

Village Bank & Trust Financial Corp.
Form 10-Q
August 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

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: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Virginia **16-1694602**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

15521 Midlothian Turnpike, Midlothian, Virginia 23113
(Address of principal executive offices) (Zip code)

804-897-3900
(Registrant’s telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 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 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 the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date.

5,338,295 shares of common stock, \$4.00 par value, outstanding as of July 21, 2014

Village Bank and Trust Financial Corp.

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Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2014 (Unaudited) and December 31, 2013
(dollar amounts in thousands, except per share amounts)

	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 11,094	\$ 15,221
Federal funds sold	46,244	24,988
Total cash and cash equivalents	57,338	40,209
Investment securities available for sale	57,486	57,748
Loans held for sale	12,189	8,371
Loans		
Outstanding	263,171	286,563
Allowance for loan losses	(5,681)	(7,239)
Deferred fees and costs	694	683
	258,184	280,007
Other real estate owned, net of valuation allowance	15,670	16,742
Assets held for sale	13,403	13,359
Premises and equipment, net	12,968	12,409
Bank owned life insurance	6,856	6,765
Accrued interest receivable	1,340	1,486
Other assets	6,622	7,077
	\$ 442,056	\$ 444,173
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 63,695	\$ 57,244
Interest bearing	325,582	333,384
Total deposits	389,277	390,628
Federal Home Loan Bank advances	15,000	18,000
Long-term debt - trust preferred securities	8,764	8,764
Other borrowings	1,987	2,713
Accrued interest payable	1,337	1,093
Other liabilities	6,642	4,731

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Total liabilities	423,007	425,929
Stockholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference, 1,000,000 shares authorized, 14,738 shares issued and outstanding	59	59
Common stock, \$4 par value, 10,000,000 shares authorized; 5,338,295 shares issued and outstanding at June 30, 2014 5,338,295 shares issued and outstanding at December 31, 2013	21,353	21,353
Additional paid-in capital	38,078	38,054
Accumulated deficit	(39,417)	(38,066)
Common stock warrant	732	732
Discount on preferred stock	-	(50)
Stock in directors rabbi trust	(878)	(878)
Directors deferred fees obligation	878	878
Accumulated other comprehensive loss	(1,756)	(3,838)
Total stockholders' equity	19,049	18,244
	\$442,056	\$ 444,173

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Operations
Three and Six Months Ended June 30 2014, and 2013
(dollar amounts in thousands, except per share amounts) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income				
Loans	\$ 3,795	\$ 4,622	\$ 7,766	\$ 9,765
Investment securities	322	239	654	427
Federal funds sold	25	28	44	53
Total interest income	4,142	4,889	8,464	10,245
Interest expense				
Deposits	767	950	1,553	1,993
Borrowed funds	190	219	444	443
Total interest expense	957	1,169	1,997	2,436
Net interest income	3,185	3,720	6,467	7,809
Provision for loan losses	-	-	100	823
Net interest income after provision for loan losses	3,185	3,720	6,367	6,986
Noninterest income				
Service charges and fees	601	634	1,084	1,145
Gain on sale of loans	1,352	2,372	2,163	4,328
Gain on sale of assets	3	-	3	598
Gain on sale of investment securities	1	127	1	217
Rental income	250	214	506	427
Other	112	111	236	297
Total noninterest income	2,319	3,458	3,993	7,012
Noninterest expense				
Salaries and benefits	2,679	2,973	5,449	5,926
Commissions	347	546	569	1,033
Occupancy	393	513	875	1,070
Equipment	174	179	380	357
Supplies	78	119	166	224
Professional and outside services	642	637	1,281	1,324
Advertising and marketing	56	79	139	142
Expenses related to foreclosed real estate	404	752	687	2,274
Other operating expenses	816	790	1,648	1,570
Total noninterest expense	5,589	6,588	11,194	13,920
Net income (loss) before income tax expense (benefit)	(85)	590	(834)	78
Income tax expense (benefit)	-	-	-	-

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Net income (loss)	(85)	590	(834)	78	
Preferred stock dividends and amortization of discount	295		221	517		442	
Net income (loss) available to common shareholders	\$ (380)	\$ 369	\$ (1,351)	\$ (364)
Earnings (loss) per share, basic	\$ (0.07)	\$ 0.09	\$ (0.25)	\$ (0.09)
Earnings (loss) per share, diluted	\$ (0.07)	\$ 0.09	\$ (0.25)	\$ (0.09)

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Changes in Comprehensive Income (Loss)
Three and Six Months Ended June 30, 2014 and 2013
(dollar amounts in thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$ (85)	\$ 590	\$ (834)	\$ 78
Other comprehensive income (loss)				
Unrealized holding gains (losses) arising during the period	1,323	(3,726)	3,149	(3,705)
Tax effect	450	(1,267)	1,070	(1,260)
Net change in unrealized holding gains (losses) on securities available for sale, net of tax	873	(2,459)	2,079	(2,445)
Reclassification adjustment				
Reclassification adjustment for gains realized in income (loss)	(1)	(127)	(1)	(217)
Tax effect	-	(43)	-	(74)
Reclassification for gains included in net income (loss), net of tax	(1)	(84)	(1)	(143)
Minimum pension adjustment	3	3	6	6
Tax effect	1	1	2	2
Minimum pension adjustment, net of tax	2	2	4	4
Total other comprehensive income (loss)	874	(2,541)	2,082	(2,584)
Total comprehensive income (loss)	\$ 789	\$ (1,951)	\$ 1,248	\$ (2,506)

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2014 and 2013
(dollar amounts in thousands) (Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Warrant	Discount on Preferred Stock	Stock in Directors Rabbi Trust	Directors Deferred Fees Obligations	Accumulated Other Loss	Total
Balance, December 31, 2013	\$ 59	\$21,353	\$38,054	\$(38,066)	\$ 732	\$(50)	\$(878)	\$ 878	\$(3,838)	\$18,244
Amortization of preferred stock discount	-	-	-	(50)	-	50	-	-	-	-
Preferred stock dividend	-	-	-	(467)	-	-	-	-	-	(467)
Stock based compensation	-	-	24	-	-	-	-	-	-	24
Minimum pension adjustment (net of income taxes of \$2)	-	-	-	-	-	-	-	-	4	4
Net loss	-	-	-	(834)	-	-	-	-	-	(834)
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	-	2,078	2,078
Balance, June 30, 2014	\$ 59	\$21,353	\$38,078	\$(39,417)	\$ 732	\$ -	\$(878)	\$ 878	\$(1,756)	\$19,049
Balance, December 31, 2012	\$ 59	\$17,007	\$40,705	\$(33,174)	\$ 732	\$(199)	\$ -	\$ -	\$(166)	\$24,964
Amortization of preferred stock discount	-	-	-	(74)	-	74	-	-	-	-
Preferred stock dividend	-	-	-	(368)	-	-	-	-	-	(368)

Stock based compensation										
Minimum pension adjustment (net of income taxes of \$2)	-	-	-	-	-	-	-	-	4	4
Net income	-	-	-	78	-	-	-	-	-	78
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	-	(2,588)	(2,588)
Balance, June 30, 2013	\$ 59	\$ 17,007	\$ 40,706	\$ (33,538)	\$ 732	\$ (125)	\$ -	\$ -	\$ (2,750)	\$ 22,091

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2014 and 2013
(dollar amounts in thousands) (Unaudited)

	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	\$(834)	\$78)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	325	656
Deferred income taxes	(308)	(39)
Valuation allowance deferred income taxes	308	-
Provision for loan losses	100	823
Write-down of other real estate owned	369	646
Valuation allowance other real estate owned	(429)	-
Gain on securities sold	(1)	(217)
Gain on loans sold	(2,163)	(4,328)
Gain on sale of premises and equipment	(3)	(598)
Gain (Loss) on sale of other real estate owned	(234)	235
Stock compensation expense	24	-
Proceeds from sale of mortgage loans	79,367	150,970
Origination of mortgage loans for sale	(81,022)	(142,213)
Amortization of premiums and accretion of discounts on securities, net	205	187
Decrease (increase) in interest receivable	146	(120)
Increase in bank owned life insurance	(91)	(96)
Decrease (increase) in other assets	(656)	2,571
Increase in interest payable	244	121
Increase (decrease) in other liabilities	1,444	(966)
Net cash provided by (used in) operating activities	(3,209)	7,710
Cash Flows from Investing Activities		
Purchases of available for sale securities	-	(52,134)
Proceeds from the sale or calls of available for sale securities	3,207	15,330
Net decrease in loans	17,426	42,992
Proceeds from sale of other real estate owned	5,663	2,211
Purchases of premises and equipment	(898)	(201)
Proceeds from sale of premises and equipment	17	1,681
Net cash provided by investing activities	25,415	9,879
Cash Flows from Financing Activities		
Net decrease in deposits	(1,351)	(17,328)
Net decrease in Federal Home Loan Bank Advances	(3,000)	(5,000)
Net decrease in other borrowings	(726)	(426)
Net cash used in financing activities	(5,077)	(22,754)

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Net increase in cash and cash equivalents	17,129	(5,165)
Cash and cash equivalents, beginning of period	40,209	53,131
Cash and cash equivalents, end of period	\$57,338	\$47,966
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$1,496	\$2,166
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$4,297	\$4,931
Dividends on preferred stock accrued	\$467	\$368

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary

Notes to Condensed Consolidated Financial Statements

Three and Six Months Ended June 30, 2014 and 2013

(Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three and six month periods ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission.

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of June 30, 2014 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Note 2 - Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of operations for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses and its related provision, and the estimate of the fair value of assets held for sale.

Note 3 - Earnings (loss) per common share

The following table presents the basic and diluted earnings (loss) per common share computation (in thousands, except per share data):

	Three Months Ended June		Six Months Ended June	
	30, 2014	2013	30, 2014	2013
Numerator				
Net income (loss) - basic and diluted	\$ (85)	\$ 590	\$ (834)	\$ 78
Preferred stock dividend and accretion	295	221	517	442
Net income (loss) available to common shareholders	\$ (380)	\$ 369	\$ (1,351)	\$ (364)
Denominator				
Weighted average shares outstanding - basic	5,338	4,252	5,338	4,252
Dilutive effect of common stock options and restricted stock awards	-	2	-	-
Weighted average shares outstanding - diluted	5,338	4,254	5,338	4,252
Earnings (loss) per share - basic and diluted				
Earnings (loss) per share - basic	\$ (0.07)	\$ 0.09	\$ (0.25)	\$ (0.09)
Effect of dilutive common stock options	-	-	-	-
Earnings (loss) per share - diluted	\$ (0.07)	\$ 0.09	\$ (0.25)	\$ (0.09)

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 104,302 and 247,630 shares of common stock were not included in computing diluted earnings per share for the three and six months ended June 30, 2014 and 2013, respectively, because their effects were anti-dilutive. Warrants for 499,029 shares of common stock were not included in computing earnings per share in 2014 and 2013 because their effects were also anti-dilutive.

Note 4 – Investment securities available for sale

At June 30, 2014 and December 31, 2013, all of our securities were classified as available-for-sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands):

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	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield	
June 30, 2014							
US Treasuries							
Five to ten years	\$8,000	\$ 7,833	\$ -	\$ (255)	\$ 7,578	2.13	%
US Government Agencies							
One to Five years	4,000	4,174	-	(93)	4,081	0.89	%
Five to ten years	31,625	33,407	-	(1,428)	31,979	1.82	%
	35,625	37,581	-	(1,521)	36,060	1.71	%
Mortgage-backed securities							
More than ten years	635	655	2	(2)	655	2.43	%
Municipals							
Five to ten years	6,155	6,642	-	(331)	6,311	2.85	%
More than ten years	5,780	7,312	-	(430)	6,882	3.35	%
	11,935	13,954	-	(761)	13,193	3.12	%
Total investment securities	\$56,195	\$ 60,023	\$ 2	\$ (2,539)	\$ 57,486	2.10	%
December 31, 2013							
US Treasuries							
Five to ten years	\$8,000	\$ 7,825	\$ -	\$ (615)	\$ 7,210	2.13	%
US Government Agencies							
One to Five years	4,000	4,194	-	(166)	4,028	0.89	%
Five to ten years	31,625	33,510	-	(3,187)	30,323	1.82	%
	35,625	37,704	-	(3,353)	34,351	1.71	%
Mortgage-backed securities							
More than ten years	2,782	2,792	10	(50)	2,752	2.43	%
Municipals							
Five to ten years	6,155	6,684	-	(678)	6,006	2.85	%
More than ten years	6,780	8,428	-	(999)	7,429	3.34	%
Total	12,935	15,112	-	(1,677)	13,435	3.12	%
Total investment securities	\$59,342	\$ 63,433	\$ 10	\$ (5,695)	\$ 57,748	2.13	%

Investment securities available for sale that have an unrealized loss position at June 30, 2014 and December 31, 2013 are detailed below (in thousands):

	Securities in a loss position for less than 12 Months		Securities in a loss position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2014						
US Treasuries	-	-	7,578	(255)	7,578	(255)

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US Government Agencies	\$-	\$ -	\$ 36,060	\$ (1,521)	\$36,060	\$ (1,521)
Municipals	-	-	13,193	(761)	13,193	(761)
Mortgage-backed securities	525	(2)	-	-	525	(2)
Total	\$525	\$ (2)	\$ 56,831	\$ (2,537)	\$57,356	\$ (2,539)

December 31, 2013

US Treasuries	\$7,210	\$ (615)	\$ -	\$ -	\$7,210	\$ (615)
US Government Agencies	\$34,350	\$ (3,353)	\$ -	\$ -	\$34,350	\$ (3,353)
Municipals	10,864	(1,471)	2,571	(206)	13,435	(1,677)
Mortgage-backed securities	1,861	(50)	-	-	1,861	(50)
Total	\$54,285	\$ (5,489)	\$ 2,571	\$ (206)	\$56,856	\$ (5,695)

Management does not believe that any individual unrealized loss as of June 30, 2014 and December 31, 2013 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. As of June 30, 2014, management does not have the intent to sell any of the securities classified as available for sale and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. Approximately \$22 million of these securities are pledged against current and potential fundings.

Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands):

	June 30, 2014		December 31, 2013	
	Amount	%	Amount	%
Construction and land development				
Residential	\$5,669	2.15 %	\$2,931	1.02 %
Commercial	25,352	9.64 %	28,179	9.84 %
	31,021	11.79 %	31,110	10.86 %
Commercial real estate				
Owner occupied	59,974	22.78 %	73,584	25.68 %
Non-owner occupied	41,578	15.80 %	43,868	15.31 %
Multifamily	10,140	3.85 %	11,560	4.03 %
Farmland	1,353	0.51 %	1,463	0.51 %
	113,045	42.94 %	130,475	45.53 %
Consumer real estate				
Home equity lines	20,832	7.92 %	21,246	7.41 %
Secured by 1-4 family residential,				
First deed of trust	65,377	24.84 %	66,873	23.34 %
Second deed of trust	7,937	3.02 %	8,675	3.03 %
	94,146	35.78 %	96,794	33.78 %
Commercial and industrial loans (except those secured by real estate)	23,304	8.86 %	26,254	9.16 %
Consumer and other	1,655	0.63 %	1,930	0.67 %
Total loans	263,171	100.0 %	286,563	100.0 %
Deferred loan cost, net	694		683	
Less: allowance for loan losses	(5,681)		(7,239)	
	\$258,184		\$280,007	

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. 1-4 assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;

- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;

Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any; and,

Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans rated 6 or 7 are considered "Classified" loans for regulatory classification purposes.

The following tables provide information on the risk rating of loans at the dates indicated (in thousands):

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
June 30, 2014					
Construction and land development					
Residential	\$ 5,125	\$ 269	\$ 275	\$ -	\$5,669
Commercial	18,970	1,824	4,558	-	25,352
	24,095	2,093	4,833	-	31,021
Commercial real estate					
Owner occupied	46,947	6,620	6,407	-	59,974
Non-owner occupied	34,585	1,462	5,531	-	41,578
Multifamily	9,398	742	-	-	10,140
Farmland	1,332	-	21	-	1,353
	92,262	8,824	11,959	-	113,045
Consumer real estate					
Home equity lines	18,240	467	2,125	-	20,832
Secured by 1-4 family residential					
First deed of trust	51,901	6,219	7,257	-	65,377
Second deed of trust	6,445	121	1,371	-	7,937
	76,586	6,807	10,753	-	94,146
Commercial and industrial loans (except those secured by real estate)					
Consumer and other	17,550	3,188	2,566	-	23,304
	1,547	80	28	-	1,655
Total loans	\$ 212,040	\$ 20,992	\$ 30,139	\$ -	\$263,171
December 31, 2013					
Construction and land development					
Residential	\$ 2,715	\$ -	\$ 216	\$ -	\$2,931
Commercial	18,265	2,711	7,203	-	28,179
	20,980	2,711	7,419	-	31,110
Commercial real estate					
Owner occupied	51,810	13,214	8,560	-	73,584
Non-owner occupied	31,990	3,454	8,424	-	43,868
Multifamily	10,804	756	-	-	11,560
Farmland	1,346	-	117	-	1,463
	95,950	17,424	17,101	-	130,475
Consumer real estate					
Home equity lines	17,610	727	2,909	-	21,246

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Secured by 1-4 family residential					
First deed of trust	49,843	6,646	10,384	-	66,873
Second deed of trust	6,598	212	1,865	-	8,675
	74,051	7,585	15,158	-	96,794
Commercial and industrial loans (except those secured by real estate)					
Consumer and other	22,786	1,042	2,426	-	26,254
	1,739	131	60	-	1,930
Total loans	\$ 215,506	\$ 28,893	\$ 42,164	\$ -	\$286,563

The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
June 30, 2014							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$5,669	\$5,669	\$ -
Commercial	179	-	-	179	25,173	25,352	-
	179	-	-	179	30,842	31,021	-
Commercial real estate							
Owner occupied	-	-	-	-	59,974	59,974	-
Non-owner occupied	-	-	-	-	41,578	41,578	-
Multifamily	-	-	-	-	10,140	10,140	-
Farmland	-	-	-	-	1,353	1,353	-
	-	-	-	-	113,045	113,045	-
Consumer real estate							
Home equity lines	98	50	-	148	20,684	20,832	-
Secured by 1-4 family residential							
First deed of trust	-	281	-	281	65,096	65,377	-
Second deed of trust	-	-	-	-	7,937	7,937	-
	98	331	-	429	93,717	94,146	-
Commercial and industrial loans (except those secured by real estate)							
Consumer and other	29	-	-	29	23,275	23,304	-
	19	-	-	19	1,636	1,655	-
Total loans	\$ 325	\$ 331	\$ -	\$ 656	\$262,515	\$263,171	\$ -
December 31, 2013							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$2,931	\$2,931	\$ -
Commercial	-	116	-	116	28,063	28,179	-
	-	116	-	116	30,994	31,110	-
Commercial real estate							
Owner occupied	199	-	-	199	73,385	73,584	-
Non-owner occupied	-	346	-	346	43,522	43,868	-
Multifamily	221	-	-	221	11,339	11,560	-
Farmland	194	-	-	194	1,269	1,463	-

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	614	346	-	960	129,515	130,475	-
Consumer real estate							
Home equity lines	98	403	-	501	20,745	21,246	-
Secured by 1-4 family residential							
First deed of trust	555	362	-	917	65,956	66,873	-
Second deed of trust	-	24	-	24	8,651	8,675	-
	653	789	-	1,442	95,352	96,794	-
Commercial and industrial loans							
(except those secured by real	25	122	60	207	26,047	26,254	60
estate)							
Consumer and other	6	15	-	21	1,909	1,930	-
Total loans	\$ 1,298	\$ 1,388	\$ 60	\$ 2,746	\$283,817	\$286,563	\$ 60

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated (in thousands):

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	June 30, 2014		
	Recorded	Unpaid Principal	Related
	Investmen	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$275	\$ 275	\$ -
Commercial	3,811	3,811	-
	4,086	4,086	-
Commercial real estate			
Owner occupied	2,320	2,320	
Non-owner occupied	8,884	8,884	-
Multifamily	2,348	2,348	-
Farmland	21	450	-
	13,573	14,002	-
Consumer real estate			
Home equity lines	1,022	1,230	-
Secured by 1-4 family residential			
First deed of trust	7,225	7,303	-
Second deed of trust	1,086	1,197	-
	9,333	9,730	-
Commercial and industrial loans (except those secured by real estate)			
Consumer and other	750	855	-
	18	18	-
	27,760	28,691	-
With an allowance recorded			
Construction and land development			
Commercial	601	601	26
Commercial real estate			
Owner occupied	4,084	4,099	226
Non-Owner occupied	1,288	1,288	336
	5,372	5,387	562
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,881	2,623	363
Second deed of trust	107	107	41
	1,988	2,730	404
Commercial and industrial loans (except those secured by real estate)			
	115	115	11
	8,076	8,833	1,003
Total			
Construction and land development			
Residential	275	275	
Commercial	4,412	4,412	26
	4,687	4,687	26
Commercial real estate			

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Owner occupied	6,404	6,419	226
Non-owner occupied	10,172	10,172	336
Multifamily	2,348	2,348	-
Farmland	21	450	-
	18,945	19,389	562
Consumer real estate			
Home equity lines	1,022	1,230	-
Secured by 1-4 family residential, First deed of trust	9,106	9,926	363
Second deed of trust	1,193	1,304	41
	11,321	12,460	404
Commercial and industrial loans (except those secured by real estate)	865	970	11
Consumer and other	18	18	-
	\$35,836	\$37,524	\$ 1,003

	December 31, 2013		
	Unpaid		
	Recorded	Principal	Related
	Investmen	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$216	\$ 216	\$ -
Commercial	3,452	3,497	-
	3,668	3,713	-
Commercial real estate			
Owner occupied	1,919	1,969	
Non-owner occupied	11,769	11,928	-
Multifamily	2,373	2,373	-
Farmland	117	450	-
	16,178	16,720	-
Consumer real estate			
Home equity lines	1,630	1,685	-
Secured by 1-4 family residential			
First deed of trust	8,177	8,319	-
Second deed of trust	1,125	1,249	-
	10,932	11,253	-
Commercial and industrial loans (except those secured by real estate)			
Consumer and other	809	983	-
	34	34	-
	31,621	32,703	-
With an allowance recorded			
Construction and land development			
Commercial	1,753	1,753	220
Commercial real estate			
Owner occupied	9,794	9,948	680
Non-Owner occupied	1,297	1,297	371
	11,091	11,245	1,051
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	2,184	2,870	484
Second deed of trust	132	132	32
	2,316	3,002	516
Commercial and industrial loans (except those secured by real estate)			
	151	151	43
	15,311	16,151	1,830
Total			
Construction and land development			
Residential	216	216	-
Commercial	5,205	5,250	220
	5,421	5,466	220
Commercial real estate			

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Owner occupied	11,713	11,917	680
Non-owner occupied	13,066	13,225	371
Multifamily	2,373	2,373	-
Farmland	117	450	-
	27,269	27,965	1,051
Consumer real estate			
Home equity lines	1,630	1,685	-
Secured by 1-4 family residential, First deed of trust	10,361	11,189	484
Second deed of trust	1,257	1,381	32
	13,248	14,255	516
Commercial and industrial loans (except those secured by real estate)	960	1,134	43
Consumer and other	34	34	-
	\$46,932	\$48,854	\$ 1,830

The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the periods indicated (in thousands):

	For the Three Months Ended June 30, 2014		For the Six Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	\$ 182	\$ -	284	2
Commercial	3,951	42	3,960	98
	4,133	42	4,244	100
Commercial real estate				
Owner occupied	2,970	38	2,345	65
Non-owner occupied	9,957	82	8,949	215
Multifamily	2,352	36	2,359	71
Farmland	21	-	21	-
	15,300	156	13,674	351
Consumer real estate				
Home equity lines	1,398	2	1,026	16
Secured by 1-4 family residential				
First deed of trust	7,990	108	7,649	193
Second deed of trust	1,224	19	1,090	33
	10,612	129	9,765	242
Commercial and industrial loans (except those secured by real estate)				
Consumer and other	821	10	758	23
	26	1	20	1
	\$ 30,892	\$ 338	\$ 28,461	\$ 717
With an allowance recorded				
Construction and land development				
Commercial	602	7	606	15
Commercial real estate				
Owner occupied	4,459	-	1,298	92
Non-Owner occupied	1,288	-	4,108	-
	5,747	-	5,406	92
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	1,848	2	1,951	2
Second deed of trust	107	3	108	3
	1,955	5	2,059	5
Commercial and industrial loans (except those secured by real estate)				
	115	-	116	-
	8,419	12	\$ 8,187	\$ 112

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Total				
Construction and land development				
Residential	182	-	284	2
Commercial	4,553	49	4,566	113
	4,735	49	4,850	115
Commercial real estate				
Owner occupied	7,429	38	3,643	65
Non-owner occupied	11,245	82	13,057	307
Multifamily	2,352	36	2,359	71
Farmland	21	-	21	-
	21,047	156	19,080	443
Consumer real estate				
Home equity lines	1,398	2	1,026	16
Secured by 1-4 family residential,				
First deed of trust	9,838	110	9,600	195
Second deed of trust	1,331	22	1,198	36
	12,567	134	11,824	247
Commercial and industrial loans				
(except those secured by real estate)	936	10	874	23
Consumer and other	26	1	20	1
	\$ 39,311	\$ 350	\$ 36,648	\$ 829

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	For the Three Months Ended June 30, 2013		For the Six Months Ended June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Commercial	\$ 5,505	\$ 46	\$ 5,859	\$ 106
	5,505	46	5,859	106
Commercial real estate				
Owner occupied	1,639		1,896	49
Non-owner occupied	14,749	207	14,837	414
Multifamily	778		775	39
Farmland	-		-	
	17,166	207	17,508	502
Consumer real estate				
Home equity lines	1,632	23	1,257	23
Secured by 1-4 family residential				
First deed of trust	10,627	114	10,419	262
Second deed of trust	962	24	1,034	30
	13,221	161	12,710	315
Commercial and industrial loans (except those secured by real estate)	692	6	664	15
Consumer and other	247	4	523	5
	\$ 36,831	\$ 424	\$ 37,264	\$ 943
With an allowance recorded				
Construction and land development				
Commercial	2,023	50	3,277	52
Commercial real estate				
Owner occupied	7,316	156	8,023	256
Non-Owner occupied	1,783	59	2,260	60
Farmland	694	-	1,044	1
	9,793	215	11,327	317
Consumer real estate				
Home equity lines	269	-	269	7
Secured by 1-4 family residential				
First deed of trust	1,483	8	1,482	14
Second deed of trust	44	4	136	4
	1,796	12	1,887	25
Commercial and industrial loans (except those secured by real estate)	98	3	159	4
	13,710	280	\$ 16,650	\$ 398
Total				
Construction and land development				
Commercial	7,528	96	9,136	158
	7,528	96	9,136	158

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Commercial real estate				
Owner occupied	8,955	-	9,919	49
Non-owner occupied	16,532	363	17,097	670
Multifamily	778	59	775	99
Farmland	694	-	1,044	1
	26,959	422	28,835	819
Consumer real estate				
Home equity lines	1,901	23	1,526	30
Secured by 1-4 family residential,				
First deed of trust	12,110	122	11,901	276
Second deed of trust	1,006	28	1,170	34
	15,017	173	14,597	340
Commercial and industrial loans				
(except those secured by real estate)	790	9	823	19
Consumer and other	247	4	523	5
	\$ 50,541	\$ 704	\$ 53,914	\$ 1,341

Included in impaired loans are loans classified as troubled debt restructurings (“TDRs”). A modification of a loan’s terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrower’s financial difficulties that it would not otherwise consider. For loans classified as impaired TDRs, the Company further evaluates the loans as performing or nonperforming. If, at the time of restructure, the loan is not considered nonaccrual, it will be classified as performing. TDRs originally classified as nonperforming are able to be reclassified as performing if, subsequent to restructure, they experience six months of payment performance according to the restructured terms. The following is a summary of performing and nonaccrual TDRs and the related specific valuation allowance by portfolio segment as of the dates indicated (dollars in thousands):

	Total	Performing	Nonaccrual	Specific Valuation Allowance
June 30, 2014				
Construction and land development				
Residential	\$145	\$ -	\$ 145	\$ -
Commercial	4,263	4,106	157	-
	4,408	4,106	302	-
Commercial real estate				
Owner occupied	6,404	5,806	598	-
Non-owner occupied	9,100	8,699	401	-
Multifamily	2,348	2,348	-	-
	17,852	16,853	999	-
Consumer real estate				
Home equity lines	160	-	160	-
Secured by 1-4 family residential				
First deeds of trust	7,022	4,155	2,867	247
Second deeds of trust	635	572	63	-
	7,817	4,727	3,090	247
Commercial and industrial loans (except those secured by real estate)	251	-	251	-
Consumer and other	18	-	18	-
	\$30,346	\$ 25,686	\$ 4,660	\$ 247
Number of loans	110	64	46	13

	Total	Performing	Nonaccrual	Specific Valuation Allowance
December 31, 2013				
Construction and land development				
Residential	\$216	\$ 216	\$ -	\$ -
Commercial	4,922	3,393	1,528	211
	5,138	3,609	1,528	211
Commercial real estate				