EAGLE BANCORP INC
Form 10-Q
November 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2016

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 0-25923

Eagle Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	52-2061461
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7830 Old Georgetown Road, Third Floor, Bethesda, Maryland	20814
(Address of principal executive offices)	(Zip Code)

(301) 986-1800

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 definition 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 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 stock, as of the latest practicable date.

As of October 31, 2016, the registrant had 33, 632, 710 shares of Common Stock outstanding.

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Item 1 – Financial Statements (Unaudited)

EAGLE BANCORP, INC.

Consolidated Balance Sheets (Unaudited)

(dollars in thousands, except per share data)

	September 30, 2016	December 31, 2015	September 30, 2015
Assets			
Cash and due from banks	$10,615	$10,270	$10,080
Federal funds sold	5,262	3,791	4,076
Interest bearing deposits with banks and other short-term investments	503,150	284,302	291,898
Investment securities available-for-sale, at fair value	430,668	487,869	524,326
Federal Reserve and Federal Home Loan Bank stock	19,920	16,903	16,865
Loans held for sale	78,118	47,492	35,713
Loans	5,481,975	4,998,368	4,776,965
Less allowance for credit losses	(56,864)	(52,687)	(50,320)
Loans, net	5,425,111	4,945,681	4,726,645
Premises and equipment, net	19,370	18,254	17,070
Deferred income taxes	41,065	40,311	35,426
Bank owned life insurance	59,747	58,682	58,284
Intangible assets, net	107,694	108,542	109,498
Other real estate owned	5,194	5,852	9,952
Other assets	56,218	47,628	48,022
Total Assets	$6,762,132	$6,075,577	$5,887,855
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Noninterest bearing demand	$1,668,271	$1,405,067	$1,402,447
Interest bearing transaction	297,973	178,797	207,716
Savings and money market	2,802,519	2,835,325	2,514,310
Time, $100,000 or more	452,015	406,570	439,248
Other time	337,371	332,685	362,867
Total deposits	5,558,149	5,158,444	4,926,588
Customer repurchase agreements	71,642	72,356	64,893
Other short-term borrowings	50,000	-	-
Long-term borrowings	216,419	68,928	68,897
Other liabilities	50,283	37,248	41,408
Total Liabilities	5,946,493	5,336,976	5,101,786

Shareholders' Equity			
Preferred stock, par value $.01 per share, shares authorized 1,000,000, Series B, $1,000 per share liquidation preference, shares issued and outstanding -0- at September 30, 2016 and December 31, 2015, and 56,600 at September 30, 2015; Series C, $1,000 per share liquidation preference, shares issued and outstanding -0- at September 30, 2016 and December 31, 2015, and 15,300 at September 30, 2015	-	-	71,900
Common stock, par value $.01 per share; shares authorized 100,000,000, shares issued and outstanding 33,590,880, 33,467,893 and 33,405,510 respectively	333	331	330
Warrant	946	946	946
Additional paid in capital	509,706	503,529	500,334
Retained earnings	305,594	233,604	211,318
Accumulated other comprehensive (loss) income	(940)	191	1,241
Total Shareholders' Equity	815,639	738,601	786,069
Total Liabilities and Shareholders' Equity	$6,762,132	$6,075,577	$5,887,855

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Operations (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	$69,869	$61,006	$202,002	$178,063
Interest and dividends on investment securities	2,177	2,745	7,121	7,189
Interest on balances with other banks and short-term investments	376	228	856	604
Interest on federal funds sold	9	2	31	13
Total interest income	72,431	63,981	210,010	185,869
Interest Expense				
Interest on deposits	4,840	3,739	13,513	10,668
Interest on customer repurchase agreements	39	33	115	94
Interest on short-term borrowings	383	-	727	54
Interest on long-term borrowings	2,441	1,124	4,515	3,687
Total interest expense	7,703	4,896	18,870	14,503
Net Interest Income	64,728	59,085	191,140	171,366
Provision for Credit Losses	2,288	3,262	9,219	10,043
Net Interest Income After Provision For Credit Losses	62,440	55,823	181,921	161,323
Noninterest Income				
Service charges on deposits	1,431	1,374	4,303	3,990
Gain on sale of loans	3,009	2,483	8,464	9,364
Gain on sale of investment securities	1	60	1,123	2,224
Loss on early extinguishment of debt	-	-	-	(1,130)
Increase in the cash surrender value of bank owned life insurance	391	395	1,171	1,191
Other income	1,573	1,787	5,209	4,497
Total noninterest income	6,405	6,099	20,270	20,136
Noninterest Expense				
Salaries and employee benefits	17,130	15,383	49,157	45,772
Premises and equipment expenses	3,786	3,974	11,419	12,056
Marketing and advertising	857	762	2,551	2,182
Data processing	1,879	1,976	5,716	5,598
Legal, accounting and professional fees	771	1,063	2,845	2,915
FDIC insurance	629	794	2,193	2,348
Merger expenses	-	2	-	139
Other expenses	3,786	3,451	11,354	11,066
Total noninterest expense	28,838	27,405	85,235	82,076
Income Before Income Tax Expense	40,007	34,517	116,956	99,383

Income Tax Expense	15,484	13,054	44,966	37,564
Net Income	24,523	21,463	71,990	61,819
Preferred Stock Dividends	-	180	-	539
Net Income Available to Common Shareholders	$24,523	$21,283	$71,990	$61,280
Earnings Per Common Share				
Basic	$0.73	$0.64	$2.14	$1.88
Diluted	$0.72	$0.63	$2.11	$1.84

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net Income	$24,523	$21,463	$71,990	$61,819
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on securities available for sale	(907)	2,107	4,110	1,995
Reclassification adjustment for net gains included in net income	(1)	(36)	(674)	(1,334)
Total unrealized (loss) gain	(906)	2,071	3,436	661
Unrealized gain (loss) on derivatives	1,756	(3,976)	(5,478)	(2,067)
Reclassification adjustment for losses included in net income	466	-	911	-
Total unrealized gain (loss)	1,290	(3,976)	(4,567)	(2,067)
Other comprehensive income (loss)	384	(1,905)	(1,131)	(1,406)
Comprehensive Income	$24,907	$19,558	$70,859	$60,413

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands except share data)

	Preferred Shares	**Preferred Amount**	**Common Shares**	**Common Amount**	**Warrant**	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholders' Equity**
Balance January 1, 2016	-	$ -	33,467,893	$ 331	$ 946	$ 503,529	$ 233,604	$ 191	$ 738,601
Net Income	-	-	-	-	-	-	71,990	-	71,990
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(1,131)	(1,131)
Stock-based compensation	-	-	-	-	-	5,159	-	-	5,159
Issuance of common stock related to options exercised, net of shares withheld for payroll taxes	-	-	23,614	-	-	282	-	-	282
Tax benefits realized from stock compensation	-	-	-	-	-	166	-	-	166
Vesting of restricted stock awards issued at date of grant, net of shares withheld for payroll taxes	-	-	(17,556)	2	-	(2)	-	-	-
Restricted stock awards	-	-	104,775	-	-	-	-	-	-
Issuance of common stock related to employee stock purchase plan	-	-	12,154	-	-	572	-	-	572
	-	**$ -**	**33,590,880**	**$ 333**	**$ 946**	**$ 509,706**	**$ 305,594**	**$ (940)**	**$ 815,639**

Balance September 30, 2016									
Balance January 1, 2015	71,900	$ 71,900	30,139,396	$ 296	$ 946	$ 394,933	$ 150,037	$ 2,647	$ 620,759
Net Income	-	-	-	-	-	-	61,819	-	61,819
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(1,406)	(1,406)
Stock-based compensation	-	-	-	-	-	3,660	-	-	3,660
Issuance of common stock related to options exercised, net of shares withheld for payroll taxes	-	-	373,027	4	-	4,636	-	-	4,640
Tax benefits realized from stock compensation	-	-	-	-	-	1,945	-	-	1,945
Vesting of restricted stock awards issued at date of grant, net of shares withheld for payroll taxes	-	-	(17,877)	2	-	(2)	-	-	-
Restricted stock awards	-	-	78,070	-	-	-	-	-	-
Shares issued in public offering, net of issuance costs of $5,302	-	-	2,816,900	28	-	94,605	-	-	94,633
Issuance of common stock related to employee stock purchase plan	-	-	15,994	-	-	561	1	-	562
Cash paid in lieu of fractional shares upon merger with Virginia Heritage	-	-	-	-	-	(4)	-	-	(4)
Preferred stock dividends	-	-	-	-	-	-	(539)	-	(539)
Balance September 30, 2015	**71,900**	**$ 71,900**	**33,405,510**	**$ 330**	**$ 946**	**$ 500,334**	**$ 211,318**	**$ 1,241**	**$ 786,069**

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Nine Months Ended September 30, 2016	2015
Cash Flows From Operating Activities:		
Net Income	$71,990	$61,819
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	9,219	10,043
Depreciation and amortization	4,628	8,117
Gains on sale of loans	(8,464)	(9,364)
Securities premium amortization (discount accretion), net	3,412	2,304
Origination of loans held for sale	(606,213)	(726,230)
Proceeds from sale of loans held for sale	584,051	744,198
Net increase in cash surrender value of BOLI	(1,171)	(1,191)
Increase in deferred income taxes	(754)	(2,915)
Decrease in value of other real estate owned	200	750
Net (gain) loss on sale of other real estate owned	(657)	209
Net gain on sale of investment securities	(1,123)	(2,224)
Loss on early extinguishment of debt	-	1,130
Stock-based compensation expense	5,159	3,660
Tax benefits realized from stock compensation	(166)	(1,945)
Increase in other assets	(8,590)	(4,149)
Increase in other liabilities	13,035	5,475
Net cash provided by operating activities	64,556	89,687
Cash Flows From Investing Activities:		
Decrease in interest bearing deposits with other banks and short-term investments	784	374
Purchases of available for sale investment securities	(106,163)	(241,280)
Proceeds from maturities of available for sale securities	65,727	32,021
Proceeds from sale/call of available for sale securities	94,217	65,790
Purchases of Federal Reserve and Federal Home Loan Bank stock	(3,017)	(2,405)
Proceeds from redemption of Federal Reserve and Federal Home Loan Bank stock	-	8,100
Net increase in loans	(491,720)	(472,089)
Proceeds from sale of other real estate owned	3,614	1,846
Purchases of BOLI	-	(499)
Purchases of annuities	-	(992)
Bank premises and equipment acquired	(4,836)	(2,053)
Net cash used in investing activities	(441,394)	(611,187)
Cash Flows From Financing Activities:		
Increase in deposits	399,705	615,820
(Decrease) increase in customer repurchase agreements	(714)	3,773

Issuance of common stock	-	94,633
Increase (decrease) in short-term borrowings	50,000	(100,000)
Increase (decrease) in long-term borrowings	147,491	(49,300)
Payment of dividends on preferred stock	-	(539)
Proceeds from exercise of stock options	282	4,640
Tax benefits realized from stock compensation	166	1,945
Payment in lieu of fractional shares	-	(4)
Proceeds from employee stock purchase plan	572	562
Net cash provided by financing activities	597,502	571,530
Net Increase In Cash and Cash Equivalents	220,664	50,030
Cash and Cash Equivalents at Beginning of Period	298,363	256,025
Cash and Cash Equivalents at End of Period	$519,027	$306,055
Supplemental Cash Flows Information:		
Interest paid	$18,196	$15,800
Income taxes paid	$47,950	$38,550
Non-Cash Investing Activities		
Transfers from loans to other real estate owned	$2,500	$1,725
Transfers from other real estate owned to loans	$-	$2,192

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of Eagle Bancorp, Inc. and its subsidiaries (the “Company”), EagleBank (the “Bank”), Eagle Commercial Ventures, LLC (“ECV”), Eagle Insurance Services, LLC, and Bethesda Leasing, LLC, with all significant intercompany transactions eliminated.

The Consolidated Financial Statements of the Company included herein are unaudited. The Consolidated Financial Statements reflect all adjustments, consisting of normal recurring accruals that in the opinion of management, are necessary to present fairly the results for the periods presented. The amounts as of and for the year ended December 31, 2015 were derived from audited Consolidated Financial Statements. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. There have been no significant changes to the Company’s Accounting Policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The Company believes that the disclosures are adequate to make the information presented not misleading. Certain reclassifications have been made to amounts previously reported to conform to the current period presentation.

These statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results of operations to be expected for the remainder of the year, or for any other period.

Nature of Operations

The Company, through the Bank, conducts a full service community banking business, primarily in Northern Virginia, Montgomery County, Maryland, and Washington, D.C. The primary financial services offered by the Bank include real estate, commercial and consumer lending, as well as traditional deposit and repurchase agreement products. The Bank is also active in the origination and sale of residential mortgage loans and the origination of small business loans. The guaranteed portion of small business loans, guaranteed by the Small Business Administration ("SBA"), is typically sold to third party investors in a transaction apart from the loan's origination. The Bank offers its products and services through twenty-one banking offices, five lending centers and various electronic capabilities, including remote deposit services and mobile banking services. Eagle Insurance Services, LLC, a subsidiary of the Bank, offers access to insurance products and services through a referral program with a third party insurance broker. Eagle Commercial Ventures, LLC, a direct subsidiary of the Company, provides subordinated financing for the acquisition, development and construction of real estate projects; these transactions involve higher levels of risk, together with commensurate higher returns. Refer to Higher Risk Lending – Revenue Recognition below.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold, and interest bearing deposits with other banks which have an original maturity of three months or less.

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Loans Held for Sale

The Company regularly engages in sales of residential mortgage loans and the guaranteed portion of SBA loans originated by the Bank. The Company has elected to carry loans held for sale at fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Operations.

The Company's current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing as of September 30, 2016, December 31, 2015 and September 30, 2015. The sale of the guaranteed portion of SBA loans on a servicing retained basis gives rise to an excess servicing asset, which is computed on a loan by loan basis with the unamortized amount being included in intangible assets in the Consolidated Balance Sheets. This excess servicing asset is being amortized on a straight-line basis (with adjustment for prepayments) as an offset to servicing fees collected and is included in other income in the Consolidated Statement of Operations.

The Company enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. interest rate lock commitments). Such interest rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. To protect against the price risk inherent in residential mortgage loan commitments, the Company utilizes both "best efforts" and "mandatory delivery" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Under a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor and the investor commits to a price that it will purchase the loan from the Company if the loan to the underlying borrower closes. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the investor commits to purchase a loan at a price representing a premium on the day the borrower commits to an interest rate with the intent that the buyer/investor has assumed the interest rate risk on the loan. As a result, the Bank is not generally exposed to losses on loans sold utilizing best efforts, nor will it realize gains related to rate lock commitments due to changes in interest rates. The market values of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded. Because of the high correlation between rate lock commitments and best efforts contracts, no gain or loss should occur on the interest rate lock commitments. Under a "mandatory delivery" contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay the investor a "pair-off" fee, based on then-current market prices, to compensate the investor for the shortfall. The Company manages the interest rate risk on interest rate lock commitments by entering into forward sale contracts of mortgage-backed securities, whereby the Company obtains the right to deliver securities to investors in the future at a specified price. Such contracts are accounted for as derivatives and are recorded at fair value in derivative assets or liabilities, carried on the Consolidated Balance Sheet within other assets or other liabilities with changes in fair value recorded in other income within the Consolidated Statement of Income. The period of time between issuance of a loan commitment to the customer and closing and sale of the loan to an investor generally ranges from 30 to 90 days under current market conditions. The gross gains on loan sales are recognized based on new loan commitments with adjustment for price and pair-off activity. Commission expenses on loans held for sale are recognized based on loans closed.

In circumstances where the Company does not deliver the whole loan to an investor, but rather elects to retain the loan in its portfolio, the loan is transferred from held for sale to loans at fair value at date of transfer.

Investment Securities

The Company has no securities classified as trading, or as held to maturity. Marketable equity securities and debt securities not classified as held to maturity or trading are classified as available-for-sale. Securities available-for-sale are acquired as part of the Company's asset/liability management strategy and may be sold in response to changes in interest rates, current market conditions, loan demand, changes in prepayment risk and other factors. Securities available-for-sale are carried at fair value, with unrealized gains or losses being reported as accumulated other comprehensive income/(loss), a separate component of shareholders' equity, net of deferred income tax. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income in the Consolidated Statements of Operations.

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Premiums and discounts on investment securities are amortized/accreted to the earlier of call or maturity based on expected lives, which lives are adjusted based on prepayment assumptions and call optionality if any. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary in nature result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or a change in management's intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

The entire amount of an impairment loss is recognized in earnings only when (1) the Company intends to sell the security, or (2) it is more likely than not that the Company will have to sell the security before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the security. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as comprehensive income, net of deferred taxes.

Loans

Loans are stated at the principal amount outstanding, net of unamortized deferred costs and fees. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. It is the Company's policy to discontinue the accrual of interest when circumstances indicate that collection is doubtful. Deferred fees and costs are being amortized on the interest method over the term of the loan.

Management considers loans impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Company's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogeneous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

Higher Risk Lending – Revenue Recognition

The Company has occasionally made higher risk acquisition, development, and construction ("ADC") loans that entail higher risks than ADC loans made following normal underwriting practices ("higher risk loan transactions"). These higher risk loan transactions are currently made through the Company's subsidiary, ECV. This activity is limited as to individual transaction amount and total exposure amounts, based on capital levels, and is carefully monitored. The loans are carried on the balance sheet at amounts outstanding and meet the loan classification requirements of the Accounting Standard Executive Committee ("AcSEC") guidance reprinted from the CPA Letter, Special Supplement, dated February 10, 1986 (also referred to as Exhibit 1 to AcSEC Practice Bulletin No. 1). Additional interest earned on these higher risk loan transactions (as defined in the individual loan agreements) is recognized as realized under the provisions contained in AcSEC's guidance reprinted from the CPA Letter, Special Supplement, dated February 10, 1986 (also referred to as Exhibit 1 to AcSEC Practice Bulletin No.1) and Staff Accounting Bulletin No. 101 (Revenue Recognition in Financial Statements). Certain additional interest is included as a component of noninterest income. ECV had three higher risk loan transactions outstanding as of September 30, 2016, as compared to four higher risk loan transactions outstanding as of December 31, 2015, amounting to $9.2 million and $9.2 million, respectively.

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Allowance for Credit Losses

The allowance for credit losses represents an amount which, in management's judgment, is adequate to absorb probable losses on loans and other extensions of credit that may become uncollectible. The adequacy of the allowance for credit losses is determined through careful and continuous review and evaluation of the loan portfolio and involves the balancing of a number of factors to establish a prudent level of allowance. Among the factors considered in evaluating the adequacy of the allowance for credit losses are lending risks associated with growth and entry into new markets, loss allocations for specific credits, the level of the allowance to nonperforming loans, historical loss experience, economic conditions, portfolio trends and credit concentrations, changes in the size and character of the loan portfolio, and management's judgment with respect to current and expected economic conditions and their impact on the existing loan portfolio. Allowances for impaired loans are generally determined based on collateral values. Loans or any portion thereof deemed uncollectible are charged against the allowance, while recoveries are credited to the allowance. Management adjusts the level of the allowance through the provision for credit losses, which is recorded as a current period operating expense. The allowance for credit losses consists of allocated and unallocated components.

The components of the allowance for credit losses represent an estimation done pursuant to Accounting Standards Codification ("ASC") Topic 450, *"Contingencies,"* or ASC Topic 310, *"Receivables."* Specific allowances are established in cases where management has identified significant conditions or circumstances related to a specific credit that management believes indicate the probability that a loss may be incurred. For potential problem credits for which specific allowance amounts have not been determined, the Company establishes allowances according to the application of credit risk factors. These factors are set by management and approved by the appropriate Board committee to reflect its assessment of the relative level of risk inherent in each risk grade. A third component of the allowance computation, termed a nonspecific or environmental factors allowance, is based upon management's evaluation of various environmental conditions that are not directly measured in the determination of either the specific allowance or formula allowance. Such conditions include general economic and business conditions affecting key lending areas, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, specific industry conditions within portfolio categories, recent loss experience in particular loan categories, duration of the current business cycle, bank regulatory examination results, findings of outside review consultants, and management's judgment with respect to various other conditions including credit administration and management and the quality of risk identification systems. Executive management reviews these environmental conditions quarterly, and documents the rationale for all changes.

Management believes that the allowance for credit losses is adequate; however, determination of the allowance is inherently subjective and requires significant estimates. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Evaluation of the potential effects of these factors on estimated losses involves a high degree of uncertainty, including the strength and timing of economic cycles and concerns over the effects of a prolonged economic downturn in the current cycle. In addition, various banking agencies, as an integral part of their examination process, and independent consultants engaged by the Bank, periodically review the Bank's loan portfolio and allowance for credit losses. Such review may result in recognition of additions to the allowance based on their judgments of information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method for financial reporting purposes. Premises and equipment are depreciated over the useful lives of the assets, which generally range from three to seven years for furniture, fixtures and equipment, to three to five years for computer software and hardware, and to five to twenty years for building improvements. Leasehold improvements are amortized over the terms of the respective leases, which may include renewal options where management has the positive intent to exercise such options, or the estimated useful lives of the improvements, whichever is shorter. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are expensed as incurred. These costs are included as a component of premises and equipment expenses on the Consolidated Statements of Operations.

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Other Real Estate Owned (OREO)

Assets acquired through loan foreclosure are held for sale and are recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. The new basis is supported by appraisals that are generally no more than twelve months old. Costs after acquisition are generally expensed. If the fair value of the asset declines, a write-down is recorded through noninterest expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in market conditions or appraised values.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as core deposit intangibles, are amortized over their estimated useful lives and subject to periodic impairment testing. Intangible assets (other than goodwill) are amortized to expense using accelerated or straight-line methods over their respective estimated useful lives.

Goodwill and other intangibles are subject to impairment testing at the reporting unit level, which must be conducted at least annually. The Company performs impairment testing during the fourth quarter of each year or when events or changes in circumstances indicate the assets might be impaired.

The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing updated qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it does not have to perform the two-step goodwill impairment test. Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test are judgmental and often involve the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the market rate of return, projected growth rates and determination and evaluation of appropriate market comparables. Based on the results of quantitative assessments of all reporting units, the Company concluded that no impairment existed at December 31, 2015. However, future events could cause the Company to conclude that goodwill or other intangibles have become impaired, which would result in recording an impairment loss. Any resulting impairment loss could have a material adverse impact on the Company’s financial condition and results of operations.

Interest Rate Swap Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. With the exception of forward commitment contracts discussed above under Loans Held for Sale, the Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable rate deposits.

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). The Company has no fair value hedges or stand-alone derivatives, only cash flow hedges. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (a Consolidated Balance Sheet component of shareholders' equity) and is reclassified into earnings in the same period(s) during which the hedged transaction affects earnings (i.e. the period when cash flows are exchanged between counterparties). For both fair value and cash flow hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

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Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income or expense. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Customer Repurchase Agreements

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The agreements are entered into primarily as accommodations for large commercial deposit customers. The obligation to repurchase the securities is reflected as a liability in the Company's Consolidated Balance Sheets, while the securities underlying the securities sold under agreements to repurchase remain in the respective assets accounts and are delivered to and held as collateral by third party trustees.

Marketing and Advertising

Marketing and advertising costs are generally expensed as incurred.

Income Taxes

The Company employs the asset and liability method of accounting for income taxes as required by ASC Topic 740, "*Income Taxes*." Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary timing differences) and are measured at the enacted rates that will be in effect when these differences reverse. The Company utilizes statutory requirements for its income tax accounting, and avoids risks associated with potentially problematic tax positions that may incur challenge upon audit, where an adverse outcome is more likely than not. Therefore, no provisions are necessary for either uncertain tax positions nor accompanying potential tax penalties and interest for underpayments of income taxes in the Company's tax reserves. In accordance with ASC Topic 740, the Company may establish a reserve against deferred tax assets in those cases where realization is less than certain, although no such reserves exist at September 30, 2016, December 31, 2015, or September 30, 2015.

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Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. In certain cases, the recourse to the Bank to repurchase assets may exist but is deemed immaterial based on the specific facts and circumstances.

Earnings per Common Share

Basic net income per common share is derived by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period measured. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period measured including the potential dilutive effects of common stock equivalents.

Stock-Based Compensation

In accordance with ASC Topic 718, *"Compensation,"* the Company records as compensation expense an amount equal to the amortization (over the remaining service period) of the fair value of option and restricted stock awards computed at the date of grant. Compensation expense on variable stock option grants (i.e. performance based grant) is recorded based on the probability of achievement of the goals underlying the performance grant. Refer to Note 10 for a description of stock-based compensation awards, activity and expense.

New Authoritative Accounting Guidance

ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)."* The amendments in ASU 2014-09 supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The general principle of the amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance sets forth a five step approach to be utilized for revenue recognition. As amended, the new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the provisions of ASU 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2016-13, *"Measurement of Credit Losses on Financial Instruments (Topic 326)."* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2015-16, *"Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments."* ASU 2015-16 requires that adjustments to provisional amounts that are identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the income statement effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date. The portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Under previous guidance, adjustments to provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 was effective for the Company on January 1, 2016 and the initial adoption did not have a significant impact on its financial statements.

ASU 2016-01, "*Financial Instruments—(Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*" ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is permitted as of the beginning of the fiscal year of adoption only for provisions (3) and (6) above. Early adoption of the other provisions mentioned above is not permitted. The Company has performed a preliminary evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements; however, the Company will continue to closely monitor developments and additional guidance.

ASU 2016-02, *"Leases (Topic 842)."* Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): (1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of ASU 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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ASU 2016-09, *"Improvements to Employee Share-Based Payment Accounting (Topic 718)."* ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company is currently evaluating the provisions of ASU No. 2016-09 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2015-03, *"Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs"* simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The Company adopted ASU 2015-03 as of the end of its fiscal year 2015, and applied its provisions retrospectively.

Note 2. Cash and Due from Banks

Regulation D of the Federal Reserve Act requires that banks maintain noninterest reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. During 2016, the Bank maintained balances at the Federal Reserve sufficient to meet reserve requirements, as well as significant excess reserves. Late in 2008, the Federal Reserve in connection with the Emergency Economic Stabilization Act of 2008 began paying a nominal amount of interest on balances held, which interest on excess reserves was increased under provisions of the Dodd Frank Wall Street Reform and Consumer Protection Act passed in July 2010.

Additionally, the Bank maintains interest-bearing balances with the Federal Home Loan Bank of Atlanta and noninterest bearing balances with domestic correspondent banks as compensation for services they provide to the Bank.

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Note 3. Investment Securities Available-for-Sale

Amortized cost and estimated fair value of securities available-for-sale are summarized as follows:

September 30, 2016 (dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. agency securities	$ 55,862	$ 638	$ 136	$ 56,364
Residential mortgage backed securities	264,101	2,284	350	266,035
Municipal bonds	94,923	4,954	-	99,877
Corporate bonds	8,009	68	23	8,054
Other equity investments	310	28	-	338
	$ 423,205	$ 7,972	$ 509	$ 430,668

December 31, 2015 (dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. agency securities	$ 56,775	$ 477	$ 277	$ 56,975
Residential mortgage backed securities	299,709	692	3,160	297,241
Municipal bonds	114,253	4,131	3	118,381
Corporate bonds	15,090	-	152	14,938
Other equity investments	307	27	-	334
	$ 486,134	$ 5,327	$ 3,592	$ 487,869

In addition, at September 30, 2016, the Company held $19.9 million in equity securities in a combination of Federal Reserve Bank (“FRB”) and Federal Home Loan Bank (“FHLB”) stocks, which are required to be held for regulatory purposes and which are not marketable, and therefore are carried at cost.

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position are as follows:

September 30, 2016 (dollars in thousands)	Number of Securities	Less than 12 Months Estimated Fair Value	Unrealized Losses	12 Months or Greater Estimated Fair Value	Unrealized Losses	Total Estimated Fair Value	Unrealized Losses

U. S. agency securities	14	$38,625	$ 107	$1,986	$ 29	$40,611	$ 136
Residential mortgage backed securities	38	57,588	162	20,789	188	78,377	350
Corporate bonds	2	4,986	23	-	-	4,986	23
	54	$101,199	$ 292	$22,775	$ 217	$123,974	$ 509

		Less than 12 Months		12 Months or Greater		Total	
December 31, 2015	**Number of**	**Estimated Fair**	**Unrealized**	**Estimated Fair**	**Unrealized**	**Estimated Fair**	**Unrealized**
(dollars in thousands)	**Securities**	**Value**	**Losses**	**Value**	**Losses**	**Value**	**Losses**
U. S. agency securities	13	$32,927	$ 277	$-	$ -	$32,927	$ 277
Residential mortgage backed securities	92	157,871	1,438	58,954	1,722	216,825	3,160
Municipal bonds	2	1,559	3	-	-	1,559	3
Corporate bonds	4	14,938	152	-	-	14,938	152
	111	$207,295	$ 1,870	$58,954	$ 1,722	$266,249	$ 3,592

The unrealized losses that exist are generally the result of changes in market interest rates and interest spread relationships since original purchases. The weighted average duration of debt securities, which comprise 99.9% of total investment securities, is relatively short at 3.4 years. If quoted prices are not available, fair value is 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. The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2016 represent an other-than-temporary impairment. The Company does not intend to sell the investments and it is more likely than not that the Company will not have to sell the securities before recovery of its amortized cost basis, which may be maturity.

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The amortized cost and estimated fair value of investments available-for-sale by contractual maturity are shown in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2016		**December 31, 2015**	
(dollars in thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
U. S. agency securities maturing:				
One year or less	$37,414	$ 37,380	$31,436	$ 31,361
After one year through five years	18,448	18,984	18,826	19,047
Five years through ten years	-	-	6,513	6,567
Residential mortgage backed securities	264,101	266,035	299,709	297,241
Municipal bonds maturing:				
One year or less	1,057	1,080	4,450	4,478
After one year through five years	42,625	44,701	41,213	43,720
Five years through ten years	50,165	52,868	66,001	67,398
After ten years	1,076	1,228	2,589	2,785
Corporate bonds				
After one year through five years	5,009	4,986	15,090	14,938
Five years through ten years	3,000	3,068	-	-
Other equity investments	310	338	307	334
	$423,205	$ 430,668	$486,134	$ 487,869

For the nine months ended September 30, 2016, gross realized gains on sales of investments securities were $1.3 million and gross realized losses on sales of investment securities were $202 thousand. For the nine months ended September 30, 2015, gross realized gains on sales of investments securities were $2.5 million and gross realized losses on sales of investment securities were $294 thousand.

Proceeds from sales and calls of investment securities for the nine months ended September 30, 2016 were $94.2 million, and in 2015 were $65.8 million.

The carrying value of securities pledged as collateral for certain government deposits, securities sold under agreements to repurchase, and certain lines of credit with correspondent banks at September 30, 2016 was $391.8 million, which is well in excess of required amounts in order to operationally provide significant reserve amounts for new business. As of September 30, 2016 and December 31, 2015, there were no holdings of securities of any one issuer, other than the U.S. Government and U.S. agency securities, which exceeded ten percent of shareholders’ equity.

Note 4. Mortgage Banking Derivative

As part of its mortgage banking activities, the Bank enters into interest rate lock commitments, which are commitments to originate loans where the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Bank then locks in the loan and interest rate with an investor and commits to deliver the loan if settlement occurs ("best efforts") or commits to deliver the locked loan in a binding ("mandatory") delivery program with an investor. Certain loans under interest rate lock commitments are covered under forward sales contracts of mortgage-backed securities ("MBS"). Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in noninterest income. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Bank determines the fair value of interest rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is impacted by current interest rates, taking into consideration the probability that the interest rate lock commitments will close or will be funded.

Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Bank does not expect any counterparty to any MBS to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that, if the Bank does not close the loans subject to interest rate risk lock commitments, it will still be obligated to deliver MBS to the counterparty under the forward sales agreement. Should this be required, the Bank could incur significant costs in acquiring replacement loans or MBS and such costs could have an adverse effect on mortgage banking operations.

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The fair value of the mortgage banking derivatives is recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change.

At September 30, 2016 the Bank had mortgage banking derivative financial instruments with a notional value of $81.7 million related to its forward contracts. The fair value of these derivative instruments at September 30, 2016 was $217 thousand, which is included in other assets and $222 thousand included in other liabilities. At September 30, 2015 the Bank had mortgage banking derivative financial instruments with a notional value of $53.0 million related to its forward contracts. The fair value of these derivative instruments at September 30, 2015 was $197 thousand included in other assets and $245 thousand included in other liabilities.

Included in noninterest income for the three and nine months ended September 30, 2016 was a loss of $46 thousand and gain of $274 thousand, relating to mortgage banking derivative instruments. The amount included in noninterest income for the three and nine months ended September 30, 2016 pertaining to its mortgage banking hedging activities was a gain of $151 thousand and loss of $156 thousand. Included for the three and nine months ended September 30, 2015 was a gain of $9 thousand and a loss of $63 thousand, relating to mortgage banking derivative instruments. The amount included in noninterest income for the three and nine months ended September 30, 2015 pertaining to its mortgage banking hedging activities was a realized loss of $327 thousand and $9 thousand.

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Note 5. Loans and Allowance for Credit Losses

The Bank makes loans to customers primarily in the Washington, DC metropolitan area and surrounding communities. A substantial portion of the Bank's loan portfolio consists of loans to businesses secured by real estate and other business assets.

Loans, net of unamortized net deferred fees, at September 30, 2016, December 31, 2015, and September 30, 2015 are summarized by type as follows:

	September 30, 2016		December 31, 2015		September 30, 2015	
(dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Commercial	$1,130,042	21 %	$1,052,257	21 %	$1,007,659	21 %
Income producing - commercial real estate	2,551,186	46 %	2,115,478	42 %	2,022,950	42 %
Owner occupied - commercial real estate	590,427	11 %	498,103	10 %	489,657	10 %
Real estate mortgage - residential	154,439	3 %	147,365	3 %	147,720	3 %
Construction - commercial and residential	838,137	15 %	985,607	20 %	927,265	20 %
Construction - C&I (owner occupied)	104,676	2 %	79,769	2 %	60,487	1 %
Home equity	106,856	2 %	112,885	2 %	115,346	3 %
Other consumer	6,212	-	6,904	-	5,881	-
Total loans	5,481,975	100%	4,998,368	100%	4,776,965	100%
Less: Allowance for Credit Losses	(56,864)		(52,687)		(50,320)	
Net loans	$5,425,111		$4,945,681		$4,726,645	

Unamortized net deferred fees amounted to $20.9 million, $18.4 million, and $17.4 million at September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

As of September 30, 2016 and December 31, 2015, the Bank serviced $113.4 million and $78.8 million, respectively, of SBA loans and loan participations which are not reflected as loan balances on the Consolidated Balance Sheets.

Loan Origination / Risk Management

The Company's goal is to mitigate risks in the event of unforeseen threats to the loan portfolio as a result of economic downturn or other negative influences. Plans for mitigating inherent risks in managing loan assets include: carefully enforcing loan policies and procedures, evaluating each borrower's business plan during the underwriting process and throughout the loan term, identifying and monitoring primary and alternative sources for loan repayment, and obtaining collateral to mitigate economic loss in the event of liquidation. Specific loan reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is employed to proactively estimate loss exposure and provide a measuring system for setting general and specific reserve allocations.

The composition of the Company's loan portfolio is heavily weighted toward commercial real estate, both owner occupied and income producing real estate. At September 30, 2016, owner occupied - commercial real estate and construction - C&I (owner occupied) represent 13% of the loan portfolio. At September 30, 2016, non-owner occupied commercial real estate and real estate construction represented approximately 61% of the loan portfolio. The combined owner occupied and commercial real estate loans represent 74% of the loan portfolio. These loans are underwritten to mitigate lending risks typical of this type of loan such as declines in real estate values, changes in borrower cash flow and general economic conditions. The Bank typically requires a maximum loan to value of 80% and minimum cash flow debt service coverage of 1.15 to 1.0. Personal guarantees are generally required, but may be limited. In making real estate commercial mortgage loans, the Bank generally requires that interest rates adjust not less frequently than five years.

The Company is also an active traditional commercial lender providing loans for a variety of purposes, including working capital, equipment and account receivable financing. This loan category represents approximately 21% of the loan portfolio at September 30, 2016 and was generally variable or adjustable rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited. SBA loans represent 2.5% of the commercial loan category of loans. In originating SBA loans, the Company assumes the risk of non-payment on the unguaranteed portion of the credit. The Company generally sells the guaranteed portion of the loan generating noninterest income from the gains on sale, as well as servicing income on the portion participated. SBA loans are subject to the same cash flow analyses as other commercial loans. SBA loans are subject to a maximum loan size established by the SBA.

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Approximately 2% of the loan portfolio at September 30, 2016 consists of home equity loans and lines of credit and other consumer loans. These credits, while making up a smaller portion of the loan portfolio, demand the same emphasis on underwriting and credit evaluation as other types of loans advanced by the Bank.

Approximately 3% of the loan portfolio consists of residential mortgage loans. The repricing duration of these loans was 22 months. These credits represent first liens on residential property loans originated by the Bank. While the Bank’s general practice is to originate and sell (servicing released) loans made by its Residential Lending department, from time to time certain loan characteristics do not meet the requirements of third party investors and these loans are instead maintained in the Bank’s portfolio.

Loans are secured primarily by duly recorded first deeds of trust. In some cases, the Bank may accept a recorded junior trust position. In general, borrowers will have a proven ability to build, lease, manage and/or sell a commercial or residential project and demonstrate satisfactory financial condition. Additionally, an equity contribution toward the project is customarily required.

Construction loans require that the financial condition and experience of the general contractor and major subcontractors be satisfactory to the Bank. Guaranteed, fixed price contracts are required whenever appropriate, along with payment and performance bonds or completion bonds for larger scale projects.

Loans intended for residential land acquisition, lot development and construction are made on the premise that the land: 1) is or will be developed for building sites for residential structures, and; 2) will ultimately be utilized for construction or improvement of residential zoned real properties, including the creation of housing. Residential development and construction loans will finance projects such as single family subdivisions, planned unit developments, townhouses, and condominiums. Residential land acquisition, development and construction loans generally are underwritten with a maximum term of 36 months, including extensions approved at origination.

Commercial land acquisition and construction loans are secured by real property where loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner user commercial properties. Borrowers are generally required to put equity into each project at levels determined by the appropriate Loan Committee. Commercial land acquisition and construction loans generally are underwritten with a maximum term of 24 months.

Substantially all construction draw requests must be presented in writing on American Institute of Architects documents and certified either by the contractor, the borrower and/or the borrower’s architect. Each draw request shall also include the borrower’s soft cost breakdown certified by the borrower or their Chief Financial Officer. Prior to an advance, the Bank or its contractor inspects the project to determine that the work has been completed, to justify the draw requisition.

Commercial permanent loans are secured by improved real property which is generating income in the normal course of operation. Debt service coverage, assuming stabilized occupancy, must be satisfactory to support a permanent loan. The debt service coverage ratio is ordinarily at least 1.15 to 1.00. As part of the underwriting process, debt service coverage ratios are stress tested assuming a 200 basis point increase in interest rates from their current levels.

Commercial permanent loans generally are underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.

The Company’s loan portfolio includes ADC real estate loans including both investment and owner occupied projects. ADC loans amounted to $942.8 million at September 30, 2016. A portion of the ADC portfolio, both speculative and non-speculative, includes loan funded interest reserves at origination. ADC loans containing loan funded interest reserves represent approximately 66.5% of the outstanding ADC loan portfolio at September 30, 2016. The decision to establish a loan-funded interest reserve is made upon origination of the ADC loan and is based upon a number of factors considered during underwriting of the credit including: (1) the feasibility of the project; (2) the experience of the sponsor; (3) the creditworthiness of the borrower and guarantors; (4) borrower equity contribution; and (5) the level of collateral protection. When appropriate, an interest reserve provides an effective means of addressing the cash flow characteristics of a properly underwritten ADC loan. The Company does not significantly utilize interest reserves in other loan products. The Company recognizes that one of the risks inherent in the use of interest reserves is the potential masking of underlying problems with the project and/or the borrower’s ability to repay the loan. In order to mitigate this inherent risk, the Company employs a series of reporting and monitoring mechanisms on all ADC loans, whether or not an interest reserve is provided, including: (1) construction and development timelines which are monitored on an ongoing basis which track the progress of a given project to the timeline projected at origination; (2) a construction loan administration department independent of the lending function; (3) third party independent construction loan inspection reports; (4) monthly interest reserve monitoring reports detailing the balance of the interest reserves approved at origination and the days of interest carry represented by the reserve balances as compared to the then current anticipated time to completion and/or sale of speculative projects; and (5) quarterly commercial real estate construction meetings among senior Company management, which includes monitoring of current and projected real estate market conditions. If a project has not performed as expected, it is not the customary practice of the Company to increase loan funded interest reserves.

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From time to time the Company may make loans for its own portfolio or through its higher risk loan affiliate, ECV. Such loans, which are made to finance projects (which may also be financed at the Bank level), may have higher risk characteristics than loans made by the Bank, such as lower priority interests and/or higher loan to value ratios. The Company seeks an overall financial return on these transactions commensurate with the risks and structure of each individual loan. Certain transactions may bear current interest at a rate with a significant premium to normal market rates. Other loan transactions may carry a standard rate of current interest, but also earn additional interest based on a percentage of the profits of the underlying project or a fixed accrued rate of interest.

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The following tables detail activity in the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2016 and 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(dollars in thousands)	Commercial	Income Producing Commercial Real Estate	Owner Occupied Commercial Real Estate	Real Estate Mortgage Residential	Construction Commercial and Residential	Home Equity	Other Consumer	Total
Three months ended September 30, 2016								
Allowance for credit losses:								
Balance at beginning of period	$ 13,386	$ 19,072	$ 4,202	$ 1,061	$ 17,024	$ 1,556	$ 235	$ 56,536
Loans charged-off	(109)	(1,751)	-	-	-	(121)	(12)	(1,993)
Recoveries of loans previously charged-off	7	10	-	2	3	3	8	33
Net loans (charged-off) recoveries	(102)	(1,741)	-	2	3	(118)	(4)	(1,960)
Provision for credit losses	(523)	3,178	59	47	(513)	(69)	109	2,288
Ending balance	$ 12,761	$ 20,509	$ 4,261	$ 1,110	$ 16,514	$ 1,369	$ 340	$ 56,864
Nine months ended September 30, 2016								
Allowance for credit losses:								
Balance at beginning of period	$ 11,563	$ 14,122	$ 3,279	$ 1,268	$ 21,088	$ 1,292	$ 75	$ 52,687
Loans charged-off	(2,802)	(2,342)	-	-	-	(217)	(37)	(5,398)
Recoveries of loans previously charged-off	93	14	2	5	207	11	24	356
Net loans charged-off	(2,709)	(2,328)	2	5	207	(206)	(13)	(5,042)
Provision for credit losses	3,907	8,715	980	(163)	(4,781)	283	278	9,219
Ending balance	$ 12,761	$ 20,509	$ 4,261	$ 1,110	$ 16,514	$ 1,369	$ 340	$ 56,864
As of September 30, 2016								
Allowance for credit losses:								
Individually evaluated for impairment	$ 1,997	$ 1,714	$ 360	$ -	$ 300	$ -	$ 100	$ 4,471
Collectively evaluated for impairment	10,764	18,795	3,901	1,110	16,214	1,369	240	52,393

Ending balance	$ 12,761	$ 20,509	$ 4,261	$ 1,110	$ 16,514	$1,369	$ 340	$56,864
Three months ended September 30, 2015								
Allowance for credit losses:								
Balance at beginning of period	$ 12,911	$ 12,411	$ 3,113	$ 1,082	$ 17,633	$1,496	$ 275	$48,921
Loans charged-off	(1,388)	(254)	-	-	-	(225)	(95)	(1,962)
Recoveries of loans previously charged-off	60	8	-	2	10	1	18	99
Net loans (charged-off) recoveries	(1,328)	(246)	-	2	10	(224)	(77)	(1,863)
Provision for credit losses	57	1,550	(13)	(18)	1,281	334	71	3,262
Ending balance	$ 11,640	$ 13,715	$ 3,100	$ 1,066	$ 18,924	$1,606	$ 269	$50,320
Nine months ended September 30, 2015								
Allowance for credit losses:								
Balance at beginning of period	$ 13,222	$ 11,442	$ 2,954	$ 1,259	$ 15,625	$1,469	$ 104	$46,075
Loans charged-off	(4,693)	(651)	-	-	-	(644)	(182)	(6,170)
Recoveries of loans previously charged-off	135	26	2	5	114	5	85	372
Net loans charged-off	(4,558)	(625)	2	5	114	(639)	(97)	(5,798)
Provision for credit losses	2,976	2,898	144	(198)	3,185	776	262	10,043
Ending balance	$ 11,640	$ 13,715	$ 3,100	$ 1,066	$ 18,924	$1,606	$ 269	$50,320
As of September 30, 2015								
Allowance for credit losses:								
Individually evaluated for impairment	$ 2,312	$ 827	$ 400	$ -	$ 350	$338	$ -	$4,227
Collectively evaluated for impairment	9,328	12,888	2,700	1,066	18,574	1,268	269	46,093
Ending balance	$ 11,640	$ 13,715	$ 3,100	$ 1,066	$ 18,924	$1,606	$ 269	$50,320

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The Company’s recorded investments in loans as of September 30, 2016, December 31, 2015 and September 30, 2015 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company’s impairment methodology was as follows:

(dollars in thousands)	Commercial	Income Producing Commercial Real Estate	Owner occupied Commercial Real Estate	Real Estate Mortgage Residential	Construction Commercial and Residential	Home Equity	Other Consumer	Total
September 30, 2016								
Recorded investment in loans:								
Individually evaluated for impairment	$ 12,448	$ 14,648	$ 2,517	$ 244	$ 4,878	$ 113	$ -	$ 34,848
Collectively evaluated for impairment	1,117,594	2,536,538	587,910	154,195	937,935	106,743	6,212	5,447,127
Ending balance	$ 1,130,042	$ 2,551,186	$ 590,427	$ 154,439	$ 942,813	$ 106,856	$ 6,212	$ 5,481,975
December 31, 2015								
Recorded investment in loans:								
Individually evaluated for impairment	$ 13,008	$ 6,118	$ 1,753	$ -	$ 10,454	$ 161	$ 22	$ 31,516
Collectively evaluated for impairment	1,039,249	2,109,360	496,350	147,365	1,054,922	112,724	6,882	4,966,852
Ending balance	$ 1,052,257	$ 2,115,478	$ 498,103	$ 147,365	$ 1,065,376	$ 112,885	$ 6,904	$ 4,998,368
September 30, 2015								
Recorded investment in loans:								
	$ 12,869	$ 6,877	$ 1,790	$ -	$ 17,644	$ 661	$ 72	$ 39,913

Individually evaluated for impairment								
Collectively evaluated for impairment	994,790	2,016,073	487,867	147,720	970,108	114,685	5,809	4,737,052
Ending balance	$ 1,007,659	$ 2,022,950	$ 489,657	$ 147,720	$ 987,752	$ 115,346	$ 5,881	$ 4,776,965

At September 30, 2016, nonperforming loans acquired from Fidelity & Trust Financial Corporation ("Fidelity") and Virginia Heritage Bank ("Virginia Heritage") have a carrying value of $495 thousand and $1.1 million, and an unpaid principal balance of $553 thousand and $2.2 million, and were evaluated separately in accordance with ASC Topic 310-30, *"Loans and Debt Securities Acquired with Deteriorated Credit Quality*." The various impaired loans were recorded at estimated fair value with any excess being charged-off or treated as a non-accretable discount. Subsequent downward adjustments to the valuation of impaired loans acquired will result in additional loan loss provisions and related allowance for credit losses. Subsequent upward adjustments to the valuation of impaired loans acquired will result in accretable discount. No adjustments have been made to the fair value amounts of impaired loans subsequent to the allowable period of adjustment from the date of acquisition.

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Credit Quality Indicators

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company's primary credit quality indicators are to use an internal credit risk rating system that categorizes loans into pass, watch, special mention, or classified categories. Credit risk ratings are applied individually to those classes of loans that have significant or unique credit characteristics that benefit from a case-by-case evaluation. These are typically loans to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk rated and monitored collectively. These are typically loans to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Company's credit quality indicators:

Pass:	Loans in all classes that comprise the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
Watch:	Loan paying as agreed with generally acceptable asset quality; however the obligor’s performance has not met expectations. Balance sheet and/or income statement has shown deterioration to the point that the obligor could not sustain any further setbacks. Credit is expected to be strengthened through improved obligor performance and/or additional collateral within a reasonable period of time.
Special Mention:	Loans in the classes that comprise the commercial portfolio segment that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan. The special mention credit quality indicator is not used for classes of loans that comprise the consumer portfolio segment. Management believes that there is a moderate likelihood of some loss related to those loans that are considered special mention.
Classified:	Classified (a) Substandard - Loans inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard. Classified (b) Doubtful - Loans that have all the weaknesses inherent in a loan classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently

existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined.

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The Company's credit quality indicators are updated generally on a quarterly basis, but no less frequently than annually. The following table presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of September 30, 2016, December 31, 2015 and September 30, 2015.

(dollars in thousands)	**Pass**	**Watch and Special Mention**	**Substandard**	**Doubtful**	**Total Loans**
September 30, 2016					
Commercial	$1,099,894	$18,599	$ 11,549	$ -	$1,130,042
Income producing - commercial real estate	2,527,318	9,220	14,648	-	2,551,186
Owner occupied - commercial real estate	577,925	10,399	2,103	-	590,427
Real estate mortgage – residential	153,515	680	244	-	154,439
Construction - commercial and residential	937,198	737	4,878	-	942,813
Home equity	105,126	1,617	113	-	106,856
Other consumer	6,209	3	-	-	6,212
Total	$5,407,185	$41,255	$ 33,535	$ -	$5,481,975
December 31, 2015					
Commercial	$1,021,427	$17,822	$ 13,008	$ -	$1,052,257
Income producing - commercial real estate	2,096,032	13,328	6,118	-	2,115,478
Owner occupied - commercial real estate	488,496	7,854	1,753	-	498,103
Real estate mortgage – residential	146,651	714	-	-	147,365
Construction - commercial and residential	1,049,926	4,996	10,454	-	1,065,376
Home equity	110,870	1,854	161	-	112,885
Other consumer	6,877	5	22	-	6,904
Total	$4,920,279	$46,573	$ 31,516	$ -	$4,998,368
September 30, 2015					
Commercial	$977,165	$17,625	$ 12,869	$ -	$1,007,659
Investment - commercial real estate	1,999,509	16,564	6,877	-	2,022,950
Owner occupied - commercial real estate	479,843	8,024	1,790	-	489,657
Real estate mortgage – residential	146,992	728	-	-	147,720
Construction - commercial and residential	964,854	5,254	17,644	-	987,752
Home equity	112,978	1,707	661	-	115,346
Other consumer	5,804	5	72	-	5,881
Total	$4,687,145	$49,907	$ 39,913	$ -	$4,776,965

Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following table presents, by class of loan, information related to nonaccrual loans as of September 30, 2016, December 31, 2015 and September 30, 2015.

(dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Commercial	$ 2,986	$ 4,940	$ 4,828
Income producing - commercial real estate	10,098	5,961	6,721
Owner occupied - commercial real estate	2,103	1,268	1,281
Real estate mortgage - residential	562	329	333
Construction - commercial and residential	6,412	557	571
Home equity	113	161	661
Other consumer	-	23	72
Total nonaccrual loans (1)(2)	$ 22,274	$ 13,239	$ 14,467

(1) Excludes troubled debt restructurings ("TDRs") that were performing under their restructured terms totaling $2.9 million at September 30, 2016, $11.8 million at December 31, 2015 and $15.2 million at September 30, 2015.

(2) Gross interest income of $436 thousand and $1.3 million would have been recorded for the three and nine months ended September 30, 2016, respectively, if nonaccrual loans shown above had been current and in accordance with their original terms. The interest actually recorded on these loans was $97 thousand and $271 thousand for the three and nine months ended September 30, 2016, respectively. See Note 1 to the Consolidated Financial Statements for a description of the Company's policy for placing loans on nonaccrual status.

The following table presents, by class of loan, an aging analysis and the recorded investments in loans past due as of September 30, 2016 and December 31, 2015.

(dollars in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Recorded Investment in Loans
September 30, 2016						
Commercial	$1,173	$495	$2,986	$4,654	$1,125,388	$1,130,042
Income producing - commercial real estate	-	-	10,098	10,098	2,541,088	2,551,186
Owner occupied - commercial real estate	-	3,338	2,103	5,441	584,986	590,427
Real estate mortgage – residential	-	164	562	726	153,713	154,439
Construction - commercial and residential	-	-	6,412	6,412	936,401	942,813
Home equity	562	620	113	1,295	105,561	106,856

Other consumer	8	16	-	24	6,188	6,212
Total	$1,743	$4,633	$22,274	$28,650	$5,453,325	$5,481,975
December 31, 2015						
Commercial	$4,130	$1,364	$4,940	$10,434	$1,041,823	$1,052,257
Income producing - commercial real estate	2,841	-	5,961	8,802	2,106,676	2,115,478
Owner occupied - commercial real estate	3,189	902	1,268	5,359	492,744	498,103
Real estate mortgage – residential	-	-	329	329	147,036	147,365
Construction - commercial and residential	-	5,020	557	5,577	1,059,799	1,065,376
Home equity	-	77	161	238	112,647	112,885
Other consumer	56	60	23	139	6,765	6,904
Total	$10,216					