13.53 %	$33,785	8.00 %	$42,231	10.00 %
Company	57,578	13.59 %	33,894	8.00 %	N/A	N/A
Tier I capital to risk weighted assets						
Union	$52,095	12.33 %	$25,350	6.00 %	$33,800	8.00 %
Company	52,534	12.40 %	25,420	6.00 %	N/A	N/A
Common Equity Tier 1 to risk weighted assets						
Union	$52,095	12.33 %	$19,013	4.50 %	$27,463	6.50 %
Company	52,534	12.40 %	19,065	4.50 %	N/A	N/A
Tier I capital to average assets						
Union	$52,095	8.53 %	$24,429	4.00 %	$30,536	5.00 %
Company	52,534	8.59 %	24,463	4.00 %	N/A	N/A

The Company remains focused on achieving its goals of long-term growth and an above-average shareholder return, while maintaining a strong capital position. Management is aware of the particular importance in today's uncertain economic environment of maintaining strong capital reserves and planning for future capital needs, including those required by the Basel III capital standards through the final phase in period ending on January 1, 2019.

A quarterly cash dividend of $0.27 per share was declared to stockholders of record on October 31, 2015, payable November 9, 2015. The dividend for the previous quarter was also $0.27 per share.

Regulatory Matters. The Company and Union are subject to periodic examinations by the various regulatory agencies. These examinations include, but are not limited to, procedures designed to review lending practices, risk management, credit quality, liquidity, compliance and capital adequacy. In October of 2015, the Vermont Department of Financial Regulation performed its regular, periodic regulatory examination of Union. Also, in January of 2015 the FRB performed its regular, periodic examination of the Company. During 2014, the FDIC performed a regular safety and soundness examination. No comments were received that would have a material adverse effect on the Company's or Union's liquidity, financial position, capital resources, or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.
Information called for by this item is incorporated by reference in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption OTHER FINANCIAL CONSIDERATIONS on pages 41-47.

Item 4. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of the Disclosure Control Committee, evaluated the effectiveness of the design and

operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2015. Based on this evaluation they concluded that those disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files with the Commission is accumulated and communicated to the Company’s management,

including its principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required information.
Changes in Internal Controls over Financial Reporting. There was no change in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.
There are no known pending legal proceedings to which the Company or its subsidiary is a party, or to which any of their properties is subject, other than ordinary litigation arising in the normal course of business activities. Although the amount of any ultimate liability with respect to such proceedings cannot be determined, in the opinion of management, any such liability is not expected to have a material adverse effect on the consolidated financial condition or results of operations of the Company and its subsidiary.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
During the quarter ended September 30, 2015, the Company did not issue any unregistered equity securities.
The following table summarizes repurchases of the Company's equity securities during the quarter ended September 30, 2015:
Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Program
July 2015	—	—	—	2,500
August 2015	2,542	$25.56	2,500	—
September 2015	19	$25.45	—	—

(1) Repurchases with respect to 2,500 shares, shown in the table, were made pursuant to an informal stock repurchase program initially adopted on May 19, 2010 under which the Company may repurchase up to 2,500 shares of its common stock each calendar quarter, in open market or privately negotiated transactions. The repurchase authorization for a calendar quarter expires at the end of that quarter to the extent it has not been exercised, and is not carried forward into future quarters. The program was reauthorized most recently in January 2015 and will expire on December 31, 2015, unless reauthorized. Repurchases with respect to 61 shares were made pursuant to approval by the Company's Board of Directors outside of the stock repurchase program.

Item 6. Exhibits.

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the third quarters and nine months ended September 30, 2015 and 2014, (iii) the unaudited consolidated statements of comprehensive income for the third quarters and nine months ended September 30, 2015 and 2014, (iv) the unaudited consolidated statements of changes in stockholders' equity, (iv) the unaudited consolidated statements of cash flows and (v) related notes.

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

	Union Bankshares, Inc.
November 10, 2015	/s/ David S. Silverman David S. Silverman Director, President and Chief Executive Officer
November 10, 2015	/s/ Karyn J. Hale Karyn J. Hale Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the third quarters and nine months ended September 30, 2015 and 2014, (iii) the unaudited consolidated statements of comprehensive income for the third quarters and nine months ended September 30, 2015 and 2014, (iv) the unaudited consolidated statements of changes in stockholders' equity, (iv) the unaudited consolidated statements of cash flows and (v) related notes.

---

* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.