Community Bankers Trust Corp
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

or

o **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: 001-32590

COMMUNITY BANKERS TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**20-2652949**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
9954 Mayland Drive, Suite 2100 Richmond, Virginia	**23233**

(Address of principal executive offices) (Zip Code)

(804) 934-9999

(Registrant's telephone number, including area code)

n/a

(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o		Accelerated filer þ
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o

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

At June 30, 2015, there were 21,828,267 shares of the Company's common stock outstanding.

COMMUNITY BANKERS TRUST CORPORATION

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June 30, 2015

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMMUNITY BANKERS TRUST CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2015 AND DECEMBER 31, 2014

(dollars in thousands)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$ 6,480	$ 8,329
Interest bearing bank deposits	12,389	14,024
Total cash and cash equivalents	18,869	22,353
Securities available for sale, at fair value	262,813	274,568
Securities held to maturity, at cost (fair value of $38,819 and $37,539, respectively)	38,465	36,197
Equity securities, restricted, at cost	8,008	8,816
Total securities	309,286	319,581
Loans held for sale	6,503	200
Loans not covered by FDIC shared-loss agreement	684,080	664,736
Loans covered by FDIC shared-loss agreement	59,034	62,744
Total loans	743,114	727,480
Allowance for loan losses (non-covered loans of $9,962 and $9,365, respectively; covered loans of $386 and $386, respectively)	(10,348)	(9,751)
Net loans	732,766	717,729
FDIC indemnification asset	16,182	18,609
Bank premises and equipment, net	29,775	29,702
Bank premises and equipment held for sale	411	465
Other real estate owned, covered by FDIC shared-loss agreement	1,784	2,019
Other real estate owned, non-covered	4,722	5,724
Bank owned life insurance	21,312	21,004
FDIC receivable under shared-loss agreement	622	669

Core deposit intangibles, net	3,759	4,713
Other assets	13,140	12,966
Total assets	$ 1,159,131	$ 1,155,734
LIABILITIES		
Deposits:		
Noninterest bearing	$ 101,500	$ 84,564
Interest bearing	846,436	834,381
Total deposits	947,936	918,945
Federal funds purchased and securities sold under agreements to repurchase	5,003	14,500
Federal Home Loan Bank advances	81,031	96,401
Long-term debt	7,277	9,680
Trust preferred capital notes	4,124	4,124
Other liabilities	4,581	4,434
Total liabilities	1,049,952	1,048,084
SHAREHOLDERS' EQUITY		
Common stock (200,000,000 shares authorized, $0.01 par value; 21,828,267 and 21,791,523 shares issued and outstanding, respectively)	218	218
Additional paid in capital	145,596	145,321
Retained deficit	(35,548)	(38,553)
Accumulated other comprehensive (loss) income	(1,087)	664
Total shareholders' equity	109,179	107,650
Total liabilities and shareholders' equity	$ 1,159,131	$ 1,155,734

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(dollars and shares in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest and dividend income				
Interest and fees on non-covered loans	$ 8,166	$ 7,291	$ 16,072	$ 14,342
Interest and fees on FDIC covered loans	2,269	3,264	4,183	6,225
Interest on federal funds sold	1	—	2	—
Interest on deposits in other banks	17	22	34	35
Interest and dividends on securities				
Taxable	1,355	1,710	2,723	3,408
Nontaxable	525	168	969	324
Total interest and dividend income	12,333	12,455	23,983	24,334
Interest expense				
Interest on deposits	1,486	1,453	2,934	2,861
Interest on borrowed funds	384	244	801	406
Total interest expense	1,870	1,697	3,735	3,267
Net interest income	10,463	10,758	20,248	21,067
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	10,463	10,758	20,248	21,067
Noninterest income				
Service charges on deposit accounts	557	561	1,085	1,050
(Loss) gain on securities transactions, net	(8)	24	289	379
Gain on sale of other loans, net	23	27	69	75
Income on bank owned life insurance	188	193	374	385
Other	446	165	786	382
Total noninterest income	1,206	970	2,603	2,271
Noninterest expense				
Salaries and employee benefits	4,406	4,028	8,901	7,951
Occupancy expenses	619	687	1,307	1,335
Equipment expenses	260	260	500	479
FDIC assessment	220	194	457	401
Data processing fees	412	463	854	957
FDIC indemnification asset amortization	1,153	1,478	2,392	2,976
Amortization of intangibles	477	477	954	954
Other real estate expenses	137	100	222	383
Other operating expenses	1,759	1,672	3,375	3,100
Total noninterest expense	9,443	9,359	18,962	18,536
Income before income taxes	2,226	2,369	3,889	4,802

Income tax expense	533	649	884	1,358
Net income	$ 1,693	$ 1,720	$ 3,005	$ 3,444
Dividends paid on preferred stock	—	182	—	247
Net income available to common shareholders	$ 1,693	$ 1,538	$ 3,005	$ 3,197
Net income per share — basic	$ 0.08	$ 0.07	$ 0.14	$ 0.15
Net income per share — diluted	$ 0.08	$ 0.07	$ 0.14	$ 0.15
Weighted average number of shares outstanding				
basic	21,821	21,742	21,810	21,736
diluted	21,958	21,939	21,994	21,972

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(dollars in thousands)

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	$ 1,693	$ 1,720	$ 3,005	$ 3,444
Other comprehensive (loss) income:				
Unrealized gains on investment securities:				
Change in unrealized (loss) gain in investment securities	(3,976)	1,950	(2,200)	5,696
Tax related to unrealized loss (gain) in investment securities	1,352	(663)	747	(1,937)
Reclassification adjustment for loss (gain) in securities sold	8	(24)	(289)	(379)
Tax related to realized (loss) gain in securities sold	(3)	8	98	129
Cash flow hedge:				
Change in unrealized loss (gain) in cash flow hedge	215	-	(164)	-
Tax related to unrealized (loss) gain in cash flow hedge	(73)	-	57	-
Total other comprehensive (loss) income	(2,477)	1,271	(1,751)	3,509
Total comprehensive (loss) income	$ (784)	$ 2,991	$ 1,254	$ 6,953

See accompanying notes to unaudited consolidated financial statements

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COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(dollars and shares in thousands)

	Preferred Stock	Warrants	Common Shares	Stock Amount	Additional Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Income	Total
Balance January 1, 2014	$10,680	$1,037	21,709	$217	$144,656	$(45,822)	$(4,109)	$106,659
Issuance of common stock	—	—	42	1	90	—	—	91
Dividends paid on preferred stock	—	—	—	—	—	(247)	—	(247)
Issuance of stock options	—	—	—	—	93	—	—	93
Redemption of preferred stock	(10,680)	—	—	—	—	—	—	(10,680)
Redemption of warrants on preferred stock	—	(1,037)			257			(780)
Net income	—	—	—	—	—	3,444	—	3,444
Other comprehensive income	—	—	—	—	—	—	3,509	3,509
Balance June 30, 2014	$—	$—	21,751	$218	$145,096	$(42,625)	$(600)	$102,089
Balance January 1, 2015	$—	$—	21,792	$218	$145,321	$(38,553)	$664	$107,650
Issuance of common stock	—	—	36	—	81	—	—	81
Issuance of stock options	—	—	—	—	194	—	—	194
Net income	—	—	—	—	—	3,005	—	3,005
Other comprehensive loss	—	—	—	—	—	—	(1,751)	(1,751)
Balance June 30, 2015	$—	$—	21,828	$218	$145,596	$(35,548)	$(1,087)	$109,179

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

(dollars in thousands)

	June 30, 2015	June 30, 2014
Operating activities:		
Net income	$ 3,005	$ 3,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangibles amortization	1,751	1,728
Issuance of common stock and stock options	275	184
Amortization of purchased loan premium	152	727
Amortization of security premiums and accretion of discounts, net	1,325	1,840
Net gain on sale of securities	(289)	(379)
Net loss on sale and valuation of other real estate owned	198	314
Net gain on sale of loans	(69)	(75)
Changes in assets and liabilities:		
(Increase) decrease in loans held for sale	(6,303)	100
Decrease in other assets	2,838	1,695
Increase in accrued expenses and other liabilities	41	521
Net cash provided by operating activities	2,924	10,099
Investing activities:		
Proceeds from available for sale securities	93,444	68,160
Proceeds from held to maturity securities	916	3,602
Proceeds from equity securities	873	586
Purchase of available for sale securities	(85,180)	(66,522)
Purchase of held to maturity securities	(3,221)	—
Purchase of equity securities	(65)	(82)
Proceeds from sale of other real estate owned	1,886	1,379
Improvements of other real estate, net of insurance proceeds	(52)	(178)
Net increase in loans	(20,688)	(37,283)
Principal recoveries of loans previously charged off	1,448	310
Purchase of premises and equipment, net	(870)	(1,915)
Proceeds from sale of loans	3,380	5,274
Net cash used in investing activities	(8,129)	(26,669)
Financing activities:		
Net increase in deposits	28,991	22,475
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(9,497)	(3,460)
Net decrease in Federal Home Loan Bank borrowings	(15,370)	(359)
Cash dividends paid	—	(247)

Proceeds from long-term debt	—	10,680
Redemption of preferred stock and related warrants	—	(11,460)
Payments on long-term debt	(2,403)	—
Net cash provided by financing activities	1,721	17,629
Net (decrease) increase in cash and cash equivalents	(3,484)	1,059
Cash and cash equivalents:		
Beginning of the period	$ 22,353	$ 23,835
End of the period	$ 18,869	$ 24,894
Supplemental disclosures of cash flow information:		
Interest paid	$ 3,765	$ 3,141
Income taxes paid	815	1,364
Transfers of loans to other real estate owned property	741	1,932
Transfer of building premises and equipment to held for sale	—	3,237

See accompanying notes to unaudited consolidated financial statements

COMMUNITY BANKERS TRUST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Organization

Community Bankers Trust Corporation (the "Company") is headquartered in Richmond, Virginia and is the holding company for Essex Bank (the "Bank"), a Virginia state bank with 22 full-service offices in Virginia and Maryland. The Bank also operates two loan production offices in Virginia.

The Bank engages in a general commercial banking business and provides a wide range of financial services primarily to individuals and small businesses, including individual and commercial demand and time deposit accounts, commercial and industrial loans, consumer and small business loans, real estate and mortgage loans, investment services, on-line and mobile banking products, and safe deposit box facilities.

Financial Statements

The consolidated statements presented include accounts of the Company and the Bank, its wholly-owned subsidiary. All material intercompany balances and transactions have been eliminated. The statements should be read in conjunction with the Company's consolidated financial statements and the accompanying notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (GAAP) and to the general practices within the banking industry. The interim financial statements have not been audited; however, in the opinion of management, all adjustments, consisting of normal accruals, were made that are necessary to present fairly the balance sheet of the Company as of June 30, 2015, the statements of changes in shareholders' equity and cash flows for the six months ended June 30, 2015, and the statements of income and comprehensive income for the three and six months ended June 30, 2015. Results for the six month period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when either earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that the Company uses. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company’s transactions would be the same, the timing of events that would impact its transactions could change.

In preparing these financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.* Existing GAAP does not include explicit guidance about a customer’s accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include: *(a)* software as a service; *(b)* platform as a service; *(c)* infrastructure as a service; and *(d)* other similar hosting arrangements. The ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. As a result of the ASU, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets.

For public business entities, the ASU will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Certain reclassifications have been made to prior period balances to conform to the current year presentations.

Note 2. Securities

Amortized costs and fair values of securities available for sale and held to maturity at June 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

	June 30, 2015			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$62,479	$47	$(740)	$61,786
U.S. Gov't sponsored agencies	757	—	(28)	729
State, county and municipal	141,240	2,675	(1,946)	141,969
Corporate and other bonds	20,644	11	(114)	20,541
Mortgage backed – U.S. Gov't agencies	4,375	19	(118)	4,276
Mortgage backed – U.S. Gov't sponsored agencies	33,608	16	(112)	33,512
Total Securities Available for Sale	$263,103	$2,768	$(3,058)	$262,813
Securities Held to Maturity				
State, county and municipal	$34,877	$540	$(379)	$35,038
Mortgage backed – U.S. Gov't agencies	3,588	193	—	3,781
Mortgage backed – U.S. Gov't sponsored agencies	—	—	—	—
Total Securities Held to Maturity	$38,465	$733	$(379)	$38,819

	December 31, 2014			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale				
U.S. Treasury issue and other U.S. Gov't agencies	$99,608	$113	$(1,014)	$98,707
State, county and municipal	134,405	3,926	(854)	137,477
Corporate and other bonds	11,921	17	(55)	11,883
Mortgage backed – U.S. Gov't agencies	2,338	18	(98)	2,258
Mortgage backed – U.S. Gov't sponsored agencies	24,096	174	(27)	24,243
Total Securities Available for Sale	$272,368	$4,248	$(2,048)	$274,568
Securities Held to Maturity				
State, county and municipal	$31,677	$1,103	$—	$32,780
Mortgage backed – U.S. Gov't agencies	4,293	238	—	4,531

Mortgage backed – U.S. Gov't sponsored agencies	227	1	—	228
Total Securities Held to Maturity	$ 36,197	$ 1,342	$ —	$ 37,539

The amortized cost and fair value of securities at June 30, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without any penalties.

(dollars in thousands)	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$1,674	$ 1,695	$3,534	$3,462
Due after one year through five years	13,622	14,162	67,920	68,614
Due after five years through ten years	14,365	14,271	134,655	134,688
Due after ten years	8,804	8,691	56,994	56,049
Total securities	$38,465	$ 38,819	$263,103	$262,813

Proceeds from sales of securities available for sale were $15.6 million and $22.9 million during the three months ended June 30, 2015 and 2014, respectively, and $56.2 million and $44.6 million during the six months ended June 30, 2015 and 2014, respectively. Gains and losses on the sale of securities are determined using the specific identification method. Gross realized gains and losses on sales of securities available for sale during the three and six months ended June 30, 2015 and 2014 were as follows (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Gross realized gains	$ 122	$ 90	$ 575	$ 496
Gross realized losses	(130)	(66)	(286)	(117)
Net securities (losses) gains	$ (8)	$ 24	$ 289	$ 379

In estimating other than temporary impairment (OTTI) losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and short-term prospects for the issuer, and the intent and ability of management to hold its investment for a period of time to allow a recovery in fair value. There were no investments held that had OTTI losses for the six months ended June 30, 2015 and 2014.

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at June 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

	June 30, 2015		
	Less than 12 Months	12 Months or More	Total
Securities Available for Sale			

	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$8,711	$ (61)	$37,858	$ (679)	$46,569	$ (740)
U.S. Gov't sponsored agencies	729	(28)	-	-	729	(28)
State, county and municipal	60,637	(1,275)	9,837	(671)	70,474	(1,946)
Corporate and other bonds	10,930	(73)	3,386	(41)	14,316	(114)
Mortgage backed – U.S. Gov't agencies	2,012	(31)	1,910	(87)	3,922	(118)
Mortgage backed – U.S. Gov't sponsored agencies	9,283	(112)	-	-	9,283	(112)
Total	$92,302	$ (1,580)	$52,991	$ (1,478)	$145,293	$ (3,058)
Securities Held to Maturity						
State, county and municipal	$19,768	$ (379)	$-	$ -	$19,768	$ (379)

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
Securities Available for Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury issue and other U.S. Gov't agencies	$47,475	$ (438)	$35,630	$ (576)	$83,105	$ (1,014)
State, county and municipal	3,673	(8)	32,348	(846)	36,021	(854)
Corporate and other bonds	5,756	(21)	3,113	(34)	8,869	(55)
Mortgage backed – U.S. Gov't agencies	—	—	1,899	(98)	1,899	(98)
Mortgage backed – U.S. Gov't sponsored agencies	2,551	(16)	712	(11)	3,263	(27)
Total	$59,455	$ (483)	$73,702	$ (1,565)	$133,157	$ (2,048)

The unrealized losses (impairments) in the investment portfolio at June 30, 2015 and December 31, 2014 are generally a result of market fluctuations that occur daily. The unrealized losses are from 254 securities at June 30, 2015. Of those, 234 are investment grade, have U.S. government agency guarantees, or are backed by the full faith and credit of local municipalities throughout the United States. Twenty investment grade corporate obligations comprise the remaining securities with unrealized losses at June 30, 2015. The Company considers the reason for impairment, length of impairment and ability to hold until the full value is recovered in determining if the impairment is temporary in nature. Based on this analysis, the Company has determined these impairments to be temporary in nature. The Company does not intend to sell and it is more likely than not that the Company will not be required to sell these securities until they recover in value or reach maturity.

Market prices are affected by conditions beyond the control of the Company. Investment decisions are made by the management group of the Company and reflect the overall liquidity and strategic asset/liability objectives of the Company. Management analyzes the securities portfolio frequently and manages the portfolio to provide an overall positive impact to the Company’s income statement and balance sheet.

Securities with amortized costs of $55.7 million and $111.3 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At each of June 30, 2015 and December 31, 2014, there were no securities purchased from a single issuer, other than U.S. Treasury issue and other U.S. Government agencies that comprised more than 10% of the consolidated shareholders’ equity.

Note 3. Loans Not Covered by FDIC Shared-loss Agreements (Non-covered Loans) and Related Allowance for Loan Losses

The Company’s non-covered loans, net of deferred fees and costs, at June 30, 2015 and December 31, 2014 were comprised of the following (dollars in thousands):

	June 30, 2015		December 31, 2014	
	Amount	% of Non-Covered Loans	Amount	% of Non-Covered Loans
Mortgage loans on real estate:				
Residential 1-4 family	$178,426	26.08 %	$168,267	25.31 %
Commercial	284,992	41.66	283,275	42.61
Construction and land development	59,392	8.69	59,483	8.95
Second mortgages	7,356	1.08	6,013	0.90
Multifamily	44,343	6.48	33,812	5.09
Agriculture	6,654	0.97	7,163	1.08
Total real estate loans	581,163	84.96	558,013	83.94

Commercial loans	96,510	14.11		99,783	15.01	
Consumer installment loans	5,011	0.73		5,496	0.83	
All other loans	1,396	0.20		1,444	0.22	
Non-covered loans	$684,080	100.00	%	$664,736	100.00	%

The Company held $14.1 million and $18.3 million in balances of loans guaranteed by the United States Department of Agriculture (USDA), which are included in various categories in the table above, at June 30, 2015 and December 31, 2014, respectively. As these loans are 100% guaranteed by the USDA, no loan loss provision is required. These loan balances included an unamortized purchase premium of $665,000 and $922,000 at June 30, 2015 and December 31, 2014, respectively. Unamortized purchase premium is recognized as an adjustment of the related loan yield on a straight line basis, which is substantially equivalent to the results obtained using the effective interest method.

At June 30, 2015 and December 31, 2014, the Company's allowance for credit losses was comprised of the following: (i) specific valuation allowances calculated in accordance with FASB ASC 310, *Receivables,* (ii) general valuation allowances calculated in accordance with FASB Accounting Standards Codification (ASC) 450, *Contingencies*, based on economic conditions and other qualitative risk factors, and (iii) historical valuation allowances calculated using historical loan loss experience. Management identified loans subject to impairment in accordance with ASC 310.

The Purchase and Assumption Agreement into which the Company and the Federal Deposit Insurance Corporation (FDIC) entered in January 2009 that provided for the Company's assumption of all of the deposits and certain other liabilities and acquisition of substantially all assets of Suburban Federal Savings Bank (SFSB) included two shared-loss agreements with respect to certain covered loans and foreclosed real estate assets. See Notes 4 and 5 for more information on the Purchase and Assumption Agreement and the shared-loss agreements. The shared-loss agreement for loans other than those secured by single family, residential 1-4 family mortgages expired March 31, 2014. These loans, which had an outstanding principal balance of $10.0 million and a carrying value of $5.5 million at March 31, 2014, are being accounted for in accordance with FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* are commonly referred to as purchased credit impaired loans, and were classified as non-covered loans effective April 1, 2014 (the "PCI loans").

The PCI loans are not classified as nonperforming assets as of June 30, 2015, as the loans are accounted for on a pooled basis, and interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all PCI loans.

The following table reflects the outstanding principal balance and carrying amounts of the PCI loans as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015		December 31, 2014	
	Unpaid balance	Carrying Value	Unpaid balance	Carrying Value
Mortgage loans on real estate:				
Residential 1-4 family	$2,152	$ 1,013	$ 2,189	$ 1,096
Commercial	2,893	903	3,179	1,148
Construction and land development	3,502	2,384	3,658	2,456
Second mortgages	—	—	31	16
Multifamily	—	—	—	—
Agriculture	—	—	—	—
Total real estate loans	8,547	4,300	9,057	4,716
Total PCI loans	$8,547	$ 4,300	$ 9,057	$ 4,716

The allowance for loan losses related to PCI loans was $98,000 as of June 30, 2015 and was transferred from the allowance for loan losses on covered loans effective April 1, 2014. This allowance was related to commercial real estate loans. There was no other activity in the allowance for loan losses related to PCI loans for the three and six months ended June 30, 2015.

The change in the accretable yield balance for the PCI loans for the six months ended June 30, 2015 was as follows (dollars in thousands):

Balance transferred from covered loans, April 1, 2014	$4,773
Accretion	(554)
Reclassification from nonaccretable yield	852
Balance, December 31, 2014	5,071
Accretion	(303)
Reclassification from nonaccretable yield	373
Balance, June 30, 2015	$5,141

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The following table summarizes information related to impaired loans as of June 30, 2015 (dollars in thousands):

With an allowance recorded:	**Recorded Investment (1)**	**Unpaid Principal Balance (2)**	Related Allowance
Mortgage loans on real estate:			
Residential 1-4 family	$ 2,999	$ 3,489	$ 465
Commercial	216	276	28
Construction and land development	4,358	7,130	548
Second mortgages	61	63	11
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	7,634	10,958	1,052
Commercial loans	2	2	—
Consumer installment loans	84	89	14
All other loans	—	—	—
Subtotal impaired loans with a valuation allowance	7,720	11,049	1,066
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	895	943	—
Commercial	1,521	1,831	—
Construction and land development	394	882	—
Second mortgages	—	—	—
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	2,810	3,656	—
Commercial loans	—	—	—
Consumer installment loans	—	—	—
All other loans	—	—	—
Subtotal impaired loans without a valuation allowance	2,810	3,656	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	3,894	4,432	465
Commercial	1,737	2,107	28
Construction and land development	4,752	8,012	548
Second mortgages	61	63	11
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	10,444	14,614	1,052
Commercial loans	2	2	—
Consumer installment loans	84	89	14
All other loans	—	—	—
Total impaired loans	$ 10,530	$ 14,705	$ 1,066

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

The following table summarizes information related to impaired loans as of December 31, 2014 (dollars in thousands):

With an allowance recorded:	**Recorded Investment [(1)]**	**Unpaid Principal Balance [(2)]**	Related Allowance
Mortgage loans on real estate:			
Residential 1-4 family	$ 2,754	$ 2,895	$ 463
Commercial	308	470	53
Construction and land development	4,903	7,643	627
Second mortgages	61	63	11
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	8,026	11,071	1,154
Commercial loans	7,521	8,721	520
Consumer installment loans	118	120	20
All other loans	—	—	—
Subtotal impaired loans with a valuation allowance	15,665	19,912	1,694
With no related allowance recorded:			
Mortgage loans on real estate:			
Residential 1-4 family	588	626	—
Commercial	418	550	—
Construction and land development	179	212	—
Second mortgages	—	—	—
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	1,185	1,388	—
Commercial loans	—	—	—
Consumer installment loans	2	3	—
All other loans	—	—	—
Subtotal impaired loans without a valuation allowance	1,187	1,391	—
Total:			
Mortgage loans on real estate:			
Residential 1-4 family	3,342	3,521	463
Commercial	726	1,020	53
Construction and land development	5,082	7,855	627
Second mortgages	61	63	11
Multifamily	—	—	—
Agriculture	—	—	—
Total real estate loans	9,211	12,459	1,154
Commercial loans	7,521	8,721	520
Consumer installment loans	120	123	20
All other loans	—	—	—
Total impaired loans	$ 16,852	$ 21,303	$ 1,694

(1) The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment

(2) The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect any direct write-downs

The following table summarizes the average recorded investment of impaired loans for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Mortgage loans on real estate:				
Residential 1-4 family	$ 3,475	$ 4,813	$ 3,617	$ 4,807
Commercial	1,786	2,228	1,232	1,815
Construction and land development	4,750	5,622	4,917	5,609
Second mortgages				