SUMMIT FINANCIAL GROUP INC
Form 10-Q
August 07, 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 June 30, 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	55-0672148
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
300 North Main Street	
Moorefield, West Virginia	26836
(Address of principal executive offices)	(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
10,843,676 shares outstanding as of August 6, 2015

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Consolidated Balance Sheets (unaudited)

Dollars in thousands	June 30, 2015 (unaudited)	December 31, 2014 (*)	June 30, 2014 (unaudited)
ASSETS			
Cash and due from banks	$3,988	$3,728	$3,749
Interest bearing deposits with other banks	9,274	8,782	9,970
Cash and cash equivalents	13,262	12,510	13,719
Securities available for sale	276,661	282,834	287,883
Other investments	8,583	6,183	7,436
Loans held for sale, net	—	527	413
Loans, net	1,064,472	1,019,842	992,816
Property held for sale	31,500	37,529	48,783
Premises and equipment, net	20,490	20,060	20,301
Accrued interest receivable	5,473	5,838	5,683
Intangible assets	7,598	7,698	7,798
Cash surrender value of life insurance policies	37,222	36,700	36,151
Other assets	14,708	13,847	14,975
Total assets	$1,479,969	$1,443,568	$1,435,958
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$113,256	$115,427	$106,134
Interest bearing	940,054	945,887	951,661
Total deposits	1,053,310	1,061,314	1,057,795
Short-term borrowings	174,599	123,633	91,729
Long-term borrowings	76,536	77,490	121,942
Subordinated debentures	2,500	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	13,363	13,098	10,638
Total liabilities	1,339,897	1,311,924	1,318,493
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 June 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 June 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 - 10,843,676 shares, December 2014 - 8,301,746 shares, and June 2014 - 7,457,222	45,563	32,670	24,691

shares			
Retained earnings	94,318	87,719	81,569
Accumulated other comprehensive income	191	2,072	1,922
Total shareholders' equity	140,072	131,644	117,465
Total liabilities and shareholders' equity	$1,479,969	$1,443,568	$1,435,958

(*) - 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 June 30, 2015	Three Months Ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Interest income				
Interest and fees on loans				
Taxable	$12,854	$12,428	$25,588	$24,572
Tax-exempt	118	87	233	159
Interest and dividends on securities				
Taxable	1,092	1,199	2,368	2,481
Tax-exempt	593	628	1,211	1,198
Interest on interest bearing deposits with other banks	1	2	2	4
Total interest income	14,658	14,344	29,402	28,414
Interest expense				
Interest on deposits	2,074	2,335	4,145	4,576
Interest on short-term borrowings	126	59	238	112
Interest on long-term borrowings and subordinated debentures	1,000	1,630	2,041	3,368
Total interest expense	3,200	4,024	6,424	8,056
Net interest income	11,458	10,320	22,978	20,358
Provision for loan losses	500	1,000	750	2,000
Net interest income after provision for loan losses	10,958	9,320	22,228	18,358
Other income				
Insurance commissions	1,080	1,091	2,208	2,273
Service fees related to deposit accounts	1,072	1,101	2,048	2,144
Realized securities gains (losses)	170	(43)	650	(64)
Bank owned life insurance income	261	270	522	539
Other	277	287	571	598
Total other-than-temporary impairment loss on securities	—	(1)	—	(1)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment loss recognized in earnings	—	(1)	—	(1)
Total other income	2,860	2,705	5,999	5,489
Other expense				
Salaries, commissions, and employee benefits	4,442	4,045	8,629	8,026
Net occupancy expense	489	505	988	1,046
Equipment expense	560	513	1,095	1,079
Professional fees	372	282	707	598
Amortization of intangibles	50	63	100	150
FDIC premiums	320	495	650	997
Foreclosed properties expense	158	229	366	482
Loss on sale of foreclosed properties	103	54	253	129
Write-down of foreclosed properties	160	962	732	1,891
Other	1,407	1,382	2,746	2,630
Total other expense	8,061	8,530	16,266	17,028
Income before income taxes	5,757	3,495	11,961	6,819

Income tax expense	1,747	1,063	3,667	1,997
Net Income	4,010	2,432	8,294	4,822
Dividends on preferred shares	—	193	—	387
Net Income applicable to common shares	$4,010	$2,239	$8,294	$4,435
Basic earnings per common share	$0.38	$0.30	$0.85	$0.59
Diluted earnings per common share	$0.38	$0.25	$0.78	$0.50

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Consolidated Statement of Comprehensive Income (unaudited)

Dollars in thousands	For the Three Months Ended June 30, 2015	2014
Net income	$4,010	$2,432
Other comprehensive income (loss):		
Net unrealized gain (loss) on cashflow hedge of:		
2015 - $379, net of deferred taxes of $140; 2014 - ($1,173), net of deferred taxes of ($434)	239	(739)
Net unrealized gain (loss) on available for sale debt securities of:		
2015 - ($2,683), net of deferred taxes of ($993) and reclassification adjustment for net realized gains included in net income of $170; 2014 - $2,282, net of deferred taxes of $844 and reclassification adjustment for net realized (losses) included in net income of ($43)	(1,690)	1,438
Total comprehensive income	$2,559	$3,131

Dollars in thousands	For the Six Months Ended June 30, 2015	2014
Net income	$8,294	$4,822
Other comprehensive income (loss):		
Net unrealized (loss) on cashflow hedge of:		
2015 - ($1,030), net of deferred taxes of ($381); 2014 - ($2,384), net of deferred taxes of ($882)	(649)	(1,502)
Net unrealized gain (loss) on available for sale debt securities of:		
2015 - ($1,956), net of deferred taxes of ($724) and reclassification adjustment for net realized gains included in net income of $650; 2014 - $5,468, net of deferred taxes of $2,023 and reclassification adjustment for net realized (losses) included in net income of ($64)	(1,232)	3,445
Total comprehensive income	$6,413	$6,765

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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
Six Months Ended June 30, 2015						
Comprehensive income:						
Net income	—	—	—	8,294	—	8,294
Other comprehensive (loss)	—	—	—	—	(1,881)	(1,881)
Total comprehensive income						6,413
Stock compensation expense	—	—	50	—	—	50
Conversion of Series 2009 Preferred Stock to Common Stock	(3,419)	—	3,405	—	—	(14)
Conversion of Series 2011 Preferred Stock to Common Stock	—	(5,764)	5,749	—	—	(15)
Issuance of 496,335 shares of Common Stock	—	—	4,769	—	—	4,769
Retirement of 100,000 shares of Common Stock	—	—	(1,080)	—	—	(1,080)
Common Stock cash dividends declared ($0.16 per share)	—	—	—	(1,695)	—	(1,695)
Balance, June 30, 2015	$—	$—	$45,563	$94,318	$191	$140,072
Balance, December 31, 2013	$3,519	$5,776	$24,664	$77,134	$(21)	$111,072
Six Months Ended June 30, 2014						
Comprehensive income:						
Net income	—	—	—	4,822	—	4,822
Other comprehensive income	—	—	—	—	1,943	1,943
Total comprehensive income						6,765
Exercise of stock options	—	—	15	—	—	15
Conversion of Series 2011 Preferred Stock to Common Stock	—	(12)	12	—	—	—
Series 2009 Preferred Stock cash dividends declared ($40.00 per share)	—	—	—	(149)	—	(149)
Series 2011 Preferred Stock cash dividends declared ($20.00 per share)	—	—	—	(238)	—	(238)
Balance, June 30, 2014	$3,519	$5,764	$24,691	$81,569	$1,922	$117,465

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Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Six Months Ended June 30, 2015	June 30, 2014
Cash Flows from Operating Activities		
Net income	$8,294	$4,822
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	523	547
Provision for loan losses	750	2,000
Stock compensation expense	50	—
Deferred income tax expense	360	494
Loans originated for sale	(1,417)	(960)
Proceeds from loans sold	1,944	868
Securities (gains) losses	(650)	64
Other-than-temporary impairment of securities	—	1
Loss on disposal of assets	255	129
Write down of foreclosed properties	732	1,891
Amortization of securities premiums (accretion of discounts), net	2,603	2,517
Amortization of intangibles, net	106	155
Decrease (increase) in accrued interest receivable	365	(15)
Increase in cash surrender value of bank owned life insurance	(522)	(539)
Increase in other assets	(847)	(492)
(Decrease) increase in other liabilities	(296)	388
Net cash provided by operating activities	12,250	11,870
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	615	3,001
Proceeds from sales of securities available for sale	40,593	36,230
Principal payments received on securities available for sale	20,380	16,664
Purchases of securities available for sale	(59,324)	(52,110)
Purchases of other investments	(6,072)	(1,968)
Proceeds from sales & redemptions of other investments	3,672	2,347
Net principal payments received on loans	(46,372)	(59,716)
Purchases of premises and equipment	(954)	(224)
Proceeds from sales of other repossessed assets & property held for sale	6,482	4,846
Net cash (used in) investing activities	(40,980)	(50,930)
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	(9,902)	64,451
Net increase (decrease) in time deposits	1,869	(10,468)
Net increase in short-term borrowings	50,966	28,960
Repayment of long-term borrowings	(954)	(41,574)
Repayment of subordinated debt	(14,300)	—
Net proceeds from issuance of common stock	4,741	—
Retirement of common stock	(1,080)	—
Exercise of stock options	—	15
Dividends paid on common stock	(1,667)	—
Dividends paid on preferred stock	(191)	(387)
Net cash provided by financing activities	29,482	40,997
Increase in cash and cash equivalents	752	1,937

Cash and cash equivalents:		
Beginning	12,510	11,782
Ending	$13,262	$13,719

(Continued)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Six Months Ended June 30, 2015	June 30, 2014
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$6,456	$8,294
Income taxes	$3,632	$1,459
Supplemental Schedule of Noncash Investing and Financing Activities		
Other assets acquired in settlement of loans	$713	$1,970

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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 June 30, 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 June 30, 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

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

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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	June 30, 2015	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$25,389	$—	$25,389	$—
Mortgage backed securities:				
Government sponsored agencies	152,943	—	152,943	—
Nongovernment sponsored entities	9,962	—	9,962	—
State and political subdivisions	1,684	—	1,684	—
Corporate debt securities	11,806	—	8,003	3,803
Other equity securities	7	—	7	—
Tax-exempt state and political subdivisions	74,870	—	74,870	—
Total available for sale securities	$276,661	$—	$272,858	$3,803
Derivative financial liabilities				
Interest rate swaps	$3,664	$—	$3,664	$—

	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	June 30, 2015	Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$—	$—	$—	$—
Collateral-dependent impaired loans				
Commercial	$—	$—	$—	$—
Commercial real estate	433	—	433	—
Construction and development	—	—	—	—
Residential real estate	1,274	—	1,140	134
Total collateral-dependent impaired loans	$1,707	$—	$1,573	$134
Foreclosed properties				
Commercial real estate	1,968	—	1,968	—
Construction and development	18,802	—	18,744	58
Residential real estate	1,240	—	1,240	—
Total foreclosed properties	$22,010	$—	$21,952	$58

	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.

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:

	June 30, 2015		December 31, 2014	
Dollars in thousands	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$13,262	$13,262	$12,510	$12,510
Securities available for sale	276,661	276,661	282,834	282,834
Other investments	8,583	8,583	6,183	6,183
Loans held for sale, net	—	—	527	527
Loans, net	1,064,472	1,069,508	1,019,842	1,033,890
Accrued interest receivable	5,473	5,473	5,838	5,838
	$1,368,451	$1,373,487	$1,327,734	$1,341,782
Financial liabilities				
Deposits	$1,053,310	$1,068,532	$1,061,314	$1,078,406
Short-term borrowings	174,599	174,599	123,633	123,633

Long-term borrowings	76,536	82,861	77,490	84,732
Subordinated debentures	2,500	2,500	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589	19,589
Accrued interest payable	812	812	812	812
Derivative financial liabilities	3,664	3,664	2,911	2,911
	$1,331,010	$1,352,557	$1,302,549	$1,326,883

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NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended June 30,					
	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	$4,010			$2,432		
Less preferred stock dividends	—			(193)		
Basic EPS	$4,010	10,667,892	$0.38	$2,239	7,457,222	$0.30
Effect of dilutive securities:						
Stock options		8,582			9,607	
Series 2011 convertible preferred stock	—	—		119	1,489,250	
Series 2009 convertible preferred stock	—	—		74	674,545	
Diluted EPS	$4,010	10,676,474	$0.38	$2,432	9,630,624	$0.25

	For the Six Months Ended June 30,					
	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	$8,294			$4,822		
Less preferred stock dividends	—			(387)		
Basic EPS	$8,294	9,747,042	$0.85	$4,435	7,455,307	$0.59
Effect of dilutive securities:						
Stock options		8,574			9,675	
Series 2011 convertible preferred stock	—	575,953		238	1,490,228	
Series 2009 convertible preferred stock	—	253,842		149	674,545	
Diluted EPS	$8,294	10,585,411	$0.78	$4,822	9,629,755	$0.50

Stock option and stock appreciation right (SAR) 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 June 30, 2015 and 2014 totaled 136,900 shares and 143,000 shares, respectively and our anti-dilutive SARs at June 30, 2015 were 166,717.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2015, December 31, 2014, and June 30, 2014 are summarized as follows:

	June 30, 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	$24,336	$1,093	$40	$25,389
Residential mortgage-backed securities:				
Government-sponsored agencies	150,675	3,005	737	152,943
Nongovernment-sponsored entities	9,880	116	34	9,962
State and political subdivisions				
General obligations	—	—	—	—
Water and sewer revenues	500	3	—	503
Lottery/casino revenues	1,218	—	37	1,181
Other revenues	—	—	—	—
Corporate debt securities	11,896	—	90	11,806
Total taxable debt securities	198,505	4,217	938	201,784
Tax-exempt debt securities				
State and political subdivisions				
General obligations	49,067	1,463	586	49,944
Water and sewer revenues	7,982	52	33	8,001
Special tax revenues	4,548	30	72	4,506
Lottery/casino revenues	3,576	58	74	3,560
Other revenues	8,729	162	32	8,859
Total tax-exempt debt securities	73,902	1,765	797	74,870
Equity securities	7	—	—	7
Total available for sale securities	$272,414	$5,982	$1,735	$276,661

	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

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	June 30, 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	$24,998	$885	$53	$25,830
Residential mortgage-backed securities:				
Government-sponsored agencies	155,631	2,921	997	157,555
Nongovernment-sponsored agencies	9,555	385	9	9,931
State and political subdivisions:				
General obligations	4,532	9	144	4,397
Water and sewer revenues	2,382	7	44	2,345
Other revenues	3,319	7	33	3,293
Corporate debt securities	—	—	—	—
Total taxable debt securities	200,417	4,214	1,280	203,351
Tax-exempt debt securities:				
State and political subdivisions:				
General obligations	46,859	1,552	204	48,207
Water and sewer revenues	11,868	176	58	11,986
Lease revenues	7,990	54	68	7,976
Lottery/casino revenues	3,832	145	41	3,936
Other revenues	12,205	198	53	12,350
Total tax-exempt debt securities	82,754	2,125	424	84,455
Equity securities	77	—	—	77
Total available for sale securities	$283,248	$6,339	$1,704	$287,883

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.

	June 30, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
West Virginia	$11,744	$104	$64	$11,784
Illinois	8,936	147	71	9,012
California	7,037	258	58	7,237
Ohio	7,594	19	181	7,432
Texas	6,226	334	64	6,496

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 June 30, 2015, are summarized as follows:

Dollars in thousands	Amortized	Estimated

	Cost	Fair Value
Due in one year or less	$62,419	$63,555
Due from one to five years	100,922	102,208
Due from five to ten years	24,159	24,681
Due after ten years	84,907	86,210
Equity securities	7	7
	$272,414	$276,661

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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 six months ended June 30, 2015 are as follows:

	Proceeds from			Gross realized	
Dollars in thousands	Sales	Calls and Maturities	Principal Payments	Gains	Losses
Securities available for sale	$40,593	$615	$20,380	$852	$202

We held 83 available for sale securities having an unrealized loss at June 30, 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.

Provided below is a summary of securities available for sale which were in an unrealized loss position at June 30, 2015 and December 31, 2014, including debt securities for which a portion of other-than-temporary impairment has been recognized in other comprehensive income.

	June 30, 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	$247	$—	$3,489	$(40)	$3,736	$(40)
Residential mortgage-backed securities:						
Government-sponsored agencies	42,805	(638)	5,906	(99)	48,711	(737)
Nongovernment-sponsored entities	6,278	(34)	—	—	6,278	(34)
State and political subdivisions:						
Lottery/casino revenues	1,181	(37)	—	—	1,181	(37)
Corporate debt securities	8,003	(90)	—	—	8,003	(90)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	25,066	(586)	—	—	25,066	(586)
Water and sewer revenues	3,463	(33)	—	—	3,463	(33)
Special tax revenues	2,541	(72)			2,541	(72)
Lottery/casino revenues	1,781	(74)	—	—	1,781	(74)
Other revenues	2,512	(32)	—	—	2,512	(32)
Total temporarily impaired securities	93,877	(1,596)	9,395	(139)	103,272	(1,735)
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$93,877	$(1,596)	$9,395	$(139)	$103,272	$(1,735)

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Dollars in thousands	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	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	$—	$—	$3,912	$(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)	—	—		