SUMMIT FINANCIAL GROUP INC
Form 10-Q
May 04, 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

For the quarterly period ended March 31, 2015
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___________ to __________.

Commission File Number 0-16587

Summit Financial Group, Inc. (Exact name of registrant as specified in its charter)	
West Virginia (State or other jurisdiction of incorporation or organization)	55-0672148 (IRS Employer Identification No.)
300 North Main Street Moorefield, West Virginia (Address of principal executive offices)	26836 (Zip Code)
(304) 530-1000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities and 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 þ No o

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 þ No o

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 o Accelerated filer o
Non-accelerated filer o Smaller reporting company þ

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Common Stock, $2.50 par value
10,586,242 shares outstanding as of April 30, 2015

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Consolidated Balance Sheets (unaudited)

Dollars in thousands	March 31, 2015 (unaudited)	December 31, 2014 (*)	March 31, 2014 (unaudited)
ASSETS			
Cash and due from banks	$3,850	$3,728	$3,827
Interest bearing deposits with other banks	8,437	8,782	13,424
Cash and cash equivalents	12,287	12,510	17,251
Securities available for sale	282,135	282,834	281,865
Other investments	7,247	6,183	6,610
Loans held for sale, net	85	527	—
Loans, net	1,039,669	1,019,842	962,714
Property held for sale	34,368	37,529	52,241
Premises and equipment, net	20,208	20,060	20,457
Accrued interest receivable	5,564	5,838	5,410
Intangible assets	7,648	7,698	7,861
Cash surrender value of life insurance policies	36,961	36,700	35,881
Other assets	14,320	13,847	15,827
Total assets	$1,460,492	$1,443,568	$1,406,117
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$117,049	$115,427	$99,445
Interest bearing	941,259	945,887	953,185
Total deposits	1,058,308	1,061,314	1,052,630
Short-term borrowings	148,985	123,633	68,974
Long-term borrowings	77,013	77,490	123,492
Subordinated debentures	5,000	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	15,708	13,098	10,105
Total liabilities	1,324,603	1,311,924	1,291,590
Commitments and Contingencies			
Shareholders' Equity			
Preferred stock and related surplus - authorized 250,000 shares;			
Series 2009, 8% Non-cumulative convertible preferred stock, par value $1.00; issued December 2014 - 3,610 shares, and March 2014 - 3,710 shares	—	3,419	3,519
Series 2011, 8% Non-cumulative convertible preferred stock, par value $1.00; issued December 2014 - 11,914 shares, and March 2014 - 11,914 shares	—	5,764	5,764
Common stock and related surplus - authorized 20,000,000 shares; $2.50 par value; issued and outstanding 2015 - 10,586,242 shares, December 2014 - 8,301,746 shares, and March 2014 - 7,457,222	43,072	32,670	24,691

shares			
Retained earnings	91,176	87,719	79,330
Accumulated other comprehensive income	1,641	2,072	1,223
Total shareholders' equity	135,889	131,644	114,527
Total liabilities and shareholders' equity	$1,460,492	$1,443,568	$1,406,117

(*) - December 31, 2014 financial information has been extracted from audited consolidated financial statements
See Notes to Consolidated Financial Statements

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Consolidated Statements of Income (unaudited)

Dollars in thousands, except per share amounts	Three Months Ended March 31, 2015	March 31, 2014
Interest income		
Interest and fees on loans		
Taxable	$12,733	$12,145
Tax-exempt	115	71
Interest and dividends on securities		
Taxable	1,282	1,282
Tax-exempt	612	570
Interest on interest bearing deposits with other banks	1	2
Total interest income	14,743	14,070
Interest expense		
Interest on deposits	2,071	2,241
Interest on short-term borrowings	112	53
Interest on long-term borrowings and subordinated debentures	1,040	1,738
Total interest expense	3,223	4,032
Net interest income	11,520	10,038
Provision for loan losses	250	1,000
Net interest income after provision for loan losses	11,270	9,038
Other income		
Insurance commissions	1,128	1,181
Service fees related to deposit accounts	976	1,043
Realized securities gains (losses)	480	(22)
Bank owned life insurance income	261	270
Other	294	311
Total other income	3,139	2,783
Other expense		
Salaries, commissions, and employee benefits	4,187	3,980
Net occupancy expense	499	541
Equipment expense	535	566
Professional fees	335	316
Amortization of intangibles	50	88
FDIC premiums	330	502
Foreclosed properties expense	208	254
Loss on sale of foreclosed properties	150	75
Write-down of foreclosed properties	572	928
Other	1,338	1,248
Total other expense	8,204	8,498
Income before income taxes	6,205	3,323
Income tax expense	1,920	934
Net Income	4,285	2,389
Dividends on preferred shares	—	193
Net Income applicable to common shares	$4,285	$2,196
Basic earnings per common share	$0.49	$0.29

Diluted earnings per common share	$0.41	$0.25

See Notes to Consolidated Financial Statements

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Consolidated Statement of Comprehensive Income (unaudited)

	For the Three Months Ended March 31,	
Dollars in thousands	2015	2014
Net income	$4,285	$2,389
Other comprehensive income (loss):		
Net unrealized (loss) on cashflow hedge of:		
2015 - ($1,412), net of deferred taxes of ($522); 2014 - ($1,211), net of deferred taxes of ($448)	(890)	(763)
Net unrealized gain on available for sale debt securities of:		
2015 - $729, net of deferred taxes of $270 and reclassification adjustment for net realized gains included in net income of $480; 2014 - $3,186, net of deferred taxes of $1,179 and reclassification adjustment for net realized (losses) included in net income of ($22)	459	2,007
Total comprehensive income	$3,854	$3,633

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Consolidated Statements of Shareholders’ Equity (unaudited)

Dollars in thousands, except per share amounts	Series 2009 Preferred Stock and Related Surplus	Series 2011 Preferred Stock and Related Surplus	Common Stock and Related Surplus	Retained Earnings	Accumulated Other Compre-hensive Income	Total Share-holders' Equity
Balance, December 31, 2014	$3,419	$5,764	$32,670	$87,719	$2,072	$131,644
Three Months Ended March 31, 2015						
Comprehensive income:						
Net income	—	—	—	4,285	—	4,285
Other comprehensive (loss)	—	—	—	—	(431)	(431)
Total comprehensive income						3,854
Conversion of Series 2009 Preferred Stock to Common Stock	(3,419)	—	3,413	—	—	(6)
Conversion of Series 2011 Preferred Stock to Common Stock	—	(5,764)	5,757	—	—	(7)
Issuance of 237,753 shares of Common Stock	—	—	2,298	—	—	2,298
Retirement of 100,000 shares of Common Stock	—	—	(1,080)	—	—	(1,080)
Reinvested dividends	—	—	14	(14)	—	—
Common Stock cash dividends declared ($0.08 per share)	—	—	—	(814)	—	(814)
Balance, March 31, 2015	$—	$—	$43,072	$91,176	$1,641	$135,889
Balance, December 31, 2013	$3,519	$5,776	$24,664	$77,134	$(21)	$111,072
Three Months Ended March 31, 2014						
Comprehensive income:						
Net income	—	—	—	2,389	—	2,389
Other comprehensive income	—	—	—	—	1,244	1,244
Total comprehensive income						3,633
Exercise of stock options	—	—	15	—	—	15
Conversion of Series 2011 Preferred Stock to Common Stock	—	(12)	12	—	—	—
Series 2009 Preferred Stock cash dividends declared ($20.00 per share)	—	—	—	(74)	—	(74)
Series 2011 Preferred Stock cash dividends declared ($10.00 per share)	—	—	—	(119)	—	(119)
Balance, March 31, 2014	$3,519	$5,764	$24,691	$79,330	$1,223	$114,527

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Three Months Ended March 31, 2015	March 31, 2014
Cash Flows from Operating Activities		
Net income	$4,285	$2,389
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	260	277
Provision for loan losses	250	1,000
Deferred income tax (benefit) expense	81	(144)
Loans originated for sale	(536)	(124)
Proceeds from loans sold	978	445
Securities (gains) losses	(480)	22
Loss on disposal of assets	152	75
Write down of foreclosed properties	572	928
Amortization of securities premiums (accretion of discounts), net	1,252	1,214
Amortization of intangibles, net	53	91
Decrease in accrued interest receivable	274	259
Increase in cash surrender value of bank owned life insurance	(261)	(270)
Increase in other assets	(746)	(76)
Increase in other liabilities	1,420	1,028
Net cash provided by operating activities	7,554	7,114
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	365	2,051
Proceeds from sales of securities available for sale	26,835	18,157
Principal payments received on securities available for sale	8,621	8,782
Purchases of securities available for sale	(35,166)	(20,122)
Purchases of other investments	(2,736)	(692)
Proceeds from sales & redemptions of other investments	1,671	1,897
Net principal payments received on loans	(20,822)	(27,942)
Purchases of premises and equipment	(409)	(110)
Proceeds from sales of other repossessed assets & property held for sale	3,595	1,514
Net cash (used in) investing activities	(18,046)	(16,465)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	(1,706)	51,336
Net decrease in time deposits	(1,313)	(2,518)
Net increase in short-term borrowings	25,352	6,205
Repayment of long-term borrowings	(477)	(40,024)
Repayment of subordinated debt	(11,800)	—
Net proceeds from issuance of common stock	2,298	—
Retirement of common stock	(1,080)	—
Exercise of stock options	—	15
Dividends paid on common stock	(814)	—
Dividends paid on preferred stock	(191)	(194)
Net cash provided by financing activities	10,269	14,820
Increase (decrease) in cash and cash equivalents	(223)	5,469
Cash and cash equivalents:		
Beginning	12,510	11,782

Ending	$ 12,287	$ 17,251

(Continued)

See Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Three Months Ended March 31, 2015	March 31, 2014
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$3,242	$4,272
Income taxes	$128	$—
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$714	$1,297

See Notes to Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

The results of operations for the quarter ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with our 2014 audited financial statements and Annual Report on Form 10-K. Certain accounts in the consolidated financial statements for December 31, 2014 and March 31, 2014, as previously presented, have been reclassified to conform to current year classifications.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASU 2014-1, Investments (Topic 323) - Accounting for Investments in Affordable Housing Projects revises the necessary criteria that need to be met in order for an entity to account for investments in affordable housing projects net of the provision for income taxes. It also changes the method of recognition from an effective amortization approach to a proportional amortization approach. Additional disclosures were also set forth in this update. ASU 2014-1 was effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

ASU 2014-4, Receivables (Topic 310) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure clarifies that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-4 was effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

ASU 2014-11, Transfers and Servicing (Topic 860) - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 was effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for us beginning January 1, 2016, though early adoption is permitted, and is not expected to have a significant impact on our financial statements.

ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs specifies that debt issuance costs related to a recognized liability are to be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for years beginning after December 31, 2015 and is not expected to have a material impact on our financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

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ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1:Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2:Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3:Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Accordingly, securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, and impaired loans held for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

Derivative Financial Instruments: Derivative financial instruments are recorded at fair value on a recurring basis. Fair value measurement is based on pricing models run by a third-party, utilizing observable market-based inputs. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. As a result, we classify interest rate swaps as Level 2.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify loans subject to nonrecurring fair value adjustments as Level 2.

Loans: We do not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the original contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the discounted cash flows or collateral value exceeds the recorded investments in such loans. These loans are carried at recorded loan investment, and therefore are not included in the following tables of loans measured at fair value. Impaired loans internally graded as substandard, doubtful, or loss are evaluated using the fair value of collateral method. All other impaired loans are measured for impairment using the discounted cash flows method. In accordance with ASC Topic 310, impaired loans where an allowance is established based on the fair value of collateral requires classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When a current appraised value is not available and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

When impaired loans are deemed required to be included in the fair value hierarchy, management immediately begins the process of evaluating the estimated fair value of the underlying collateral to determine if a related specific allowance for loan losses or charge-off is necessary. Current appraisals are ordered once a loan is deemed impaired if the existing appraisal is more than twelve months old, or more frequently if there is known deterioration in value. For recently identified impaired

loans, a current appraisal may not be available at the financial statement date. Until the current appraisal is obtained, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the loan's underlying collateral since the date of the original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar collateral within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends. When a new appraisal is received (which generally are received within 3 months of a
loan being identified as impaired), management then re-evaluates the fair value of the collateral and adjusts any specific allocated allowance for loan losses, as appropriate. In addition, management also assigns a discount of 7–10% for the estimated costs to sell the collateral.

Foreclosed properties: Foreclosed properties consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of foreclosed properties is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). Updated appraisals of foreclosed properties are generally obtained if the existing appraisal is more than 18 months old or more frequently if there is a known deterioration in value. However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	March 31, 2015	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$22,837	$—	$22,837	$—
Mortgage backed securities:				
Government sponsored agencies	156,815	—	156,815	—
Nongovernment sponsored entities	11,068	—	11,068	—
State and political subdivisions	8,470	—	8,470	—
Corporate debt securities	6,665	—	2,876	3,789
Other equity securities	7	—	7	—
Tax-exempt state and political subdivisions	76,273	—	76,273	—
Total available for sale securities	$282,135	$—	$278,346	$3,789
Derivative financial liabilities				
Interest rate swaps	$4,292	$—	$4,292	$—

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2014	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$23,174	$—	$23,174	$—
Mortgage backed securities:				
Government sponsored agencies	149,777	—	149,777	—
Nongovernment sponsored entities	12,145	—	12,145	—
State and political subdivisions	8,694	—	8,694	—

Corporate debt securities	3,776	—	—	3,776
Other equity securities	7	—	7	—
Tax-exempt state and political subdivisions	85,261	—	85,261	—
Total available for sale securities	$282,834	$—	$279,058	$3,776
Derivative financial liabilities				
Interest rate swaps	$2,911	$—	$2,911	$—

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Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	March 31, 2015	Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$85	$—	$85	$—
Collateral-dependent impaired loans				
Commercial	$—	$—	$—	$—
Commercial real estate	170	—	170	—
Construction and development	722	—	722	—
Residential real estate	1,424	—	1,424	—
Total collateral-dependent impaired loans	$2,316	$—	$2,316	$—
Foreclosed properties				
Commercial real estate	2,346	—	2,346	—
Construction and development	20,198	—	20,124	74
Residential real estate	1,669	—	773	896
Total foreclosed properties	$24,213	$—	$23,243	$970

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2014	Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$527	$—	$527	$—
Collateral-dependent impaired loans				
Commercial	$44	—	$—	$44
Commercial real estate	344	—	344	—
Construction and development	852	—	852	—
Residential real estate	312	—	312	—
Total collateral-dependent impaired loans	$1,552	$—	$1,508	$44
Foreclosed properties				
Commercial real estate	3,892	—	3,892	—
Construction and development	20,952	—	20,841	111
Residential real estate	2,025	—	2,025	—
Total foreclosed properties	$26,869	$—	$26,758	$111

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments.

Cash and cash equivalents: The carrying values of cash and cash equivalents approximate their estimated fair value.

Interest bearing deposits with other banks: The carrying values of interest bearing deposits with other banks approximate their estimated fair values.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

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Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Subordinated debentures: The carrying values of subordinated debentures approximate their estimated fair values.

Subordinated debentures owed to unconsolidated subsidiary trusts: The carrying values of subordinated debentures owed to unconsolidated subsidiary trusts approximate their estimated fair values.

Derivative financial instruments: The fair value of the interest rate swaps is valued using independent pricing models.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

The carrying values and estimated fair values of our financial instruments are summarized below:

	March 31, 2015		December 31, 2014	
Dollars in thousands	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$12,287	$12,287	$12,510	$12,510
Securities available for sale	282,135	282,135	282,834	282,834
Other investments	7,247	7,247	6,183	6,183
Loans held for sale, net	85	85	527	527
Loans, net	1,039,669	1,054,159	1,019,842	1,033,890
Accrued interest receivable	5,564	5,564	5,838	5,838
	$1,346,987	$1,361,477	$1,327,734	$1,341,782
Financial liabilities				
Deposits	$1,058,308	$1,075,963	$1,061,314	$1,078,406
Short-term borrowings	148,985	148,985	123,633	123,633
Long-term borrowings	77,013	84,146	77,490	84,732
Subordinated debentures	5,000	5,000	16,800	16,800

Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589	19,589
Accrued interest payable	828	828	812	812
Derivative financial liabilities	4,292	4,292	2,911	2,911
	$1,314,015	$1,338,803	$1,302,549	$1,326,883

NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended March 31,					
	2015			2014		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$4,285			$2,389		
Less preferred stock dividends	—			(193)		
Basic EPS	$4,285	8,815,961	$0.49	$2,196	7,453,370	$0.29
Effect of dilutive securities:						
Stock options		8,567			9,762	
Series 2011 convertible preferred stock	—	1,158,250		119	1,491,250	
Series 2009 convertible preferred stock	—	510,545		74	674,545	
Diluted EPS	$4,285	10,493,323	$0.41	$2,389	9,628,927	$0.25

Stock option grants and the convertible preferred shares are disregarded in this computation if they are determined to be anti-dilutive. Our anti-dilutive stock options at March 31, 2015 and 2014 totaled 128,900 shares and 143,000 shares, respectively.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at March 31, 2015, December 31, 2014, and March 31, 2014 are summarized as follows:

	March 31, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$21,650	$1,227	$40	$22,837
Residential mortgage-backed securities:				
Government-sponsored agencies	153,904	3,412	501	156,815
Nongovernment-sponsored entities	11,034	105	71	11,068
State and political subdivisions				
General obligations	1,617	34	—	1,651
Water and sewer revenues	1,969	21	—	1,990
Lottery/casino revenues	3,084	9	28	3,065
Other revenues	1,697	67	—	1,764
Corporate debt securities	6,675	—	10	6,665
Total taxable debt securities	201,630	4,875	650	205,855
Tax-exempt debt securities				
State and political subdivisions				
General obligations	47,947	2,050	136	49,861

Water and sewer revenues	10,302	278	1	10,579
Special tax revenues	2,272	53	—	2,325
Lottery/casino revenues	2,800	163	—	2,963
Other revenues	10,246	313	14	10,545
Total tax-exempt debt securities	73,567	2,857	151	76,273
Equity securities	7	—	—	7
Total available for sale securities	$275,204	$7,732	$801	$282,135

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	December 31, 2014			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$22,153	$1,073	$52	$23,174
Residential mortgage-backed securities:				
Government-sponsored agencies	147,951	2,599	773	149,777
Nongovernment-sponsored entities	12,051	142	48	12,145
State and political subdivisions				
General obligations	1,975	2	33	1,944
Water and sewer revenues	1,976	14	7	1,983
Other revenues	4,696	73	2	4,767
Corporate debt securities	3,776	—	—	3,776
Total taxable debt securities	194,578	3,903	915	197,566
Tax-exempt debt securities				
State and political subdivisions				
General obligations	49,515	2,338	12	51,841
Water and sewer revenues	11,258	244	3	11,499
Lease revenues	4,617	75	10	4,682
Lottery/casino revenues	3,811	206	9	4,008
Other revenues	12,845	404	18	13,231
Total tax-exempt debt securities	82,046	3,267	52	85,261
Equity securities	7	—	—	7
Total available for sale securities	$276,631	$7,170	$967	$282,834

	March 31, 2014			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities:				
U.S. Government and agencies and corporations	$27,658	$736	$78	$28,316
Residential mortgage-backed securities:				
Government-sponsored agencies	142,644	2,230	1,060	143,814
Nongovernment-sponsored agencies	10,429	377	19	10,787
State and political subdivisions:				
General obligations	5,681	7	209	5,479
Water and sewer revenues	2,389	8	60	2,337
Other revenues	3,021	—	106	2,915
Corporate debt securities	3,977	25	4	3,998
Total taxable debt securities	195,799	3,383	1,536	197,646
Tax-exempt debt securities:				
State and political subdivisions:				
General obligations	45,761	1,109	504	46,366
Water and sewer revenues	14,033	64	110	13,987
Lease revenues	9,079	47	168	8,958
Lottery/casino revenues	4,428	102	79	4,451
Other revenues	10,334	115	69	10,380
Total tax-exempt debt securities	83,635	1,437	930	84,142
Equity securities	77	—	—	77

Total available for sale securities	$279,511	$4,820	$2,466	$281,865

The below information is relative to the five states where issuers with the highest volume of state and political subdivision securities held in our portfolio are located. We own no such securities of any single issuer which we deem to be a concentration.

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	March 31, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
West Virginia	$13,083	$314	$1	$13,396
Illinois	12,503	378	26	12,855
California	10,999	527	25	11,501
Ohio	7,621	39	26	7,634
Washington	5,845	283	40	6,088

Management performs pre-purchase and ongoing analysis to confirm that all investment securities meet applicable credit quality standards. Prior to July 1, 2013, we principally used credit ratings from Nationally Recognized Statistical Rating Organizations (“NRSROs”) to support analyses of our portfolio of securities issued by state and political subdivisions, as we generally do not purchase securities that are rated below the six highest NRSRO rating categories. Beginning July 1, 2013, in addition to considering a security’s NRSRO rating, we now also assess or confirm through an internal review of an issuer’s financial information and other applicable information that: 1) the issuer’s risk of default is low; 2) the characteristics of the issuer’s demographics and economic environment are satisfactory; and 3) the issuer’s budgetary position and stability of tax or other revenue sources are sound.

The maturities, amortized cost and estimated fair values of securities at March 31, 2015, are summarized as follows:

Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$63,900	$65,018
Due from one to five years	98,613	100,486
Due from five to ten years	24,470	25,230
Due after ten years	88,214	91,394
Equity securities	7	7
	$275,204	$282,135

The proceeds from sales, calls and maturities of available for sale securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the three months ended March 31, 2015 are as follows:

	Proceeds from			Gross realized	
Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities available for sale	$26,835	$365	$8,621	$549	$69

We held 44 available for sale securities having an unrealized loss at March 31, 2015. We do not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost bases. We believe that this decline in value is primarily attributable to the lack of market liquidity and to changes in market interest rates and not due to credit quality. Accordingly, no additional other-than-temporary impairment charge to earnings is warranted at this time.

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Provided below is a summary of securities available for sale which were in an unrealized loss position at March 31, 2015 and December 31, 2014, including debt securities for which a portion of other-than-temporary impairment has been recognized in other comprehensive income.

	March 31, 2015					
	Less than 12 months		12 months or more		Total	
Dollars in thousands	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$—	$—	$3,599	$40	$3,599	$40
Residential mortgage-backed securities:						
Government-sponsored agencies	26,814	457	4,080	44	30,894	501
Nongovernment-sponsored entities	6,718	71	—	—	6,718	71
State and political subdivisions:						
Lottery/casino revenues	1,834	28	—	—	1,834	28
Corporate debt securities	2,875	10	—	—	2,875	10
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	10,165	136	—	—	10,165	136
Water and sewer revenues	284	1	—	—	284	1
Other revenues	573	8	267	6	840	14
Total temporarily impaired securities	49,263	711	7,946	90	57,209	801
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$49,263	$711	$7,946	$90	$57,209	$801

Dollars in thousands	December 31, 2014 Less than 12 months Estimated Fair Value	Unrealized Loss	12 months or more Estimated Fair Value	Unrealized Loss	Total Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$—	$—	$3,912	$(52)	$3,912	$(52)
Residential mortgage-backed securities:						
Government-sponsored agencies	36,825	(535)	21,915	(238)	58,740	(773)
Nongovernment-sponsored entities	5,488	(44)	2,163	(4)	7,651	(48)
State and political subdivisions:						
General obligations	—	—	316	(33)	316	(33)
Water and sewer revenues	—	—	817	(7)	817	(7)
Other revenues	1,098	(2)	—	—	1,098	(2)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	3,708	(8)	438	(4)	4,146	(12)
Water and sewer revenues	721	(3)	—	—	721	(3)
Lease revenues	—	—	1,168	(10)	1,168	(10)
Lottery/casino revenues	—	—	1,126	(9)	1,126	(9)
Other revenues	1,247	(8)	846	(10)	2,093	(18)
Total temporarily impaired securities	49,087	(600)	32,701	(367)	81,788	(967)
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$49,087	$(600)	$32,701	$(367)	$81,788	$(967)

NOTE 6. LOANS

Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses. Interest on loans is accrued daily on the outstanding balances. Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life. We categorize residential real estate loans in excess of $600,000 as jumbo loans.

Generally, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

Commercial-related loans or portions thereof (which are risk-rated) are charged off to the allowance for loan losses when the loss has been confirmed. This determination is made on a case by case basis considering many factors, including the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower’s equity. We deem a loss confirmed when a loan or a portion of a loan is classified “loss” in accordance with bank regulatory classification guidelines, which state, “Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted".

Consumer-related loans are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), which ever is earlier. Residential mortgage loans are generally charged off to net realizable value no later than when the account becomes 180 days past due. Other consumer loans, if collateralized, are generally charged off to net realizable value at 120 days past due.

Loans are summarized as follows:

Dollars in thousands	March 31, 2015	December 31, 2014	March 31, 2014
Commercial	$89,928	$88,590	$93,517
Commercial real estate			
Owner-occupied	180,269	157,783	150,025
Non-owner occupied	325,764	317,136	297,197
Construction and development			
Land and land development	66,558	67,881	67,342
Construction	19,094	28,591	18,327
Residential real estate			
Non-jumbo	219,938	220,071	215,665
Jumbo	50,492	52,879	51,406
Home equity	68,894	67,115	56,161
Consumer	18,485	19,456	19,106
Other	11,074	11,507	5,037
Total loans, net of unearned fees	1,050,496	1,031,009	973,783
Less allowance for loan losses	10,827	11,167	11,069
Loans, net	$1,039,669	$1,019,842	$962,714

The following table presents the contractual aging of the recorded investment in past due loans by class as of March 31, 2015 and 2014 and December 31, 2014.

	At March 31, 2015					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$388	$—	$744	$1,132	$88,796	$—
Commercial real estate						
Owner-occupied	119	—	629	748	179,521	—
Non-owner occupied	664	—	406	1,070	324,694	—
Construction and development						
Land and land development	1,376	1,361	4,980	7,717	58,841	—
Construction	—	—	—	—	19,094	—
Residential mortgage						
Non-jumbo	2,891	1,090	1,888	5,869	214,069	—
Jumbo	—	—	713	713	49,779	—
Home equity	395	—	172	567	68,327	—
Consumer	139	62	22	223	18,262	—
Other	—	—	—	—	11,074	—
Total	$5,972	$2,513	$9,554	$18,039	$1,032,457	$—

Dollars in thousands	At December 31, 2014 Past Due 30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$328	$117	$330	$775	$87,815	$—
Commercial real estate						
Owner-occupied	121	194	801	1,116	156,667	—
Non-owner occupied	146	—	406	552	316,584	—
Construction and development						
Land and land development	346	2,002	4,253	6,601	61,280	—
Construction	—	—	—	—	28,591	—
Residential mortgage						
Non-jumbo	4,104	2,719	1,498	8,321	211,750	—
Jumbo	—	—	2,626	2,626	50,253	—
Home equity	1,067	94	83	1,244	65,871	—
Consumer	260	42	63	365	19,091	—
Other	—	—	—	—	11,507	—
Total	$6,372	$5,168	$10,060	$21,600	$1,009,409	$—

Dollars in thousands	At March 31, 2014 Past Due 30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$52	$50	$796	$898	$92,619	$—
Commercial real estate						
Owner-occupied	—	236	125	361	149,664	—
Non-owner occupied	1,076	—	768	1,844	295,353	—
Construction and development						
Land and land development	754	—	6,123	6,877	60,465	—
Construction	—	—	—	—	18,327	—
Residential mortgage						
Non-jumbo	2,780	804	1,821	5,405	210,260	—
Jumbo	712	—	—	712	50,694	—
Home equity	75	—	69	144	56,017	—
Consumer	207	32	45	284	18,822	—
Other	—	—	—	—	5,037	—
Total	$5,656	$1,122	$9,747	$16,525	$957,258	$—

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at March 31, 2015, December 31, 2014 and March 31, 2014.

Dollars in thousands	March 31, 2015	2014	December 31, 2014
Commercial	$788	$866	$392
Commercial real estate			
Owner-occupied	934	2,404	1,218
Non-owner occupied	406	430	626
Construction and development			
Land & land development	5,333	10,252	4,619
Construction	—	—	—
Residential mortgage			

Non-jumbo	3,429	2,593	2,663
Jumbo	713	—	2,626
Home equity	349	297	267
Consumer	65	73	83
Total	$12,017	$16,915	$12,494

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Impaired loans: Impaired loans include the following:

Loans which we risk-rate (consisting of loan relationships having aggregate balances in excess of $2.0 million, or loans exceeding $500,000 and exhibiting credit weakness) through our normal loan review procedures and which, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Risk-rated loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired.

Loans that have been modified in a troubled debt restructuring.

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring. Troubled debt restructurings typically result from our loss mitigation activities and occur when we grant a concession to a borrower who is experiencing financial difficulty in order to minimize our economic loss and to avoid foreclosure or repossession of collateral. Once restructured in a troubled debt restructuring, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if the criteria set forth in our accounting policy are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and we would continue to report the loan in the impaired loan table below.

The table below sets forth information about our impaired loans.

Method Used to Measure Impairment of Impaired Loans
Dollars in thousands

Loan Category	March 31, 2015	2014	December 31, 2014	Method used to measure impairment
Commercial	$44	$899	$132	Fair value of collateral
	337	—	362	Discounted cash flow
Commercial real estate				
Owner-occupied	5,665	4,856	1,683	Fair value of collateral
	9,056	7,598	9,124	Discounted cash flow
Non-owner occupied	1,633	518	508	Fair value of collateral
	6,184	5,259	5,999	Discounted cash flow
Construction and development				
Land & land development	11,733	16,107	11,998	Fair value of collateral
	2,286	1,457	2,310	Discounted cash flow
Residential mortgage				
Non-jumbo	1,719	3,450	1,676	Fair value of collateral
	4,677	2,603	5,252	Discounted cash flow
Jumbo	5,672	6,644	7,594	Fair value of collateral
	884	2,086	886	Discounted cash flow
Home equity	186	186	285	Fair value of collateral
	523	—	523	Discounted cash flow
Consumer	2	40	2	Fair value of collateral
	78	—	82	Discounted cash flow
Total	$50,679	$51,703	$48,416	

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The following tables present loans individually evaluated for impairment at March 31, 2015, December 31, 2014 and March 31, 2014.

	March 31, 2015				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$381	$381	$—	$381	$21
Commercial real estate					
Owner-occupied	9,312	9,312	—	5,364	180
Non-owner occupied	5,183	5,185	—	3,858	180
Construction and development					
Land & land development	13,121	13,121	—	13,121	436
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,763	3,772	—	3,772	167
Jumbo	5,669	5,672	—	5,672	235
Home equity	710	709	—	709	31
Consumer	80	80	—	80	7
Total without a related allowance	$38,219	$38,232	$—	$32,957	$1,257
With a related allowance					
Commercial	$—	$—	$—	$—	$—
Commercial real estate					
Owner-occupied	5,409	5,409	255	5,409	215
Non-owner occupied	2,632	2,632	21	2,632	123
Construction and development					
Land & land development	898	898	176	898	—
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,623	2,624	276	2,624	119
Jumbo	883	884	43	884	44
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$12,445	$12,447	$771	$12,447	$501
Total					
Commercial	$36,936	$36,938	$452	$31,663	$1,155
Residential real estate	13,648	13,661	319	13,661	596
Consumer	80	80	—	80	7
Total	$50,664	$50,679	$771	$45,404	$1,758

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	December 31, 2014				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$370	$369	$—	$430	$27
Commercial real estate					
Owner-occupied	5,362	5,361	—	5,309	192
Non-owner occupied	3,645	3,647	—	4,420	199
Construction and development					
Land & land development	13,410	13,410	—	14,149	483
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,289	4,300	—	3,853	185
Jumbo	7,589	7,594	—	7,761	241
Home equity	809	808	—	265	14
Consumer	84	84	—	36	2
Total without a related allowance	$35,558	$35,573	$—	$36,223	$1,343
With a related allowance					
Commercial	$125	$125	$81	$38	$—
Commercial real estate					
Owner-occupied	5,446	5,446	287	5,461	216
Non-owner occupied	2,860	2,860	74	1,003	40
Construction and development					
Land & land development	898	898	46	933	42
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,627	2,628	282	2,093	98
Jumbo	885	886	46	892	45
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$12,841	$12,843	$816	$10,420	$441
Total					
Commercial	$32,116	$32,116	$488	$31,743	$1,199
Residential real estate	16,199	16,216	328	14,864	583
Consumer	84	84	—	36	2
Total	$48,399	$48,416	$816	$46,643	$1,784

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Dollars in thousands	March 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$824	$824	$—	$824	$27
Commercial real estate					
Owner-occupied	7,836	7,836	—	7,836	231
Non-owner occupied	5,035	5,037	—	5,037	249
Construction and development					
Land & land development	11,793	11,793	—	11,793	323
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,209	3,217	—	3,217	140
Jumbo	7,828	7,833	—	7,833	401
Home equity	186	186	—	186	11
Consumer	40	40	—	40	3
Total without a related allowance	$36,751	$36,766	$—	$36,766	$1,385
With a related allowance					
Commercial	$75	$75	$18	$75	$5
Commercial real estate					
Owner-occupied	4,618	4,618	324	4,618	213
Non-owner occupied	740	740	85	740	28
Construction and development					
Land & land development	5,771	5,771	2,553	5,771	40
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,835	2,836	337	2,836	134
Jumbo	896	897	56	897	45
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$14,935	$14,937	$3,373	$14,937	$465
Total					
Commercial	$36,692	$36,694	$2,980	$36,694	$1,116
Residential real estate	14,954	14,969	393	14,969	731
Consumer	40	40	—	40	3
Total	$51,686	$51,703	$3,373	$51,703	$1,850

A modification of a loan is considered a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of both. A loan continues to be classified as a TDR for the life of the loan. Included in impaired loans are TDRs of $32.9 million, of which $30.2 million were current with respect to restructured contractual payments at March 31, 2015, and $34.7 million, of which $32.2 million were current with respect to restructured contractual payments at December 31,

2014. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

There were no TDRs that were restructured during the three months ended March 31, 2015 or 2014. Generally, modifications are extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. All TDRs are evaluated individually for allowance for loan loss purposes.

The following table presents defaults during the stated period of TDRs that were restructured during the past twelve months. For purposes of these tables, a default is considered as either the loan was past due 30 days or more at any time during the period, or the loan was fully or partially charged off during the period.

Dollars in thousands	For the Three Months Ended March 31, 2015 Number of Defaults	Recorded Investment at Default Date
Commercial	1	$27
Commercial real estate		
Owner-occupied	—	—
Non-owner occupied	—	—
Construction and development		
Land & land development	—	—
Construction	—	—
Residential real estate		
Non-jumbo	3	833
Jumbo	—	—
Home equity	—	—
Consumer	1	17
Total	5	$877

The following table details the activity regarding TDRs by loan type for the three months and three months ended March 31, 2015, and the related allowance on TDRs.

For the Three Months Ended March 31, 2015

Dollars in thousands	Construction & Land Development: Land & Land Develop-ment	Construction & Land Development: Construc-tion	Commer-cial	Commercial Real Estate: Owner Occupied	Commercial Real Estate: Non-Owner Occupied	Residential Real Estate: Non-jumbo	Residential Real Estate: Jumbo	Residential Real Estate: Home Equity	Con-sumer	Other	Total
Troubled debt restructurings											
Balance January 1, 2015	$5,786	$—	$410	$9,501	$6,219	$6,245	$5,937	$523	$50	$—	$34,671
Additions	—	—	—	—	—	—	—	—	—	—	—
Charge-offs	—	—	—	—	—	—	—	—	—	—	—
Net (paydowns) advances	(28)	—	(29)	(73)	(35)	(423)	(1,206)	—	(4)	—	(1,798)
Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—
Balance, March 31, 2015	$5,758	$—	$381	$9,428	$6,184	$5,822	$4,731	$523	$46	$—	$32,873
Allowance related to troubled debt	$168	$—	$—	$209	$21	$276	$43	$—	$—	$—	$717

restructurings

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. We internally grade all commercial loans at the time of loan origination. In addition, we perform an annual loan review on all non-homogenous commercial loan relationships with an aggregate exposure of $2 million, at which time these loans are re-graded. We use the following definitions for our risk grades:

Pass: Loans graded as Pass are loans to borrowers of acceptable credit quality and risk. They are higher quality loans that do not fit any of the other categories described below.

OLEM (Special Mention): Commercial loans categorized as OLEM are potentially weak. The credit risk may be relatively minor yet represent a risk given certain specific circumstances. If the potential weaknesses are not monitored or mitigated, the asset may weaken or inadequately protect our position in the future.

Substandard: Commercial loans categorized as Substandard are inadequately protected by the borrower's ability to repay, equity, and/or the collateral pledged to secure the loan. These loans have identified weaknesses that could hinder normal repayment or collection of the debt. These loans are characterized by the distinct possibility that we will sustain some loss if the identified weaknesses are not mitigated.

Doubtful: Commercial loans categorized as Doubtful have all the weaknesses inherent in those loans classified as Substandard, with the added elements that the full collection of the loan is improbable and the possibility of loss is high.

Loss: Loans classified as loss are considered to be non-collectible and of such little value that their continuance as a bankable asset is not warranted. This does not mean that the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future.

The following table presents the recorded investment in construction and development, commercial, and commercial real estate loans which are generally evaluated based upon the internal risk ratings defined above.

Loan Risk Profile by Internal Risk Rating

	Construction and Development						Commercial Real Estate			
	Land and Land Development		Construction		Commercial		Owner Occupied		Non-Owner Occupied	
Dollars in thousands	3/31/2015	12/31/2014	3/31/2015	12/31/2014	3/31/2015	12/31/2014	3/31/2015	12/31/2014	3/31/2015	12/31/2014
Pass	$52,284	$53,873	$19,094	$28,591	$87,582	$86,361	$177,752	$155,189	$315,360	$306,710
OLEM (Special Mention)	2,452	1,673	—	—	1,702	1,837	1,275	1,064	3,798	8,933
Substandard	11,822	12,335	—	—	644	392	1,242	1,530	6,606	1,493
Doubtful	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—
Total	$66,558	$67,881	$19,094	$28,591	$89,928	$88,590	$180,269	$157,783	$325,764	