CITY HOLDING CO
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended September 30, 2014
OR
[ ] TRANSITION REPORT PURSANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Transition Period From ____________To_____________.

Commission File number 0-11733
CITY HOLDING COMPANY
(Exact name of registrant as specified in its charter)

West Virginia	55-0619957
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25 Gatewater Road	
Charleston, West Virginia	25313
(Address of principal executive offices)	(Zip Code)

(304) 769-1100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

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Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.
Common stock, $2.50 Par Value – 15,217,692 shares as of November 4, 2014.

FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Result of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such information involves risks and uncertainties that could result in the Company's actual results differing from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to: (1) the Company may incur additional loan loss provision due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company could have adverse legal actions of a material nature; (4) the Company may face competitive loss of customers; (5) the Company may be unable to manage its expense levels; (6) the Company may have difficulty retaining key employees; (7) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (8) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (9) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (10) the Company may experience difficulties growing loan and deposit balances; (11) the current economic environment poses significant challenges for us and could adversely affect the Company's financial condition and results of operations; (12) deterioration in the financial condition of the U.S. banking system may impact the valuations of investments the Company has made in securities of other financial institutions resulting in either actual losses or other than temporary impairments on such investments; and (13) the effects of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the regulations promulgated and to be promulgated thereunder, which may subject the Company and its subsidiaries to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses. Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

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City Holding Company and Subsidiaries

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Part I - Financial Information

Item 1 - Financial Statements

Consolidated Balance Sheets
City Holding Company and Subsidiaries
(in thousands)

Assets	September 30, 2014 (Unaudited)	December 31, 2013
Cash and due from banks	$79,836	$75,999
Interest-bearing deposits in depository institutions	11,656	9,877
Cash and Cash Equivalents	91,492	85,876
Investment securities available for sale, at fair value	250,481	352,660
Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2014 and December 31, 2013, - $95,343 and $5,335, respectively)	93,089	4,117
Other securities	14,234	13,343
Total Investment Securities	357,804	370,120
Gross loans	2,630,742	2,606,197
Allowance for loan losses	(20,487)	(20,575)
Net Loans	2,610,255	2,585,622
Bank owned life insurance	94,338	92,047
Premises and equipment, net	78,999	82,548
Accrued interest receivable	7,751	6,866
Net deferred tax asset	36,654	42,165
Goodwill and other intangible assets	74,434	75,142
Other assets	33,580	27,852
Total Assets	$3,385,307	$3,368,238
Liabilities		
Deposits:		
Noninterest-bearing	$498,491	$493,228
Interest-bearing:		
Demand deposits	620,880	601,527
Savings deposits	640,009	612,772
Time deposits	1,034,015	1,077,606
Total Deposits	2,793,395	2,785,133
Short-term borrowings:		
Customer repurchase agreements	146,115	137,798
Long-term debt	16,495	16,495
Other liabilities	37,629	41,189
Total Liabilities	2,993,634	2,980,615
Shareholders' Equity		
	—	—

Preferred stock, par value $25 per share: 500,000 shares authorized; none issued		
Common stock, par value $2.50 per share: 50,000,000 shares authorized; 18,499,282 shares issued at September 30, 2014 and December 31, 2013, less 3,152,647 and 2,748,922 shares in treasury, respectively	46,249	46,249

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Capital surplus	107,062	107,596
Retained earnings	353,721	333,970
Cost of common stock in treasury	(112,438)	(95,202)
Accumulated other comprehensive income (loss):		
Unrealized loss on securities available-for-sale	(41)	(2,110)
Underfunded pension liability	(2,880)	(2,880)
Total Accumulated Other Comprehensive Loss	(2,921)	(4,990)
Total Shareholders’ Equity	391,673	387,623
Total Liabilities and Shareholders’ Equity	$3,385,307	$3,368,238

See notes to consolidated financial statements.

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Consolidated Statements of Income (Unaudited)
City Holding Company and Subsidiaries
(in thousands, except earnings per share data)

Interest Income	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Interest and fees on loans	$29,292	$32,983	$87,647	$94,693
Interest and dividends on investment securities:				
Taxable	2,864	2,392	8,797	7,774
Tax-exempt	282	299	840	935
Interest on federal funds sold	—	—	—	22
Total Interest Income	32,438	35,674	97,284	103,424
Interest Expense				
Interest on deposits	2,730	3,068	8,220	9,490
Interest on short-term borrowings	86	82	246	232
Interest on long-term debt	152	154	453	464
Total Interest Expense	2,968	3,304	8,919	10,186
Net Interest Income	29,470	32,370	88,365	93,238
Provision for loan losses	1,872	1,154	3,670	4,903
Net Interest Income After Provision for Loan Losses	27,598	31,216	84,695	88,335
Non-interest Income				
Gains on sale of investment securities	71	—	972	93
Service charges	6,934	7,169	19,833	20,601
Bankcard revenue	3,796	3,468	11,319	10,117
Insurance commissions	1,396	1,365	4,740	4,563
Trust and investment management fee income	1,103	939	3,251	2,893
Bank owned life insurance	771	805	2,292	2,416
Other income	538	734	1,646	2,376
Total Non-interest Income	14,609	14,480	44,053	43,059
Non-interest Expense				
Salaries and employee benefits	13,144	12,930	39,260	38,519
Occupancy and equipment	2,531	2,409	7,541	7,381
Depreciation	1,542	1,437	4,553	4,289
FDIC insurance expense	432	500	1,199	1,352
Advertising	799	712	2,548	2,266
Bankcard expenses	843	680	2,482	2,173
Postage, delivery, and statement mailings	557	541	1,662	1,698
Office supplies	405	416	1,235	1,320
Legal and professional fees	476	591	1,497	1,561
Telecommunications	510	721	1,354	1,631
Repossessed asset losses, net of expenses	31	896	552	718
Merger related costs	—	(150)	—	5,455
Other expenses	3,055	2,982	8,123	9,664
Total Non-interest Expense	24,325	24,665	72,006	78,027
Income Before Income Taxes	17,882	21,031	56,742	53,367

Income tax expense	6,010	7,056	18,310	18,398

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Net Income Available to Common Shareholders	$11,872	$13,975	$38,432	$34,969
Total comprehensive income	$11,460	$13,342	$40,501	$30,217
Average common shares outstanding	15,363	15,608	15,509	15,545
Effect of dilutive securities:				
Employee stock awards and warrant outstanding	82	182	85	168
Shares for diluted earnings per share	15,445	15,790	15,594	15,713
Basic earnings per common share	$0.76	$0.89	$2.45	$2.23
Diluted earnings per common share	$0.76	$0.88	$2.44	$2.21
Dividends declared per common share	$0.40	$0.37	$1.20	$1.11

See notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income (Unaudited)
City Holding Company and Subsidiaries
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$11,872	$13,975	$38,432	$34,969
Unrealized gains (losses) on available-for-sale securities arising during the period	(582)	(1,004)	4,252	(7,438)
Reclassification adjustment for gains	(71)	—	(972)	(93)
Other comprehensive income (loss) before income taxes	(653)	(1,004)	3,280	(7,531)
Tax effect	241	371	(1,211)	2,779
Other comprehensive income (loss), net of tax	(412)	(633)	2,069	(4,752)
Comprehensive income, net of tax	$11,460	$13,342	$40,501	$30,217

See notes to consolidated financial statements.

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Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
City Holding Company and Subsidiaries
Nine Months Ended September 30, 2014 and 2013
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2012	$46,249	$103,524	$309,270	$(124,347)	(1,422)	$333,274
Net income			34,969			34,969
Other comprehensive loss					(4,752)	(4,752)
Acquisition of Community Financial Corporation		4,236		24,272		28,508
Cash dividends declared ($1.11 per share)			(17,686)			(17,686)
Stock-based compensation expense, net		(315)		1,278		963
Exercise of 107,140 stock options		(170)		2,936		2,766
Balance at September 30, 2013	$46,249	$107,275	$326,553	$(95,861)	$ (6,174)	$378,042

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2013	46,249	$107,596	$333,970	(95,202)	$ (4,990)	$387,623
Net income			38,432			38,432
Other comprehensive income					2,069	2,069
Cash dividends declared ($1.20 per share)			(18,681)			(18,681)
Stock-based compensation expense, net		(262)		1,472		1,210
Exercise of 19,000 stock options		(272)		825		553
Purchase of 456,856 treasury shares				(19,533)		(19,533)
Balance at September 30, 2014	46,249	$107,062	$353,721	(112,438)	$ (2,921)	$391,673

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows (Unaudited)
City Holding Company and Subsidiaries
(in thousands)

	Nine months ended September 30,	
	2014	2013
Net income	$38,432	$34,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion and amortization	(3,889)	(7,885)
Provision for loan losses	3,670	4,903
Depreciation of premises and equipment	4,553	4,289
Deferred income tax expense	3,921	4,945
Net periodic employee benefit cost	393	586
Realized investment securities gains	(972)	(93)
Stock-compensation expense	1,210	963
Increase in value of bank-owned life insurance	(2,291)	(2,413)
Loans originated for sale	(4,911)	(20,895)
Proceeds from the sale of loans originated for sale	5,075	25,816
Gain on sale of loans	(131)	(553)
Change in accrued interest receivable	(885)	(22)
Change in other assets	(5,829)	20,734
Change in other liabilities	(3,763)	(6,922)
Net Cash Provided by Operating Activities	34,583	58,422
Proceeds from sales of securities available-for-sale	1,821	18,398
Proceeds from maturities and calls of securities available-for-sale	37,071	78,671
Proceeds from maturities and calls of securities held-to-maturity	4,124	9,504
Purchases of securities available-for-sale	(17,058)	(42,295)
Purchases of securities held-to-maturity	(10,226)	—
Net increase in loans	(23,454)	(39,643)
Purchases of premises and equipment	(1,085)	(4,663)
Acquisition of Community Financial Corporation, net of cash acquired of $8,888	—	(21,852)
Net Cash Used in Investing Activities	(8,807)	(1,880)
Net increase in noninterest-bearing deposits	5,263	25,440
Net increase (decrease) in interest-bearing deposits	3,597	(9,360)
Net increase in short-term borrowings	8,317	36,297
Purchases of treasury stock	(19,533)	—
Proceeds from exercise of stock options, net of tax benefit	553	2,766
Dividends paid	(18,357)	(17,058)
Net Cash (Used in) Provided by Financing Activities	(20,160)	38,085
Increase in Cash and Cash Equivalents	5,616	94,627
Cash and cash equivalents at beginning of period	85,876	84,994
Cash and Cash Equivalents at End of Period	$91,492	$179,621

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)
September 30, 2014

Note A –Background and Basis of Presentation

City Holding Company is a financial holding company headquartered in Charleston, West Virginia and conducts its principal activities through its wholly-owned subsidiary, City National Bank of West Virginia ("City National"). City National operates a network of 82 branch offices primarily along the I-64 corridor from Grayson, Kentucky through Lexington, Virginia; and along the I-81 corridor through the Shenandoah Valley from Staunton, Virginia to Martinsburg, West Virginia. City's branch network includes 57 offices in West Virginia, 14 offices in Virginia, 8 offices in Kentucky and 3 offices in Ohio. City National provides credit, deposit, investment advisory and insurance products and services to a broad geographical area that includes many rural and small community markets in addition to larger cities such as Charleston (WV), Huntington (WV), Winchester (VA), Staunton (VA), Virginia Beach (VA), Ashland (KY) and Martinsburg (WV). In addition to its branch network, the bank's delivery channels include ATMs, mobile banking, on-line banking, debit cards, cash management tools and telephone banking systems.

The accompanying consolidated financial statements, which are unaudited, include all of the accounts of the City Holding Company and its wholly-owned subsidiaries (collectively, “the Company”). All material intercompany transactions have been eliminated. The consolidated financial statements include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition for each of the periods presented. Such adjustments are of a normal recurring nature. The results of operations for nine months ended September 30, 2014 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2014. The Company’s accounting and reporting policies conform with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Such policies require management to make estimates and develop assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from management’s estimates.

The consolidated balance sheet as of December 31, 2013 has been derived from audited financial statements included in the Company’s 2013 Annual Report to Shareholders. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the 2013 Annual Report of the Company.

Certain amounts in the financial statements have been reclassified. Such reclassifications had no impact on shareholders’ equity or net income for any period.

Note B - Recent Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects." This ASU permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment. The ASU also requires reporting entities to disclose information that enable users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-01 is not expected to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." This ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through similar legal agreement. Additionally, the amendments require interim and annual disclosures of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local

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requirements of the applicable jurisdiction. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's financial statements.

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" This ASU changes the requirements for reporting discontinued operations. A disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations when certain criteria are met. Additional disclosures are also required for disposals that meet the criteria to be reported in discontinued operations. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-08 is not expected to have a material impact on the Company's financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle will be achieved using a five step process. This ASU will become effective for the Company on January 1, 2016. The adoption of ASU 2014-09 is not expected to have a material impact on the Company's financial statements.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures". The amendments in this update require two accounting changes. First, the amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counter-party, which will result in secured borrowing accounting for the repurchase agreement. This update also requires certain disclosures for these types of transactions. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-11 is not expected to have a material impact on the Company's financial statements.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-12, "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Performance targets should not be reflected in estimating the grant date fair value of the award, but compensation cost should be recognized in the period for which the requisite service has already been rendered. This ASU will become effective for the Company on January 1, 2016, with early adoption permitted. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's financial statements.

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-14, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. This ASU will become effective for the Company on January 1, 2015. The adoption of ASU 2014-14 is not expected to have a material impact on the Company's financial statements.

Note C –Investments

The amortized cost and estimated fair values of the Company's securities are shown in the following table (in thousands):

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	September 30, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:								
U.S. Treasuries and U.S. government agencies	$1,923	$20	$—	$1,943	$2,317	$48	$—	$2,365
Obligations of states and political subdivisions	41,096	729	13	41,812	41,027	627	106	41,548
Mortgage-backed securities:								
U.S. government agencies	183,470	2,950	3,123	183,297	282,653	2,765	7,310	278,108
Private label	1,767	11	—	1,778	2,184	16	3	2,197
Trust preferred securities	10,164	300	1,648	8,816	12,943	2,113	1,900	13,156
Corporate securities	7,802	203	375	7,630	9,788	183	843	9,128
Total Debt Securities	246,222	4,213	5,159	245,276	350,912	5,752	10,162	346,502
Marketable equity securities	2,447	1,250	—	3,697	3,334	1,339	—	4,673
Investment funds	1,525	—	17	1,508	1,525	—	40	1,485
Total Securities Available-for-Sale	$250,194	$5,463	$5,176	$250,481	$355,771	$7,091	$10,202	$352,660

	September 30, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held-to-maturity								
Mortgage-backed securities								
US government agencies	$89,193	$1,443	$—	$90,636	$—	$—	$—	$—
Trust preferred securities	3,896	811	—	4,707	4,117	1,218	—	5,335
Total Securities Held-to-Maturity	$93,089	$2,254	$—	$95,343	$4,117	$1,218	$—	$5,335
Other investment securities:								
Non-marketable equity securities	$14,234	$—	$—	$14,234	$13,343	$—	$—	$13,343
Total Other Investment Securities	$14,234	$—	$—	$14,234	$13,343	$—	$—	$13,343

Securities with limited marketability, such as stock in the Federal Reserve Bank or the Federal Home Loan Bank, are carried at cost and are reported as non-marketable equity securities in the table above.

Certain investment securities owned by the Company were in an unrealized loss position (i.e., amortized cost basis exceeded the estimated fair value of the securities). The following table shows the gross unrealized losses and fair value of the Company's investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

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	September 30, 2014					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available-for-sale:						
Obligations of states and political subdivisions	$1,641	$3	$445	$10	$2,086	$13
Mortgage-backed securities:						
U.S. Government agencies	22,774	341	80,798	2,782	103,572	3,123
Trust preferred securities	368	144	4,805	1,504	5,173	1,648
Corporate securities	—	—	4,363	375	4,363	375
Investment funds	—	—	1,483	17	1,483	17
Total	$24,783	$488	$91,894	$4,688	$116,677	$5,176

	December 31, 2013					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Securities available-for-sale:						
Obligations of states and political subdivisions	$5,600	$87	$243	$19	$5,843	$106
Mortgage-backed securities:						
U.S. Government agencies	195,661	7,113	5,040	197	200,701	7,310
Private label	1,491	3	—	—	1,491	3
Trust preferred securities	—	—	4,400	1,900	4,400	1,900
Corporate securities	5,881	843	—	—	5,881	843
Investment funds	$1,460	$40	$—	$—	1,460	40
Total	$210,093	$8,086	$9,683	$2,116	$219,776	$10,202

Marketable equity securities consist of investments made by the Company in equity positions of various regional community bank holding companies, with ownership positions ranging from nominal to a 4% ownership position in First National Corporation (FXNC).

During the nine months ended September 30, 2014 and 2013, the Company had no credit-related net investment impairment losses. Also, for the year ended December 31, 2013, the Company had no credit-related net investment impairment losses.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary would be reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition, capital strength, and near-term (12 months) prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; (iii) the historical volatility in the market value of the investment and/or the liquidity or illiquidity of the investment; (iv) adverse conditions specifically related to the security, an industry, or a geographic area; or (v) the intent to sell the investment security and if it's more likely than not that the Company will not have to sell the security before recovery of its cost basis. In addition, management also employs a continuous monitoring process in regards to its marketable equity securities, specifically its portfolio of regional community bank holding company stocks. Although the regional community bank holding company stocks that are owned by the Company are publicly traded, the trading activity for these stocks is minimal, with trading volumes of less than 0.2%

of each respective company being traded on a daily basis. As part of management's review process for these securities, management reviews the financial condition of each respective regional community bank for any indications of financial weakness.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of September 30, 2014, management does not intend to sell an impaired security and it is not more than likely that it will be required to sell the security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread widening on agency-issued mortgage related securities, general financial market uncertainty and market volatility. These conditions will not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date. As of September 30, 2014, management believes the

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unrealized losses detailed in the table above are temporary and no impairment loss has been recognized in the Company's consolidated income statement. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period of the other-than-temporary impairment is identified, while any noncredit loss will be recognized in other comprehensive income.

At September 30, 2014, the book value of the Company's five pooled trust preferred securities totaled $2.5 million with an estimated fair value of $1.4 million. All of these securities are mezzanine tranches. Pooled trust preferred securities represent beneficial interests in securitized financial assets that the Company analyzes within the scope of ASC 320, "Investments-Debt and Equity Securities" and are evaluated quarterly for other-than-temporary-impairment ("OTTI"). Management performs an analysis of OTTI utilizing its internal methodology as described below to estimate expected cash flows to be received in the future. The Company reviews each of its pooled trust preferred securities to determine if an OTTI charge would be recognized in current earnings in accordance with ASC 320, "Investments-Debt and Equity Securities". There is a risk that collateral deterioration could cause the Company to recognize additional OTTI charges in earnings in the future.

When evaluating pooled trust preferred securities for OTTI, the Company determines a credit related portion and a noncredit related portion. The credit related portion is recognized in earnings and represents the difference between the present value of expected future cash flows and the amortized cost basis of the security. The noncredit related portion is recognized in other comprehensive income, and represents the difference between the book value and the fair value of the security less the amount of the credit related impairment. The determination of whether it is probable that an adverse change in estimated cash flows has occurred is evaluated by comparing estimated cash flows to those previously projected as further described below. The Company considers this process to be its primary evidence when determining whether credit related OTTI exists. The results of these analyses are significantly affected by other variables such as the estimate of future cash flows, credit worthiness of the underlying issuers and determination of the likelihood of defaults of the underlying collateral.

The Company utilizes a third party model to compute the present value of expected cash flows which considers the structure and term of each of the five respective pooled trust preferred securities and the financial condition of the underlying issuers. Specifically, the third party model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. For issuing banks that have defaulted, management generally assumes no recovery. For issuing banks that have deferred its interest payments, management excludes the collateral balance associated with these banks and assumes no recoveries of such collateral balance in the future unless otherwise noted. The exclusion of such issuing banks in a current deferral position is based on such bank experiencing a certain level of financial difficulty that raises doubt about its ability to satisfy its contractual debt obligation, and accordingly, the Company excludes the associated collateral balance from its estimate of expected cash flows. Other assumptions used in the estimate of expected cash flows include expected future default rates and prepayments. Specifically, the model assumes annual prepayments of 1.0% with 100% at maturity and assumes 150 basis points of additional annual defaults from banks that are currently not in default or deferral. In addition, the model assumes no recoveries except for one trust preferred security which assumes that one of the banks currently deferring will cure such positions. Management compares the present value of expected cash flows to those previously projected to determine if an adverse change in cash flows has occurred. If an adverse change in cash flows has occurred, management determines the credit loss to be recognized in the current period and the portion related to noncredit factors to be recognized in other comprehensive income.

The following table presents a progression of the credit loss component of OTTI on debt and equity securities recognized in earnings during the nine months ended September 30, 2014 and for the year ended December 31, 2013 (in thousands). The credit loss component represents the difference between the present value of expected future cash flows and the amortized cost basis of the security. The credit component of OTTI recognized in earnings during a period is presented in two parts based upon whether the credit impairment in the current period is the first time the security was credit impaired (initial credit impairment) or if there is additional credit impairment on a security that was credit impaired in previous periods.

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	Debt Securities	Equity Securities	Total
Balance at January 1, 2013	$21,186	$4,813	$25,999
Additions:			
Initial credit impairment	—	—	—
Additional credit impairment	—	—	—
Deductions:			
Sold	—	(115)	(115)
Balance at December 31, 2013	21,186	4,698	25,884
Additions:			
Initial credit impairment	—	—	—
Additional credit impairment	—	—	—
Deductions:			
Sold	—	(2,251)	(2,251)
Balance at September 30, 2014	$21,186	$2,447	$23,633

The following table presents additional information about the Company's trust preferred securities with a credit rating of below investment grade as of September 30, 2014 (dollars in thousands):

Deal Name	Type	Class	Original Cost	Amortized Cost	Fair Value	Difference (1)	Lowest Credit Rating	# of issuers currently performing	Actual deferrals/defaults (as a % of original dollar)	Expected deferrals/defaults (as a % of remaining performing collateral)	Excess Subordination as a Percentage of Current Performing Collateral (4)
	Pooled trust preferred securities:										
	Other-than-temporarily impaired										
	Available for Sale:										
P1	Pooled	Mezz	$698	$ 75	$353	278	Caa1	6	19.5 %	20.0 % (2)	65.7 %
P2	Pooled	Mezz	2,535	—	—	—	Ca	4	22.3 %	— % (2)	— %
P3	Pooled	Mezz	2,962	1,419	636	(783)	Caa3	17	22.6 %	8.2 % (2)	43.5 %
P4	Pooled	Mezz	4,060	400	119	(281)	Ca	9	19.2 %	7.1 % (3)	26.9 %
P5	Pooled	Mezz	5,877	512	368	(144)	Ca	7	19.8 %	20.0 % (2)	62.7 %
	Held to Maturity:										
P6	Pooled	Mezz	1,351	43	707	664	Caa1	6	19.5 %	20.0 % (2)	65.7 %
P7	Pooled	Mezz	3,367	—	—	—	Ca	4	22.3 %	— % (2)	— %
	Single issuer trust preferred securities										
	Available for sale:										
S5	Single		261	235	249	14	NR	1	— %	— %	
	Held to Maturity:										
S9	Single		4,000	4,000	4,000	—	NR	1	— %	— %	

(1)

The differences noted consist of unrealized gains (losses) recorded at September 30, 2014 and noncredit other-than-temporary impairment losses recorded subsequent to April 1, 2009 that have not been reclassified as credit losses.

(2) Performing collateral is defined as total collateral minus all collateral that has been called, is currently deferring, or currently in default. This model for this security assumes that all collateral that is currently deferring will default with a zero recovery rate. The underlying issuers can cure, thus this bond could recover at a higher percentage upon default than zero.

(3) Performing collateral is defined as total collateral minus all collateral that has been called, is currently deferring, or currently in default. The model for this security assumes that one of the banks that is currently deferring will cure. If additional underlying issuers cure, this bond could recover at a higher percentage.

(4) Excess subordination is defined as the additional defaults/deferrals necessary in the next reporting period to deplete the entire credit enhancement (excess interest and over-collateralization) beneath our tranche within each pool to the point that would cause a "break in yield." This amount assumes that all currently performing collateral continues to perform. A break in yield means that our security would not be expected to receive all the contractual cash flows (principal and interest) by maturity. The "percent of current performing collateral" is the ratio of the "excess subordination amount" to current performing collateral—a higher percent means there is more excess subordination to absorb additional defaults/deferrals, and the better our security is protected from loss.

The amortized cost and estimated fair value of debt securities at September 30, 2014, by contractual maturity, are shown in the following table (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities

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may have the right to prepay obligations without prepayment penalties. Mortgage-backed securities have been allocated to their respective maturity groupings based on their contractual maturity.

	Amortized Cost	Estimated Fair Value
Securities Available-for-Sale		
Due in one year or less	$8,246	$8,289
Due after one year through five years	19,515	20,162
Due after five years through ten years	27,059	27,672
Due after ten years	191,402	189,153
	$246,222	$245,276
Securities Held-to-Maturity		
Due in one year or less	$—	
Due after one year through five years	—	
Due after five years through ten years	—	
Due after ten years	93,089	95,343
	$93,089	$95,343

Gross gains and gross losses realized by the Company from investment security transactions are summarized in the table below (in thousands). The specific identification method is used to determine the cost basis of securities sold.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross realized gains	$71	$—	$972	$93
Gross realized losses	—	—	—	—
Net investment security gains	$71	$—	$972	$93

The carrying value of securities pledged to secure public deposits and for other purposes as required or permitted by law approximated $272 million and $278 million at September 30, 2014 and December 31, 2013, respectively.

Statement of Cash Flows - Investing Activities - Supplemental Information

During the second quarter, the Company transferred certain securities from available-for-sale to held-to-maturity. The non-cash transfers of securities into the held-to-maturity categories from available-for-sale were made at fair value on the date of the transfer. The securities had an aggregate fair value of $83.4 million, with an aggregate net unrealized loss of $0.1 million on the date of transfer. The net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive income in the accompanying balance sheet as of September 30, 2014 totaled $0.1 million. This amount will be amortized out of accumulated other comprehensive income over the remaining life of the underlying securities as an adjustment of the yield on those securities.

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Note D –Loans

The following summarizes the Company’s major classifications for loans (in thousands):

	September 30, 2014	December 31, 2013
Residential real estate	$1,274,062	$1,204,450
Home equity – junior liens	146,965	146,090
Commercial and industrial	130,462	148,302
Commercial real estate	1,034,593	1,057,048
Consumer	41,042	46,402
DDA overdrafts	3,618	3,905
Gross loans	2,630,742	2,606,197
Allowance for loan losses	(20,487)	(20,575)
Net loans	$2,610,255	$2,585,622

Construction loans of $22.4 million and $17.3 million are included within residential real estate loans at September 30, 2014 and December 31, 2013, respectively. Construction loans of $24.9 million and $24.0 million are included within commercial real estate loans at September 30, 2014 and December 31, 2013, respectively. The Company’s commercial and residential real estate construction loans are primarily secured by real estate within the Company’s principal markets. These loans were originated under the Company’s loan policy, which is focused on the risk characteristics of the loan portfolio, including construction loans. Adequate consideration has been given to these loans in establishing the Company’s allowance for loan losses.

The following table details the loans acquired in conjunction with the Virginia Savings Bancorp, Inc. ("Virginia Savings") and Community Financial Corporation ("Community") acquisitions (in thousands):

	Virginia Savings	Community	Total
September 30, 2014			
Outstanding loan balance	$42,039	$238,245	$280,284
Credit-impaired loans:			
Carrying value	2,987	15,518	18,505
Contractual principal and interest	3,481	24,147	27,628
December 31, 2013			
Outstanding loan balance	$48,833	$279,890	$328,723
Credit-impaired loans:			
Carrying value	3,182	26,330	29,512
Contractual principal and interest	3,932	38,566	42,498

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Changes in the accretable yield of the credit-impaired loans for the nine months ended September 30, 2014 is as follows (in thousands):

	Virginia Savings		Community		Total	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at the beginning of the period	$698	$3,182	$10,389	$26,330	$11,087	$29,512
Accretion	(213)	213	(1,931)	2,130	(2,144)	2,343
Net reclassifications to accretable yield from						
non-accretable yield	149	—	3,205	—	3,354	—
Payments received, net	—	(408)	—	(12,942)	—	(13,350)
Disposals	(146)	—	(1,583)	—	(1,729)	—
Balance at the end of period	$488	$2,987	$10,080	$15,518	$10,568	$18,505

Increases in expected cash flow subsequent to the acquisition are recognized first as a reduction of any previous impairment, then prospectively through adjustment of the yield on the loans or pools over its remaining life, while decreases in expected cash flows are recognized as impairment through a provision for loan loss and an increase in the allowance for purchased credit-impaired loans.

Note E – Allowance For Loan Losses

Management systematically monitors the loan portfolio and the adequacy of the allowance for loan losses on a quarterly basis to provide for probable losses inherent in the portfolio. Management assesses the risk in each loan type based on historical trends, the general economic environment of its local markets, individual loan performance and other relevant factors.

Individual credits are selected throughout the year for detailed loan reviews, which are utilized by management to assess the risk in the portfolio and the adequacy of the allowance. Due to the nature of commercial lending, evaluation of the adequacy of the allowance as it relates to these loan types is often based more upon specific credit reviews, with consideration given to the potential impairment of certain credits and historical loss rates, adjusted for economic conditions and other inherent risk factors.

The following table summarizes the activity in the allowance for loan loss, by portfolio segment, for the nine months ended September 30, 2014 and 2013 (in thousands). The following table also presents the balance in the allowance for loan loss disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans, by portfolio segment, as of September 30, 2014 and December 31, 2013 (in thousands).

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	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Home equity	Consumer	DDA Overdrafts	Total
Nine months ended September 30, 2014							
Allowance for loan loss							
Beginning balance	$1,139	$10,775	$6,057	$1,672	$77	$855	$20,575
Charge-offs	330	1,665	1,348	288	171	1,052	4,854
Recoveries	85	94	91	—	172	654	1,096
Provision	564	402	2,159	107	10	293	3,535
Provision for acquired loans	135	—	—	—	—	—	135
Ending balance	$1,593	$9,606	$6,959	$1,491	$88	$750	$20,487
Nine months ended September 30, 2013							
Allowance for loan loss							
Beginning balance	$498	$10,440	$5,229	$1,699	$81	$862	$18,809
Charge-offs	772	803	1,598	278	326	1,102	4,879
Recoveries	51	669	137	—	242	674	1,773
Provision	1,460	201	2,481	268	79	414	4,903
Ending balance	$1,237	$10,507	$6,249	$1,689	$76	$848	$20,606
As of September 30, 2014							
Allowance for loan loss							
Evaluated for impairment:							
Individually	$—	$247	$—	$—	$—	$—	$247
Collectively	1,551	8,705	6,923	1,491	88	750	19,508
Acquired with deteriorated credit quality	42	654	36	—	—	—	732
Total	$1,593	$9,606	$6,959	$1,491	$88	$750	$20,487
Loans							
Evaluated for impairment:							
Individually	$—	$6,115	$451	$297	$—	$—	$6,863
Collectively	128,726	1,014,641	1,273,230	144,241	40,918	3,618	2,605,374
Acquired with deteriorated credit quality	1,736	13,837	381	2,427	124	—	18,505
Total	$130,462	$1,034,593	$1,274,062	$146,965	$41,042	$3,618	$2,630,742

As of December 31, 2013							
Allowance for loan loss							
Evaluated for impairment:							
Individually	$—	$880	$—	$—	$—	$—	$880
Collectively	827	9,615	6,054	1,672	77	855	19,100
Acquired with deteriorated credit quality	312	280	3	—	—	—	595
Total	$1,139	$10,775	$6,057	$1,672	$77	$855	$20,575
Loans							
Evaluated for impairment:							
Individually	$—	$11,837	$459	$298	$—	$—	$12,594
Collectively	146,318	1,020,657	1,201,894	145,025	46,292	3,905	2,564,091
Acquired with deteriorated credit quality	1,984	24,554	2,097	767	110	—	29,512
Total	$148,302	$1,057,048	$1,204,450	$146,090	$46,402	$3,905	$2,606,197

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Credit Quality Indicators

All commercial loans within the portfolio are subject to internal risk grading. All non-commercial loans are evaluated based on payment history. The Company's internal risk ratings for commercial loans are: Pass, Special Mention, Substandard and Doubtful. Each internal risk rating is defined in the loan policy using the following criteria: balance sheet yields, ratios and leverage, cash flow spread and coverage, prior history, capability of management, market position/industry, potential impact of changing economic, legal, regulatory or environmental conditions, purpose, structure, collateral support, and guarantor support. Risk grades are generally assigned by the primary lending officer and are periodically evaluated by the Company's internal loan review process. Based on an individual loan's risk grade, estimated loss percentages are applied to the outstanding balance of the loan to determine the amount of probable loss.

The Company categorizes loans into risk categories based on relevant information regarding the customer's debt service ability, capacity, overall collateral position along with other economic trends, and historical payment performance. The risk grades for each credit are updated when the Company receives current financial information, the loan is reviewed by the Company's internal loan review/credit administration departments, or the loan becomes delinquent or impaired. The risk grades are updated a minimum of annually for loans rated exceptional, good, acceptable, or pass/watch. Loans rated special mention, substandard or doubtful are reviewed at least quarterly. The Company uses the following definitions for its risk ratings:

Risk Rating	Description
Pass ratings:	
(a) Exceptional	Loans classified as exceptional are secured with liquid collateral conforming to the internal loan policy. Loans rated within this category pose minimal risk of loss to the bank.
(b) Good	Loans classified as good have similar characteristics that include a strong balance sheet, satisfactory debt service coverage ratios, strong management and/or guarantors, and little exposure to economic cycles. Loans in this category generally have a low chance of loss to the bank.
(c) Acceptable	Loans classified as acceptable have acceptable liquidity levels, adequate debt service coverage ratios, experienced management, and have average exposure to economic cycles. Loans within this category generally have a low risk of loss to the bank.
(d) Pass/watch	Loans classified as pass/watch have erratic levels of leverage and/or liquidity, cash flow is volatile and the borrower is subject to moderate economic risk. A borrower in this category poses a low to moderate risk of loss to the bank.
Special mention	Loans classified as special mention have a potential weakness(es) that deserves management's close attention. The potential weakness could result in deterioration of the loan repayment or the bank's credit position at some future date. A loan rated in this category poses a moderate loss risk to the bank.
Substandard	Loans classified as substandard reflect a customer with a well defined weakness that jeopardizes the liquidation of the debt. Loans in this category have the possibility that the bank will sustain some loss if the deficiencies are not corrected and the bank's collateral value is weakened by the financial deterioration of the borrower.
Doubtful	Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that make collection of the full contract amount highly improbable. Loans rated in this category are most likely to cause the bank to have a loss due to a collateral shortfall or a negative capital position.

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The following table presents loans by the Company’s commercial loans by credit quality indicators, by class (in thousands):

	Commercial and industrial	Commercial real estate	Total
September 30, 2014			
Pass	$116,498	$967,581	$1,084,079
Special mention	654	19,134	19,788
Substandard	12,900	47,443	60,343
Doubtful	410	435	845
Total	$130,462	$1,034,593	$1,165,055
December 31, 2013			
Pass	$141,818	$974,368	$1,116,186
Special mention	648	20,072	20,720
Substandard	5,416	62,139	67,555
Doubtful	420	469	889
Total	$148,302	$1,057,048	$1,205,350

The following table presents the Company's non-commercial loans by payment performance, by class (in thousands):

	Performing	Non-Performing	Total
September 30, 2014			
Residential real estate	$1,271,767	$2,295	$1,274,062
Home equity - junior lien	146,689	276	146,965
Consumer	41,001	41	41,042
DDA overdrafts	3,617	1	3,618
Total	$1,463,074	$2,613	$1,465,687
December 31, 2013			
Residential real estate	$1,201,631	$2,819	$1,204,450
Home equity - junior lien	145,812	278	146,090
Consumer	46,353	49	46,402
DDA overdrafts	3,900	5	3,905
Total	$1,397,696	$3,151	$1,400,847

Aging Analysis of Accruing and Non-Accruing Loans

Interest income on loans is accrued and credited to operations based upon the principal amount outstanding, using methods that generally result in level rates of return. Loan origination fees, and certain direct costs, are deferred and amortized as an adjustment to the yield over the term of the loan. The accrual of interest generally is discontinued when a loan becomes 90 days past due as to principal or interest for all loan types. However, any loan may be placed on non-accrual if the Company receives information that indicates a borrower is unable to meet the contractual terms of their respective loan agreement. Other indicators considered for placing a loan on non-accrual status include the borrower’s involvement in bankruptcies, foreclosures, repossessions, litigation and any other situation resulting in doubt as to whether full collection of contractual principal and interest is attainable. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and interest accrued in prior years is charged to the allowance for loan losses. Management may elect to continue the accrual of interest when the net realizable value of collateral exceeds the principal balance and related accrued interest, and the loan is in the process of collection.

Generally for all loan classes, interest income during the period the loan is non-performing is recorded on a cash basis after recovery of principal is reasonably assured. Cash payments received on nonperforming loans are typically applied directly against the outstanding principal balance until the loan is fully repaid. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

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Generally, all loan types are considered past due when the contractual terms of a loan are not met and the borrower is 30 days or more past due on a payment. Furthermore, residential and home equity loans are generally subject to charge-off when the loan becomes 120 days past due, depending on the estimated fair value of the collateral less cost to dispose, versus the outstanding loan balance. Commercial loans are generally charged off when the loan becomes 120 days past due. Open-end consumer loans are generally charged off when the loan becomes 180 days past due.

A loan acquired and accounted for under ASC Topic 310-30 is reported as an accruing loan and a performing asset provided that the loan is performing in accordance with the initial expectations. The loan would be considered non-performing if the loan's performance deteriorates below the initial expectations.

The following table presents an aging analysis of the Company’s accruing and non-accruing loans, by class, as of September 30, 2014 and December 31, 2013 (in thousands):

	Originated Loans September 30, 2014 Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	$1,176,782	$4,428	$683	$164	$ —	$2,131	$1,184,188
Home equity - junior lien	143,460	590	25	136	—	127	144,338
Commercial and industrial	114,963	188	—	—	—	90	115,241
Commercial real estate	859,813	938	—	—	—	9,270	870,021
Consumer	32,994	46	12	—	—	—	33,052
DDA overdrafts	3,025	590	2	1	—	—	3,618
Total	$2,331,037	$6,780	$722	$301	$ —	$11,618	$2,350,458

	Acquired Loans September 30, 2014 Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	$89,373	$406	$95	$—	$ —	$—	$89,874
Home equity - junior lien	2,612	2	—	13	—	—	2,627
Commercial and industrial	13,572	3	8	86	—	1,552	15,221
Commercial real estate	157,412	1,477	85	393	1,016	4,189	164,572
Consumer	7,802	145	2	16	—	25	7,990
DDA overdrafts	—	—	—	—	—	—	—
Total	$270,771	$2,033	$190	$508	$ 1,016	$5,766	$280,284

	Total Loans September 30, 2014 Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	$1,266,155	$4,834	$778	$164	$ —	$2,131	$1,274,062
Home equity - junior lien	146,072	592	25	149	—	127	146,965
	128,535	191	8	86	—	1,642	130,462

Commercial and industrial							
Commercial real estate	1,017,225	2,415	85	393	1,016	13,459	1,034,593
Consumer	40,796	191	14	16	—	25	41,042
DDA overdrafts	3,025	590	2	1	—	—	3,618
Total	$2,601,808	$8,813	$912	$809	$ 1,016	$17,384	$2,630,742

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Originated Loans
December 31, 2013

	Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	$1,096,911	$4,123	$495	$231	$ —	$1,905	$1,103,665
Home equity - junior lien	141,967	880	—	42	—	236	143,125
Commercial and industrial	128,015	—	—	—	—	79	128,094
Commercial real estate	852,090	668	—	—	—	13,097	865,855
Consumer	32,647	172	7	4	—	—	32,830
DDA overdrafts	3,511	374	15	5	—	—	3,905
Total	$2,255,141	$6,217	$517	$282	$ —	$15,317	$2,277,474

Acquired Loans
December 31, 2013

	Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	$99,089	$842	$172	$—	$ —	$682	$100,785
Home equity - junior lien	2,965	—	—	—	—	—	2,965
Commercial and industrial	18,253	—	80	—	—	1,875	20,208
Commercial real estate	176,018	2,772	273	109	7,534	4,487	191,193
Consumer	12,876	622	29	45	—	—	13,572
DDA overdrafts	—	—	—	—	—	—	—
Total	$309,201	$4,236	$554	$154	$ 7,534	$7,044	$328,723

Total Loans
December 31, 2013

	Accruing						
	Current	30-59 days	60-89 days	Over 90 days	Purchased-Credit Impaired	Non-accrual	Total
Residential real estate	$1,196,000	$4,965	$667	$231	$ —	$2,587	$1,204,450
Home equity - junior lien	144,932	880	—	42	—	236	146,090
Commercial and industrial	146,268	—	80	—	—	1,954	148,302
Commercial real estate	1,028,108	3,440	273	109	7,534	17,584	1,057,048
Consumer	45,523	794	36	49	—	—	46,402
DDA overdrafts	3,511	374	15	5	—	—	3,905
Total	$2,564,342	$10,453	$1,071	$436	$ 7,534	$22,361	$2,606,197

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The following table presents the Company's impaired loans, by class, as of September 30, 2014 and December 31, 2013 (in thousands). The difference between the unpaid principal balance and the recorded investment generally reflects amounts that have been previously charged-off.

	September 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Residential real estate	$451	$451	$—	$459	$459	$—
Home equity - junior liens	297	297	—	298	298	—
Commercial and industrial	—	—	—	—	—	—
Commercial real estate	4,718	4,718	—	8,421	8,361	—
Consumer	—	—	—	—	—	—
DDA overdrafts	—	—	—	—	—	—
Total	$5,466	$5,466	$—	$9,178	$9,118	$—
With an allowance recorded						
Residential real estate	$—	$—	$—	$—	$—	$—
Home equity - junior liens	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Commercial real estate	1,397	1,397	247	3,416	3,416	880
Consumer	—	—	—	—	—	—
DDA overdrafts	—	—	—	—	—	—
Total	$1,397	$1,397	$247	$3,416	$3,416	$880

The following table presents information related to the average recorded investment and interest income recognized on the Company's impaired loans, by class (in thousands):

	For the nine months ended			
	September 30, 2014		September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential real estate	$453	$—	$464	$—
Home equity - junior liens	297	—	297	—
Commercial and industrial	—	—	—	—
Commercial real estate	7,329	4	9,200	24
Consumer	—	—	—	—
DDA overdrafts	—	—	—	—
Total	$8,079	$4	$9,961	$24
With an allowance recorded				
Residential real estate	$—	$—	$—	$—
Home equity - junior liens	—	—	—	—
Commercial and industrial	—	—	—	—
Commercial real estate	1,837	30	3,277	—

Consumer	—	—	—	—
DDA overdrafts	—	—	—	—
Total	$1,837	$30	$3,277	$—

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Approximately $0.3 million and $0.4 million of interest income would have been recognized during the nine months ended September 30, 2014 and 2013, if such loans had been current in accordance with their original terms. There were no commitments to provide additional funds on non-accrual, impaired or other potential problem loans at September 30, 2014.

Loan Modifications

The Company's policy on loan modifications typically does not allow for modifications that would be considered a concession from the Company. However, when there is a modification, the Company evaluates each modification to determine if the modification constitutes a troubled debt restructuring ("TDR") in accordance with ASU 2011-2, whereby a modification of a loan would be considered a TDR when both of the following conditions are met: (1) a borrower is experiencing financial difficulty and (2) the modification constitutes a concession. When determining whether the borrower is experiencing financial difficulties, the Company reviews whether the debtor is currently in payment default on any of its debt or whether it is probable that the debtor would be in payment default in the foreseeable future without the modification. Other indicators of financial difficulty include whether the debtor has declared or is in the process of declaring bankruptcy, the debtor's ability to continue as a going concern, or the debtor's projected cash flow to service its debt (including principal and interest) in accordance with the contractual terms for the foreseeable future, without a modification.

Regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged by the bankruptcy court and the borrower has not reaffirmed the debt. The filing of bankruptcy is deemed to be evidence that the borrower is in financial difficulty and the discharge of the debt by the bankruptcy court is deemed to be a concession granted to the borrower.

The following tables set forth the Company's TDRs (in thousands):

	September 30, 2014			December 31, 2013		
	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total
Commercial and industrial	$77	$—	$77	$88	$—	$88
Commercial real estate	2,269	—	2,269	1,783	—	1,783
Residential real estate	17,833	207	18,040	18,651	1,693	20,344
Home equity	2,821	—				