

Village Bank & Trust Financial Corp.
Form 10-Q
November 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 September 30, 2015

**“ 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)

Village Bank and Trust Financial Corp. and Subsidiary

Form 10-Q

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Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
September 30, 2015 (Unaudited) and December 31, 2014
(dollar amounts in thousands, except per share amounts)

	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 12,772	\$ 25,115
Federal funds sold	13,303	23,988
Total cash and cash equivalents	26,075	49,103
Investment securities available for sale	39,595	39,542
Loans held for sale	12,770	9,914
Loans		
Outstandings	299,745	286,146
Allowance for loan losses	(5,496)	(5,729)
Deferred fees and costs	1,294	722
	295,543	281,139
Other real estate owned, net of valuation allowance	8,018	12,638
Assets held for sale	13,821	13,502
Premises and equipment, net	13,733	14,301
Bank owned life insurance	7,084	6,947
Accrued interest receivable	2,085	1,372
Other assets	4,926	5,546
	\$ 423,650	\$ 434,004
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 75,978	\$ 77,496
Interest bearing	293,061	301,364
Total deposits	369,039	378,860
Federal Home Loan Bank advances	6,000	14,000
Long-term debt - trust preferred securities	8,764	8,764
Other borrowings	338	3,302
Accrued interest payable	1,302	1,167
Other liabilities	7,551	8,853

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Total liabilities	392,994	414,946
Shareholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference, 1,000,000 shares authorized; 5,715 shares issued and outstanding at September 30, 2015 14,738 shares issued and outstanding at December 31, 2014	23	59
Common stock, \$4 par value, 10,000,000 shares authorized; 1,417,920 shares issued and outstanding at September 30, 2015 350,622 shares issued and outstanding at December 31, 2014	5,561	1,339
Additional paid-in capital	58,501	58,188
Accumulated deficit	(33,870)	(40,539)
Common stock warrant	732	732
Stock in directors rabbi trust	(1,034)	(878)
Directors deferred fees obligation	1,034	878
Accumulated other comprehensive loss	(291)	(721)
Total shareholders' equity	30,656	19,058
	\$ 423,650	\$ 434,004

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2015 and 2014

(Unaudited)

(dollar amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income				
Loans	\$ 3,780	\$ 3,814	\$ 11,096	\$ 11,579
Investment securities	155	304	464	958
Federal funds sold	10	19	46	64
Total interest income	3,945	4,137	11,606	12,601
Interest expense				
Deposits	621	751	1,877	2,304
Borrowed funds	82	(22)	307	423
Total interest expense	703	729	2,184	2,727
Net interest income	3,242	3,408	9,422	9,874
Provision for loan losses	-	-	-	100
Net interest income after provision for loan losses	3,242	3,408	9,422	9,774
Noninterest income				
Service charges and fees	632	589	1,906	1,673
Gain on sale of loans	1,840	1,290	4,797	3,453
Gain on sale of assets	-	-	-	3
Gain (loss) on sale of investment securities	-	(14)	7	(14)
Rental income	309	226	800	732
Other	89	99	266	338
Total noninterest income	2,870	2,190	7,776	6,185
Noninterest expense				
Salaries and benefits	2,892	2,659	8,271	8,108
Commissions	499	338	1,234	907
Occupancy	412	397	1,298	1,272
Equipment	189	146	587	529
Write down of assets held for sale	-	-	687	-
Supplies	70	77	204	243
Professional and outside services	856	615	2,153	1,896
Advertising and marketing	73	81	246	220
Loss (gain) on sale and write down of OREO, net	(49)	364	(135)	1,051
Other operating expense	699	787	2,103	2,434
Total noninterest expense	5,641	5,464	16,648	16,660
Net income (loss) before income tax expense (benefit)	471	134	550	(701)

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Income tax expense (benefit)	-	-	-	-
Net income (loss)	471	134	550	(701)
Preferred stock dividends and amortization of discount	(170)	(545)	(500)	(1,062)
Preferred stock principal forgiveness	-	-	4,404	-
Preferred stock dividend forgiveness	-	-	2,215	-
Net income (loss) available to common shareholders	\$ 301	\$ (411)	\$ 6,669	\$ (1,763)
Earnings (loss) per share, basic	\$ 0.21	\$ (1.23)	\$ 6.17	\$ (5.28)
Earnings (loss) per share, diluted	\$ 0.21	\$ (1.23)	\$ 6.14	\$ (5.28)

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 Nine Months Ended September 30, 2015 and 2014
(Unaudited)
(dollar amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ 471	\$ 134	\$ 550	\$ (701)
Other comprehensive income (loss)				
Unrealized holding gains (losses) arising during the period	544	84	650	3,234
Tax effect	185	28	221	1,099
Net change in unrealized holding gains (losses) on securities available for sale, net of tax	359	56	429	2,135
Reclassification adjustment				
Reclassification adjustment for gains realized in income	-	14	(7)	14
Tax effect	-	5	(2)	5
Reclassification for gains included in net income, net of tax	-	9	(5)	9
Minimum pension adjustment	3	3	9	9
Tax effect	1	1	3	3
Minimum pension adjustment, net of tax	2	2	6	6
Total other comprehensive income	361	67	430	2,150
Total comprehensive income	\$ 832	\$ 201	\$ 980	\$ 1,449

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 30, 2015 and 2014

(Unaudited)

(dollar amounts in thousands)

			Additional		Warrant	Discount on Preferred Stock	Stock in Directors Rabbi Trust	Directors Accumulated		Total
	Preferred Stock	Common Stock	Paid-in Capital	Accumulated Deficit				Fees Obligation	Other Comprehensive Income (loss)	
Balance, December 31, 2014	\$ 59	\$ 1,339	\$ 58,188	\$ (40,539)	\$ 732	\$ -	\$ (878)	\$ 878	\$ (721)	\$ 19,058
Preferred stock dividend	-	-	-	(500)	-	-	-	-	-	(500)
Restricted stock issuance	-	15	(93)	-	-	-	(156)	156	-	(78)
Issuance of common stock, net of offering expense of \$1,200	-	2,875	5,842	-	-	-	-	-	-	8,717
Preferred stock exchanged for common stock	(18)	1,332	(1,314)	-	-	-	-	-	-	-
Preferred stock principal forgiveness	(18)	-	(4,386)	4,404	-	-	-	-	-	-
Preferred stock dividend forgiveness	-	-	-	2,215	-	-	-	-	-	2,215
Stock based compensation	-	-	264	-	-	-	-	-	-	264
Minimum pension adjustment (net of income taxes of \$3)	-	-	-	-	-	-	-	-	6	6
Net income	-	-	-	550	-	-	-	-	-	550
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	-	424	424

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Balance, September 30, 2015	\$ 23	\$ 5,561	\$ 58,501	\$(33,870)	\$ 732	\$ -	\$(1,034)	\$ 1,034	\$(291)	\$ 30,656
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	-	-	-	(1,012)	-	-	-	-	-	(1,012)
Reverse stock split	-	(20,019)	20,019	-	-	-	-	-	-	-
Issuance of common stock	-	3	(11)	-	-	-	-	-	-	(8)
Stock based compensation	-	-	62	-	-	-	-	-	-	62
Minimum pension adjustment (net of income taxes of \$3)	-	-	-	-	-	-	-	-	6	6
Net loss	-	-	-	(701)	-	-	-	-	-	(701)
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	-	2,144	2,144
Balance, September 30, 2014	\$ 59	\$ 1,337	\$ 58,124	\$(39,829)	\$ 732	\$ -	\$(878)	\$ 878	\$(1,688)	\$ 18,735

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2015 and 2014
(Unaudited)
(dollars in thousands)

	2015	2014
Cash Flows from Operating Activities		
Net income (loss)	\$550	\$(701)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	649	482
Deferred income taxes	201	(324)
Valuation allowance deferred income taxes	(201)	324
Provision for loan losses	-	100
Write-down of other real estate owned	216	751
Valuation allowance other real estate owned	73	(495)
Write-down of assets held for sale	687	-
(Gain) loss on securities sold	(7)	14
Gain on loans sold	(4,797)	(3,453)
(Gain) loss on sale and disposal of premises and equipment	12	(3)
Gain on sale of other real estate owned	(666)	(199)
Stock compensation expense	264	62
Proceeds from sale of mortgage loans	166,176	128,465
Origination of mortgage loans for sale	(164,235)	(123,939)
Amortization of premiums and accretion of discounts on securities, net	216	304
Increase in interest receivable	(713)	(81)
Increase in bank owned life insurance	(137)	(137)
Decrease (increase) in other assets	(835)	205
Increase in interest payable	135	27
Increase in other liabilities	1,010	2,142
Net cash (used in) provided by operating activities	(1,402)	3,544
Cash Flows from Investing Activities		
Purchases of available for sale securities	(6,748)	-
Proceeds from the sale or calls of available for sale securities	7,129	5,162
Net decrease (increase) in loans	(14,747)	4,401
Proceeds from sale of other real estate owned	5,340	8,057
Purchases of premises and equipment	(780)	(1,708)
Proceeds from sale of premises and equipment	-	17
Net cash (used in) provided by investing activities	(9,806)	15,929
Cash Flows from Financing Activities		
Issuance of common stock	-	(8)
Net proceeds from sale of common stock, net of expenses of \$990	8,965	-
Net decrease in deposits	(9,821)	(9,964)

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Net decrease in Federal Home Loan Bank Advances	(8,000)	(4,000)
Net increase (decrease) in other borrowings	(2,964)	(878)
Net cash used in financing activities	(11,820)	(14,850)
Net increase (decrease) in cash and cash equivalents	(23,028)	4,623
Cash and cash equivalents, beginning of period	49,103	40,209
Cash and cash equivalents, end of period	\$26,075	\$44,832
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$2,049	\$2,536
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$329	\$5,375
Assets moved to held for sale	\$831	\$-
Dividends on preferred stock accrued	\$500	\$1,012
Non-Cash conversion of preferred shares	\$4,619	\$-
Forgiveness of principal and accrued dividends	\$6,619	\$-

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements

Three and Nine Months Ended September 30, 2015 and 2014

(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.

On August 6, 2014, the Company filed Articles of Amendment to its Articles of Incorporation with the Virginia State Corporation Commission to effect a reverse stock split of its outstanding common stock which became effective on August 8, 2014. As a result of the reverse split, every sixteen shares of the Company’s issued and outstanding common stock were consolidated into one issued and outstanding share of common stock. The computations of basic and diluted earnings (loss) per share have been adjusted retroactively to reflect the reverse stock split.

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 nine month period ended September 30, 2015 is not necessarily indicative of the results to be expected for the full year ending December 31, 2015. 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, 2014 as filed with the Securities and Exchange Commission (“SEC”).

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of September 30, 2015 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, the valuation allowance on the deferred tax asset, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator				
Net income (loss) - basic and diluted	\$ 471	\$ 134	\$ 550	\$ (701)
Preferred stock dividend and accretion	(170)	(545)	(500)	(1,062)
Preferred stock principal forgiveness	-	-	4,404	-
Preferred stock dividend forgiveness	-	-	2,215	-
Net income (loss) available to common shareholders	\$ 301	\$ (411)	\$ 6,669	\$ (1,763)
Denominator				
Weighted average shares outstanding - basic	1,418	334	1,081	334
Dilutive effect of common stock options and restricted stock awards	5	-	5	-
Weighted average shares outstanding - diluted	1,423	334	1,086	334
Earnings (loss) per share - basic	\$ 0.21	\$ (1.23)	\$ 6.17	\$ (5.28)
Earnings (loss) per share - diluted	\$ 0.21	\$ (1.23)	\$ 6.14	\$ (5.28)

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings (loss) per share for the periods presented.

Stock options for 4,505 and 14,802 shares of common stock were not included in computing diluted earnings (loss) per share for the three and nine months ended September 30, 2015 and 2014, respectively, because their effects were anti-dilutive. Warrants for 31,190 shares of common stock were not included in computing earnings (loss) per share in 2015 and 2014 because their effects were also anti-dilutive.

Note 4 – Investment securities available for sale

At September 30, 2015 and December 31, 2014, 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):

	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield	
September 30, 2015							
US Government Agencies							
One to five years	\$12,000	\$ 12,318	\$ -	\$ (32)	\$ 12,286	0.91 %	
Five to ten years	18,500	19,737	-	(240)	19,497	2.32 %	
More than ten years	3,349	3,357	-	(9)	3,348	0.84 %	
	33,849	35,412	-	(281)	35,131	1.49 %	
Mortgage-backed securities							
One to five years	1,896	1,947	1	(9)	1,939	1.27 %	
More than ten years	1,253	1,311	1	(6)	1,306	1.28 %	
	3,149	3,258	2	(15)	3,245	1.31 %	
Municipals							
More than ten years	1,130	1,258	-	(39)	1,219	3.72 %	
	1,130	1,258	-	(39)	1,219	3.72 %	
Total investment securities	\$38,128	\$ 39,928	\$ 2	\$ (335)	\$ 39,595	1.54 %	
December 31, 2014							
US Government Agencies							
One to Five years	\$10,000	\$ 10,324	\$ -	\$ (225)	\$ 10,099	1.10 %	
Five to ten years	22,500	23,895	-	(647)	23,248	1.98 %	
	32,500	34,219	-	(872)	33,347	1.71 %	
Mortgage-backed securities							
More than ten years	471	484	2	(2)	484	0.31 %	
Municipals							
Five to ten years	1,000	1,131	-	(20)	1,111	2.50 %	
More than ten years	4,130	4,684	2	(86)	4,600	2.89 %	
	5,130	5,815	2	(106)	5,711	2.82 %	
Total investment securities	\$38,101	\$ 40,518	\$ 4	\$ (980)	\$ 39,542	1.85 %	

Investment securities available for sale that have an unrealized loss position at September 30, 2015 and December 31, 2014 are detailed below (in thousands):

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	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
September 30, 2015						
US Government Agencies	\$ 18,782	\$ (219)	\$ 16,349	\$ (62)	\$ 35,131	\$ (281)
Municipals	711	(11)	507	(28)	1,218	(39)
Mortgage-backed securities	2,152	(15)	-	-	2,152	(15)
	\$ 21,645	\$ (245)	\$ 16,856	\$ (90)	\$ 38,501	\$ (335)
December 31, 2014						
US Government Agencies	\$ -	\$ -	\$ 33,347	\$ (872)	\$ 33,347	\$ (872)
Municipals	-	-	5,497	(106)	5,497	(106)
Mortgage-backed securities	-	-	363	(2)	363	(2)
	\$ -	\$ -	\$ 39,207	\$ (980)	\$ 39,207	\$ (980)

Management does not believe that any individual unrealized loss as of September 30, 2015 and December 31, 2014 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. As of September 30, 2015, 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 \$6 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):

	September 30, 2015		December 31, 2014		
	Amount	%	Amount	%	
Construction and land development					
Residential	\$ 5,188	1.73 %	\$ 4,315	1.51 %	
Commercial	26,220	8.76 %	25,152	8.80 %	
	31,408	10.49 %	29,467	10.31 %	
Commercial real estate					
Owner occupied	68,437	22.84 %	58,804	20.55 %	
Non-owner occupied	38,132	12.72 %	38,892	13.59 %	
Multifamily	8,195	2.73 %	11,438	4.00 %	
Farmland	394	0.13 %	434	0.15 %	
	115,158	38.42 %	109,568	38.29 %	
Consumer real estate					
Home equity lines	20,024	6.68 %	20,082	7.02 %	
Secured by 1-4 family residential					
First deed of trust	58,470	19.51 %	61,837	21.61 %	
Second deed of trust	7,249	2.42 %	7,854	2.74 %	
	85,743	28.61 %	89,773	31.37 %	
Commercial and industrial loans (except those secured by real estate)	19,457	6.49 %	22,165	7.75 %	
Guaranteed student loans	46,355	15.46 %	33,562	11.73 %	
Consumer and other	1,624	0.53 %	1,611	0.55 %	
Total loans	299,745	100.00 %	286,146	100.00 %	
Deferred loan cost, net	1,294		722		
Less: allowance for loan losses	(5,496)		(5,729)		
	\$ 295,543		\$ 281,139		

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. These 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;

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; and

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
September 30, 2015					
Construction and land development					
Residential	\$5,188	\$-	\$-	\$ -	\$5,188
Commercial	24,165	581	1,474	-	26,220
	29,353	581	1,474	-	31,408
Commercial real estate					
Owner occupied	62,315	2,882	3,240	-	68,437
Non-owner occupied	36,020	2,015	97	-	38,132
Multifamily	7,993	202	-	-	8,195
Farmland	394	-	-	-	394
	106,722	5,099	3,337	-	115,158
Consumer real estate					
Home equity lines	18,909	237	878	-	20,024
Secured by 1-4 family residential					
First deed of trust	52,409	2,919	3,142	-	58,470
Second deed of trust	6,404	26	819	-	7,249
	77,722	3,182	4,839	-	85,743
Commercial and industrial loans (except those secured by real estate)	18,049	386	1,022	-	19,457
Guaranteed student loans	46,355	-	-	-	46,355
Consumer and other	1,534	66	24	-	1,624
Total loans	\$279,735	\$9,314	\$10,696	\$ -	\$299,745

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	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
December 31, 2014					
Construction and land development					
Residential	\$ 3,946	\$ 205	\$ 164	\$ -	\$4,315
Commercial	20,641	1,622	2,889	-	25,152
	24,587	1,827	3,053	-	29,467
Commercial real estate					
Owner occupied	47,175	5,234	6,395	-	58,804
Non-owner occupied	36,439	1,811	642	-	38,892
Multifamily	10,703	735	-	-	11,438
Farmland	413	-	21	-	434
	94,730	7,780	7,058	-	109,568
Consumer real estate					
Home equity lines	18,107	465	1,510	-	20,082
Secured by 1-4 family residential					
First deed of trust	52,513	4,763	4,561	-	61,837
Second deed of trust	6,456	434	964	-	7,854
	77,076	5,662	7,035	-	89,773
Commercial and industrial loans (except those secured by real estate)	19,026	2,297	390	452	22,165
Guaranteed student loans	33,562	-	-	-	33,562
Consumer and other	1,488	74	49	-	1,611
Total loans	\$ 250,469	\$ 17,640	\$ 17,585	\$ 452	\$286,146

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
September 30, 2015							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$5,188	\$5,188	\$ -
Commercial	-	-	-	-	26,220	26,220	-
	-	-	-	-	31,408	31,408	-
Commercial real estate							
Owner occupied	157	-	-	157	68,280	68,437	-
Non-owner occupied	-	-	-	-	38,132	38,132	-
Multifamily	-	-	-	-	8,195	8,195	-

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Farmland	-	-	-	-	394	394	-
	157	-	-	157	115,001	115,158	-
Consumer real estate							
Home equity lines	27	49	-	76	19,948	20,024	-
Secured by 1-4 family residential							
First deed of trust	-	263	-	263	58,207	58,470	-
Second deed of trust	-	-	-	-	7,249	7,249	-
	27	312	-	339	85,404	85,743	-
Commercial and industrial loans (except those secured by real estate)	-	-	-	-	19,457	19,457	-
Guaranteed student loans	1,750	1,092	9,117	11,959	34,396	46,355	9,117
Consumer and other	-	-	-	-	1,624	1,624	-
Total loans	\$ 1,934	\$ 1,404	\$ 9,117	\$ 12,455	\$ 287,290	\$ 299,745	\$ 9,117

	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
December 31, 2014							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$4,315	\$4,315	\$ -
Commercial	92	391	-	483	24,669	25,152	-
	92	391	-	483	28,984	29,467	-
Commercial real estate							
Owner occupied	715	-	-	715	58,089	58,804	-
Non-owner occupied	-	-	-	-	38,892	38,892	-
Multifamily	-	-	-	-	11,438	11,438	-
Farmland	-	-	-	-	434	434	-
	715	-	-	715	108,853	109,568	-
Consumer real estate							
Home equity lines	31	139	-	170	19,912	20,082	-
Secured by 1-4 family residential							
First deed of trust	-	153	-	153	61,684	61,837	-
Second deed of trust	56	-	-	56	7,798	7,854	-
	87	292	-	379	89,394	89,773	-
Commercial and industrial loans (except those secured by real estate)	-	47	-	47	22,118	22,165	-
Guaranteed student loans	671	392	720	1,783	31,779	33,562	720
Consumer and other	-	8	-	8	1,603	1,611	-
Total loans	\$ 1,565	\$ 1,130	\$ 720	\$ 3,415	\$282,731	\$286,146	\$ 720

Loans greater than 90 days past due are student loans that are guaranteed by the Department of Education which covers approximately 98% of the principal and interest. Accordingly, these loans will not be placed on nonaccrual status.

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):

	September 30, 2015		
	Unpaid		
	Recorded	Principal	Related
	Investmen	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Commercial	\$1,403	\$1,655	\$ -
Commercial real estate			
Owner occupied	1,594	1,594	
Non-owner occupied	2,100	2,677	-
Multifamily	-	-	-
Farmland	-	-	-
	3,694	4,271	-
Consumer real estate			
Home equity lines	1,407	1,407	-
Secured by 1-4 family residential			
First deed of trust	5,005	5,009	-
Second deed of trust	1,115	1,386	-
	7,527	7,802	-
Commercial and industrial loans (except those secured by real estate)	454	454	-
Consumer and other	-	-	-
	13,078	14,182	-
With an allowance recorded			
Construction and land development			
Commercial	575	575	26
Commercial real estate			
Owner occupied	5,550	5,515	366
Non-Owner occupied	456	456	38
	6,006	5,971	404
Consumer real estate			
Home equity lines	89	89	9
Secured by 1-4 family residential			
First deed of trust	1,350	1,350	215
Second deed of trust	356	356	147
	1,795	1,795	371
Commercial and industrial loans (except those secured by real estate)	136	232	17
	8,512	8,573	818
Total			
Construction and land development			
Commercial	1,978	2,230	26
	1,978	2,230	26
Commercial real estate			
Owner occupied	7,144	7,109	366

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Non-owner occupied	2,556	3,133	38
	9,700	10,242	404
Consumer real estate			
Home equity lines	1,496	1,496	9
Secured by 1-4 family residential,			
First deed of trust	6,355	6,359	215
Second deed of trust	1,471	1,742	147
	9,322	9,597	371
Commercial and industrial loans			
(except those secured by real estate)	590	686	17
Consumer and other	-	-	-
	\$21,590	\$22,755	\$ 818

	December 31, 2014		
	Unpaid		
	Recorded	Principal	Related
	Investmen	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$ 164	\$ 164	\$ -
Commercial	3,379	3,379	-
	3,543	3,543	-
Commercial real estate			
Owner occupied	1,686	1,686	-
Non-owner occupied	6,593	6,593	-
Multifamily	2,322	2,322	-
Farmland	21	450	-
	10,622	11,051	-
Consumer real estate			
Home equity lines	800	800	-
Secured by 1-4 family residential			
First deed of trust	6,485	6,493	-
Second deed of trust	1,103	1,373	-
	8,388	8,666	-
Commercial and industrial loans (except those secured by real estate)			
Consumer and other	263	365	-
	23	36	-
	22,839	23,661	-
With an allowance recorded			
Construction and land development			
Commercial	589	589	26
Commercial real estate			
Owner occupied	6,625	6,640	905
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,415	1,415	200
Second deed of trust	257	257	142
	1,672	1,672	342
Commercial and industrial loans (except those secured by real estate)			
	555	555	239
	9,441	9,456	1,512
Total			
Construction and land development			
Residential	164	164	-
Commercial	3,968	3,968	26
	4,132	4,132	26
Commercial real estate			
Owner occupied	8,311	8,326	905

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Non-owner occupied	6,593	6,593	-
Multifamily	2,322	2,322	-
Farmland	21	450	-
	17,247	17,691	905
Consumer real estate			
Home equity lines	800	800	-
Secured by 1-4 family residential, First deed of trust	7,900	7,908	200
Second deed of trust	1,360	1,630	142
	10,060	10,338	342
Commercial and industrial loans (except those secured by real estate)	818	920	239
Consumer and other	23	36	-
	\$32,280	\$33,117	\$ 1,512

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 September 30, 2015		For the Nine Months Ended September 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	\$ -	\$ -	\$ 76	\$ -
Commercial	2,191	-	2,579	66
	2,191	-	2,655	66
Commercial real estate				
Owner occupied	1,364	14	1,409	45
Non-owner occupied	4,971	-	5,947	157
Multifamily	-	-	319	6
Farmland	-	-	5	-
	6,335	14	7,680	208
Consumer real estate				
Home equity lines	1,178	-	617	4
Secured by 1-4 family residential				
First deed of trust	5,665	-	6,120	173
Second deed of trust	1,118	13	1,162	43
	7,961	13	7,899	220
Commercial and industrial loans (except those secured by real estate)				
Consumer and other	185	22	181	26
	-	-	13	1
	16,672	49	18,428	521
With an allowance recorded				
Construction and land development				
Commercial	529	6	578	17
Commercial real estate				
Owner occupied	5,544	53	6,197	169
Non-Owner occupied	459	6	262	18
	6,003	59	6,459	187
Consumer real estate				
Home equity line	89	-	45	-
Secured by 1-4 family residential				
First deed of trust	1,387	-	1,306	-
Second deed of trust	284	-	262	-
	1,760	-	1,613	-
Commercial and industrial loans (except those secured by real estate)				
	226	4	378	20
	8,518	69	9,028	224

Total

Construction and land development				
Residential	-	-	76	-
Commercial	2,720	6	3,157	83
	2,720	6	3,233	83
Commercial real estate				
Owner occupied	6,908	67	7,606	214
Non-owner occupied	5,430	6	6,209	175
Multifamily	-	-	319	6
Farmland	-	-	5	-
	12,338	73	14,139	395
Consumer real estate				
Home equity lines	1,267	-	662	4
Secured by 1-4 family residential,				
First deed of trust	7,052	-	7,426	173
Second deed of trust	1,402	13	1,424	43
	9,721	13	9,512	220
Commercial and industrial loans (except those secured by real estate)	411	26	559	46
Consumer and other	-	-	13	1
	\$ 25,190	\$ 118	\$ 27,456	\$ 745

	For the Three Months Ended September 30, 2014		For the Nine Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	\$ 133	-	\$ 206	2
Commercial	3,584	52	3,841	150
	3,717	52	4,047	152
Commercial real estate				
Owner occupied	2,654	70	3,161	135
Non-owner occupied	9,557	120	9,994	335
Multifamily	2,340	35	2,353	106
Farmland	21	-	21	-
	14,572	225	15,529	576
Consumer real estate				
Home equity lines	950	3	960	19
Secured by 1-4 family residential				
First deed of trust	7,259	75	7,175	268
Second deed of trust	1,147	9	1,066	42
	9,356	87	9,201	329
Commercial and industrial loans (except those secured by real estate)	746	7	751	30
Consumer and other	17	-	19	1
	\$ 28,408	\$ 371	\$ 29,547	\$ 1,088
With an allowance recorded				
Construction and land development				
Commercial	598	8	603	23
Commercial real estate				
Owner occupied	2,801	62	4,446	154
Non-Owner occupied	1,946	9	217	9
	4,747	71	4,663	163
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	1,870	22	1,944	24
Second deed of trust	260	5	264	8
	2,130	27	2,208	32
Commercial and industrial loans (except those secured by real estate)	110	-	115	-
	\$ 7,585	\$ 106	\$ 7,589	\$ 218
Total				
Construction and land development				
Residential	133	-	206	2
Commercial	4,182	60	4,444	173

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	4,315	60	4,650	175
Commercial real estate				
Owner occupied	5,455	132	7,607	289
Non-owner occupied	11,503	129	10,211	344
Multifamily	2,340	35	2,353	106
Farmland	21	-	21	-
	19,319	296	20,192	739
Consumer real estate				
Home equity lines	950	3	960	19
Secured by 1-4 family residential,				
First deed of trust	9,129	97	9,119	292
Second deed of trust	1,407	14	1,330	50
	11,486	114	11,409	361
Commercial and industrial loans (except those secured by real estate)	856	7	866	30
Consumer and other	17	-	19	1
	\$ 35,993	\$ 477	\$ 37,136	\$ 1,306

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	Valuation Allowance
September 30, 2015				
Construction and land development				
Commercial	\$ 1,723	\$ 1,705	\$ 19	\$ -
	1,723	1,705	19	-
Commercial real estate				
Owner occupied	5,773	5,489	284	59
Non-owner occupied	2,556	2,556	-	-
	8,329	8,045	284	59
Consumer real estate				
Home equity lines	89	-	89	9
Secured by 1-4 family residential				
First deed of trust	4,610	3,742	868	107
Second deed of trust	739	644	95	-
	5,438	4,386	1,052	116
Commercial and industrial loans (except those secured by real estate)	131	-	131	17
Consumer and other	-	-	-	-
	\$ 15,621	\$ 14,135	\$ 1,486	\$ 192
Number of loans	67	48	19	10

	Total	Performing	Nonaccrual	Specific Valuation Allowance
December 31, 2014				
Construction and land development				
Residential	7	-	7	-
Commercial	3,895	3,751	144	17
	3,902	3,751	151	17
Commercial real estate				
Owner occupied	6,317	5,149	1,168	325
Non-owner occupied	6,593	6,593	-	-
Multifamily	2,322	2,322	-	-
	15,232	14,065	1,168	325
Consumer real estate				
Secured by 1-4 family residential				
First deeds of trust	6,990	5,494	1,496	200
Second deeds of trust	762	658	104	5
	7,752	6,152	1,600	205
Commercial and industrial loans (except those secured by real estate)				
Consumer and other	239	-	239	12
	16	-	16	-
	\$27,141	\$ 23,967	\$ 3,174	\$ 559
Number of loans	107	77	30	21

The following table provides information about TDRs identified during the indicated periods (dollars in thousands):

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance
Construction and land development						
Commercial	-	\$ -	\$ -	1	\$ 45	\$ 45
	-	-	-	1	45	45
Commercial real estate						
Owner occupied	-	-	-	2	743	743
Non-owner occupied	-	-	-	-	-	-
	-	-	-	2	743	743
Consumer real estate						

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Home equity lines	1	89	89	-	-	-
Secured by 1-4 family residential						
First deed of trust	-	-	-	7	729	729
Second deed of trust	-	-	-	2	105	105
	1	89	89	9	834	834
	1	\$ 89	\$ 89	12	\$ 1,622	\$ 1,622

The following table provides information about defaults on TDRs identified for the indicated periods (dollars in thousands):

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Construction and land development				
Commercial	1	\$ 19	1	\$ 45
	1	19	1	45
Commercial real estate				
Owner occupied	1	157	1	334
Non-owner occupied	-	-	-	-
	1	157	1	334
Consumer real estate				
Home equity lines	-	-	-	-
Secured by 1-4 family residential				
First deed of trust	11	897	5	541
Second deed of trust	-	-	2	105
	11	897	7	646
Commercial and industrial (except those secured by real estate)	1	131	-	-
	14	\$ 1,204	9	\$ 1,025

Activity in the allowance for loan losses is as follows for the periods indicated (dollars in thousands):

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended September 30, 2015					
Construction and land development					
Residential	\$ 92	\$ (9)	\$ -	\$ -	\$ 83
Commercial	369	113	(67)	-	415
	461	104	(67)	-	498
Commercial real estate					
Owner occupied	1,686	(150)	-	33	1,569
Non-owner occupied	639	51	-	2	692
Multifamily	110	2	-	-	112
Farmland	127	(48)	-	-	79

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	2,562	(145)	-	35	2,452
Consumer real estate						
Home equity lines	441	59	(14)	1	487
Secured by 1-4 family residential						
First deed of trust	1,192	72	(37	)	5	1,232
Second deed of trust	250	(17	)	-	12	245
	1,883	114	(51	)	18	1,964
Commercial and industrial loans						
(except those secured by real estate)	382	(67	)	-	15	330
Student Loans	253	(21	)	(2	)	230
Consumer and other	26	15	(21	)	2	22
	\$ 5,567	\$ -	\$ (141	)	\$ 70	\$ 5,496

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended September 30, 2014					
Construction and land development					
Residential	\$ 141	\$ -	\$ -	\$ -	\$ 141
Commercial	770	-	-	27	797
	911	-	-	27	938
Commercial real estate					
Owner occupied	1,245	-	-	-	1,245
Non-owner occupied	(15)	-	-	1	(14)
Multifamily	17	-	-	-	17
Farmland	409	-	-	-	409
	1,656	-	-	1	1,657
Consumer real estate					
Home equity lines	225	-	(52)	12	185
Secured by 1-4 family residential					
First deed of trust	1,744	-	(39)	9	1,714
Second deed of trust	440	-	-	5	445
	2,409	-	(91)	26	2,344
Commercial and industrial loans (except those secured by real estate)					
Consumer and other	678	-	-	13	691
	27	-	(3)	4	28
	\$ 5,681	\$ -	\$ (94)	\$ 71	\$ 5,658

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Nine Months Ended September 30, 2015					
Construction and land development					
Residential	\$ 34	\$ 48	\$ -	\$ 1	\$ 83
Commercial	202	443	(252)	22	415
	236	491	(252)	23	498
Commercial real estate					
Owner occupied	1,836	(173)	(127)	33	1,569
Non-owner occupied	607	81	-	4	692
Multifamily	78	34	-	-	112
Farmland	130	(51)	-	-	79
	2,651	(109)	(127)	37	2,452
Consumer real estate					
Home equity lines	469	70	(54)	2	487
Secured by 1-4 family residential					
First deed of trust	1,345	(384)	(103)	374	1,232
Second deed of trust	275	-	(55)	25	245
	2,089	(314)	(212)	401	1,964
	506	(87)	(162)	73	330

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Commercial and industrial loans
(except those secured by real estate)

Student Loans	217	14	(1)	-	230
Consumer and other	30	5	(30	)	17	22
	\$ 5,729	\$ -	\$ (784	)	\$ 551	\$ 5,496

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Nine Months Ended September 30, 2014					
Construction and land development					
Residential	\$ 135	\$ 5	\$ -	\$ 1	\$ 141
Commercial	1,274	(421)	(100)	44	797
	1,409	(416)	(100)	45	938
Commercial real estate					
Owner occupied	1,199	653	(608)	-	1,244
Non-owner occupied	670	(470)	(238)	24	(14)
Multifamily	20	(2)	-	-	18
Farmland	337	168	(96)	-	409
	2,226	349	(942)	24	1,657
Consumer real estate					
Home equity lines	424	223	(476)	14	185
Secured by 1-4 family residential					
First deed of trust	1,992	(65)	(277)	64	1,714
Second deed of trust	394	12	(76)	115	445
	2,810	170	(829)	193	2,344
Commercial and industrial loans (except those secured by real estate)					
	724	45	(168)	90	691
Consumer and other	70	(48)	(8)	14	28
	\$ 7,239	\$ 100	\$ (2,047)	\$ 366	\$ 5,658

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Year Ended December 31, 2014					
Construction and land development					
Residential	\$ 135	\$ (103)	\$ -	\$ 2	\$ 34
Commercial	1,274	(1,016)	(100)	44	202
	1,409	(1,119)	(100)	46	236
Commercial real estate					
Owner occupied	1,199	1,268	(631)	-	1,836
Non-owner occupied	670	430	(518)	25	607
Multifamily	20	58	-	-	78
Farmland	337	(111)	(96)	-	130
	2,226	1,645	(1,245)	25	2,651
Consumer real estate					
Home equity lines	424	506	(476)	15	469
Secured by 1-4 family residential					
First deed of trust	1,992	(442)	(277)	72	1,345
Second deed of trust	394	(223)	(86)	190	275
	2,810	(159)	(839)	277	2,089
	724	(447)	(172)	401	506

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Commercial and industrial loans (except those secured by real estate)					
Student Loans	-	217	-	-	217
Consumer and other	70	(37	) (25	) 22	30
	\$ 7,239	\$ 100	\$ (2,381	) \$ 771	\$ 5,729

The allowance for loan losses at each of the periods presented includes an amount that could not be identified to individual types of loans referred to as the unallocated portion of the allowance. We recognize the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. We concluded that the unallocated portion of the allowance was warranted given the continued higher level of classified assets and was within a reasonable range around the estimate of losses.

Loans were evaluated for impairment as follows for the periods indicated (in thousands):

	Recorded Investment in Loans Allowance				Loans			Loans acquired with deteriorated credit quality
	Ending				Ending			
	Balance	Individually	Collectively	Loans acquired with deteriorated credit quality	Balance	Individually	Collectively	
Period Ended								
September 30, 2015								
Construction and land development								
Residential	\$83	\$ -	\$ 83	\$ -	\$5,188	\$ -	\$ 5,188	\$ -
Commercial	415	26	389	-	26,220	1,978	24,242	-
	498	26	472	-	31,408	1,978	29,430	-
Commercial real estate								
Owner occupied	1,569	366	1,203	-	68,437	7,144	61,293	-
Non-owner occupied	692	38	654	-	38,132	2,556	35,576	-
Multifamily	112	-	112	-	8,195	-	8,195	-
Farmland	79	-	79	-	394	-	394	-
	2,452	404	2,048	-	115,158	9,700	105,458	-
Consumer real estate								
Home equity lines								
Secured by 1-4 family residential								
First deed of trust	1,232	215	1,017	-	58,470	6,355	52,115	-
Second deed of trust	245	147	98	-	7,249	1,471	5,778	-
	1,964	371	1,593	-	85,743	9,322	76,422	-
Commercial and industrial loans (except those secured by real estate)								
Student loans	230	-	230	-	46,355	-	46,355	-
Consumer and other	22	-	22	-	1,624	-	1,624	-
	\$5,496	\$ 818	\$ 4,678	\$ -	\$299,745	\$ 21,590	\$ 278,156	\$ -
Year Ended December 31, 2014								
Construction and land development								
Residential	\$34	\$ -	\$ 34	\$ -	\$4,315	\$ 164	\$ 4,151	\$ -
Commercial	202	26	176	-	25,152	3,968	21,184	-

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	236	26	210	-	29,467	4,132	25,335	-
Commercial real estate								
Owner occupied	1,836	905	931	-	58,804	8,311	50,493	-
Non-owner occupied	607	-	607	-	38,892	6,593	32,299	-
Multifamily	78	-	78	-	11,438	2,322	9,116	-
Farmland	130	-	130	-	434	21	413	-
	2,651	905	1,746	-	109,568	17,247	92,321	-
Consumer real estate								
Home equity lines	469	-	469	-	20,082	800	19,282	-
Secured by 1-4 family residential								
First deed of trust	1,345	200	1,145	-	61,837	7,900	53,937	-
Second deed of trust	275	142	133	-	7,854	1,360	6,494	-
	2,089	342	1,747	-	89,773	10,060	79,713	-
Commercial and industrial loans (except those secured by real estate)	506	239	267	-				