COLONY BANKCORP INC
Form 10-Q
November 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

FOR QUARTER ENDED SEPTEMBER 30, 2014 COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA	58-1492391
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750
ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000
REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED REPORTS REQUIRED TO BE FILED BY SECTIONS 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 x NO o

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (§232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES).

YES x 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 DEFINITIONS OF "ACCELERATED FILER", "LARGE ACCELERATED FILER" AND "SMALLER REPORTING COMPANY" IN RULE 12b-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER o ACCELERATED FILER o

NON-ACCELERATED FILER o SMALLER REPORTING COMPANY x
(DO NOT CHECK IF A 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 o NO x

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

CLASS	OUTSTANDING AT NOVEMBER 3, 2014
COMMON STOCK, $1 PAR VALUE	8,439,258

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Forward Looking Statement Disclosure

Certain statements contained in this Quarterly Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act), not withstanding that such statements are not specifically identified. In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of Colony Bankcorp, Inc. or its management or Board of Directors, including those relating to products or services; (ii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

Loss and regional economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.

Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.

The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board.

Inflation, interest rate, market and monetary fluctuations.

Political instability.

Acts of war or terrorism.

The timely development and acceptance of new products and services and perceived overall value of these products and services by users.

Changes in consumer spending, borrowings and savings habits.

Technological changes.

Acquisitions and integration of acquired businesses.

The ability to increase market share and control expenses.

The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiary must comply.

The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.

Changes in the Company’s organization, compensation and benefit plans.

The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

Greater than expected costs or difficulties related to the integration of new lines of business.

The Company’s success at managing the risks involved in the foregoing items.

Restrictions or conditions imposed by our regulators on our operations.

Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (SEC).

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PART 1. FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY BANK, COLONY BANK

A. CONSOLIDATED BALANCE SHEETS – SEPTEMBER 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013 (AUDITED).

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED).

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED).

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (UNAUDITED).

THE CONSOLIDATED FINANCIAL STATEMENTS FURNISHED HAVE NOT BEEN AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, BUT REFLECT, IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS (CONSISTING SOLELY OF NORMAL RECURRING ADJUSTMENTS) NECESSARY FOR A FAIR PRESENTATION OF THE RESULTS OF OPERATIONS FOR THE PERIODS PRESENTED.

THE RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014 AND DECEMBER 31, 2013
(DOLLARS IN THOUSANDS)

ASSETS	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Cash and Cash Equivalents		
Cash and Due from Banks	$ 17,120	$ 25,692
Federal Funds Sold	6,712	20,495
	23,832	46,187
Interest-Bearing Deposits	10,682	21,960
Investment Securities		
Available for Sale, at Fair Value	273,547	263,258
Held to Maturity, at Cost (Fair Value of $33 and $37, as of September 30, 2014 and December 31, 2013, Respectively)	33	37
	273,580	263,295
Federal Home Loan Bank Stock, at Cost	2,831	3,164
Loans	743,281	751,218
Allowance for Loan Losses	(9,788)	(11,806)
Unearned Interest and Fees	(354)	(360)
	733,139	739,052
Premises and Equipment	24,976	24,876
Other Real Estate (Net of Allowance of $3,026 and $3,986 as of September 30, 2014 and December 31, 2013, Respectively)	10,833	15,502
Other Intangible Assets	161	188
Other Assets	34,380	34,327
Total Assets	$ 1,114,414	$ 1,148,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	$ 116,131	$ 115,261
Interest-Bearing	825,069	872,269
	941,200	987,530
Borrowed Money		
Subordinated Debentures	24,229	24,229
Other Borrowed Money	40,000	40,000
	64,229	64,229
Other Liabilities	12,713	6,838
Stockholders' Equity		
Preferred Stock, Stated Value $1,000 a Share; Authorized 10,000,000 Shares, Issued 28,000 Shares	28,000	28,000

Common Stock, Par Value $1 a Share; Authorized 20,000,000 Shares, Issued 8,439,258 Shares as of September 30, 2014 and December 31, 2013	8,439	8,439
Paid-In Capital	29,145	29,145
Retained Earnings	36,978	33,445
Accumulated Other Comprehensive (Loss), Net of Tax Benefits	(6,290)	(9,075)
	96,272	89,954
Total Liabilities and Stockholders' Equity	$1,114,414	$1,148,551

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Interest Income				
Loans, Including Fees	$10,170	$10,303	$29,815	$31,023
Federal Funds Sold	6	7	23	27
Deposits with Other Banks	9	5	32	21
Investment Securities				
U.S. Government Agencies	1,165	880	3,574	2,454
State, County and Municipal	24	30	75	94
Corporate Obligations & Asset-Backed Securities	-	14	-	42
Dividends on Other Investments	26	21	85	59
	11,400	11,260	33,604	33,720
Interest Expense				
Deposits	1,260	1,361	3,869	4,452
Borrowed Money	402	405	1,275	1,273
	1,662	1,766	5,144	5,725
Net Interest Income	9,738	9,494	28,460	27,995
Provision for Loan Losses	500	1,500	1,308	4,200
Net Interest Income After Provision for Loan Losses	9,238	7,994	27,152	23,795
Noninterest Income				
Service Charges on Deposits	1,231	1,236	3,369	3,484
Other Service Charges, Commissions and Fees	622	442	1,842	1,289
Mortgage Fee Income	130	117	311	377
Securities Gains (Losses)	-	-	1	(2)
Other	427	314	1,195	1,211
	2,410	2,109	6,718	6,359
Noninterest Expenses				
Salaries and Employee Benefits	4,432	4,178	13,149	12,496
Occupancy and Equipment	1,049	974	3,069	2,842
Other	3,053	3,336	9,473	10,281
	8,534	8,488	25,691	25,619
Income Before Income Taxes	3,114	1,615	8,179	4,535
Income Taxes	1,033	535	2,625	1,532
Net Income	2,081	1,080	5,554	3,003
Preferred Stock Dividends	697	379	2,021	1,124
Net Income Available to Common Stockholders	$1,384	$701	$3,533	$1,879
Net Income Per Share of Common Stock				

Basic	$0.16	$0.08	$0.42	$0.22
Diluted	$0.16	$0.08	$0.42	$0.22
Cash Dividends Declared Per Share of Common Stock	$0.00	$0.00	$0.00	$0.00
Weighted Average Basic Shares Outstanding	8,439,258	8,439,258	8,439,258	8,439,258
Weighted Average Diluted Shares Outstanding	8,439,258	8,439,258	8,439,258	8,439,258

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net Income	$2,081	$ 1,080	$5,554	$ 3,003
Other Comprehensive Income (Loss):				
Investment securities available-for-sale:				
Unrealized holding gains (losses)	(488)	(2,464)	4,220	(10,338)
Tax Effect	166	838	(1,435)	3,515
Reclassification of gains recognized in net income	-	(2)	-	-
Tax Effect	-	1	-	-
	(322)	(1,627)	2,785	(6,823)
Comprehensive Income (Loss)	$1,759	$ (547)	$8,339	$ (3,820)

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Nine Months Ended	
	September 30, 2014	September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$5,554	$3,003
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,207	1,172
Provision for Loan Losses	1,308	4,200
Securities (Gains) Losses	(1)	2
Amortization and Accretion	979	2,277
Losses on Sale of Other Real Estate and Repossessions	501	796
Provision for Losses on Other Real Estate	605	1,049
Increase in Cash Surrender Value of Life Insurance	(431)	(178)
Gain on Sale of Premises and Equipment	(12)	-
Other Prepaids, Deferrals and Accruals, Net	2,745	2,939
	12,455	15,260
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities Available for Sale	(34,062)	(78,604)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	27,072	40,794
Held for Maturity	8	8
Proceeds from Sale of Investment Securities		
Available for Sale	-	36,217
Interest-Bearing Deposits in Other Banks	11,278	17,678
Net Loans to Customers	1,864	(13,442)
Purchase of Premises and Equipment	(1,308)	(1,089)
Proceeds from Sale of Other Real Estate and Repossessions	6,321	6,514
Proceeds from Sale of Federal Home Loan Bank Stock	333	200
Proceeds from Sale of Fixed Assets	14	-
Purchase of Bank Owned Life Insurance	-	(10,000)
	11,520	(1,724)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	870	(13,097)
Interest-Bearing Customer Deposits	(47,200)	(17,126)
Proceeds from Other Borrowed Money	-	(16,500)
Principal Payments on Other Borrowed Money	-	21,500
	(46,330)	(25,223)
Net Decrease in Cash and Cash Equivalents	(22,355)	(11,687)
Cash and Cash Equivalents at Beginning of Period	46,187	49,246
Cash and Cash Equivalents at End of Period	$23,832	$37,559

The accompanying notes are an integral part of these statements.

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COLONY BANKCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Presentation

Colony Bankcorp, Inc. (the Company) is a bank holding company located in Fitzgerald, Georgia. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank, Fitzgerald, Georgia. All significant intercompany accounts have been eliminated in consolidation. The accounting and reporting policies of Colony Bankcorp, Inc. conform to generally accepted accounting principles and practices utilized in the commercial banking industry.

All dollars in notes to consolidated financial statements are rounded to the nearest thousand.

The consolidated financial statements in this report are unaudited, except for the December 31, 2013 consolidated balance sheet. All adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for fair presentation of the interim consolidated financial statements have been included and fairly and accurately present the financial position, results of operations and cash flows of the Company. The results of operations for the nine months ended September 30, 2014, are not necessarily indicative of the results which may be expected for the entire year.

Nature of Operations

The Bank provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in central, south and coastal Georgia. Colony Bank is headquartered in Fitzgerald, Georgia with banking offices in Albany, Ashburn, Broxton, Centerville, Chester, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Pitts, Quitman, Rochelle, Savannah, Soperton, Sylvester, Thomaston, Tifton, Valdosta and Warner Robins. Lending and investing activities are funded primarily by deposits gathered through its retail banking office network.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2014. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At September 30, 2014, approximately 86 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in high loan loss provisions in recent years. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

The success of the Company is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. Adverse changes in the economic conditions in these geographic markets would likely have a material adverse effect on the Company's results of operations and financial condition. The operating results of Colony depend primarily on its net interest income. Accordingly, operations are subject to risks and uncertainties surrounding the exposure to changes in the interest rate environment.

At times, the Company may have cash and cash equivalents at financial institutions in excess of federal deposit insurance limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk.

Investment Securities

The Company classifies its investment securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Currently, no securities are classified as trading. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All securities not classified as trading or held to maturity are considered available for sale. Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported, net of deferred taxes, in accumulated other comprehensive income (loss), a component of stockholders' equity. Gains and losses from sales of securities available for sale are computed using the specific identification method. Securities available for sale includes securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions.

The Company evaluates each held to maturity and available for sale security in a loss position for other-than-temporary impairment (OTTI). In estimating other-than-temporary impairment losses, management considers such factors as the length of time and the extent to which the market value has been below cost, the financial condition of the issuer and the Company's intent to sell and whether it is more likely than not that the Company will be required to sell the security before anticipated recovery of the amortized cost basis. If the Company intends to sell or if it is more likely than not that the Company will be required to sell the security before recovery, the OTTI write-down is recognized in earnings. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings and an amount related to all other factors, which is recognized in other comprehensive income (loss).

Federal Home Loan Bank Stock

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in the accounting standards. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

Loans

Loans that the Company has the ability and intent to hold for the foreseeable future or until maturity are recorded at their principal amount outstanding, net of unearned interest and fees. Loan origination fees, net of certain direct origination costs, are deferred and amortized over the estimated terms of the loans using the straight-line method. Interest income on loans is recognized using the effective interest method.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

When management believes there is sufficient doubt as to the collectibility of principal or interest on any loan or generally when loans are 90 days or more past due, the accrual of applicable interest is discontinued and the loan is designated as nonaccrual, unless the loan is well secured and in the process of collection. Interest payments received on nonaccrual loans are either applied against principal or reported as income, according to management’s judgment as to the collectibility of principal. Loans are returned to an accrual status when factors indicating doubtful collectibility on a timely basis no longer exist.

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(1) Summary of Significant Accounting Policies (Continued)

Loans Modified in a Troubled Debt Restructuring (TDR)

Loans are considered to have been modified in a TDR when due to a borrower's financial difficulty, the Company makes certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status. Once a loan is modified in a troubled debt restructuring it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The historical component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. A general component is maintained to cover uncertainties that could affect management's estimate of probable losses. The general component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and historical losses in the portfolio. General valuation allowances are based on internal and external qualitative risk factors such as (i) changes in the composition of the loan portfolio, (ii) the extent of loan concentrations within the portfolio, (iii) the effectiveness of the Company's lending policies, procedures and internal controls, (iv) the experience, ability and effectiveness of the Company's lending management and staff, and (v) national and local economics and business conditions.

Loans identified as losses by management, internal loan review and/or regulatory agencies are charged off.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

A significant portion of the Company's impaired loans are deemed to be collateral dependent. Management therefore measures impairment on these loans based on the fair value of the collateral. Collateral values are determined based on appraisals performed by qualified licensed appraisers hired by the Company or by senior members of the Company's credit administration staff. The decision whether or not to obtain an external third-party appraisal usually depends on the type of property being evaluated. External appraisals are usually obtained on more complex, income producing properties such as hotels, shopping centers and businesses. Less complex properties such as residential lots, farm land and single family houses may be evaluated internally by senior credit administration staff.

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(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

When the Company does obtain appraisals from external third-parties, the values utilized in the impairment calculation are "as is" or current market values. The appraisals, whether prepared internally or externally, may utilize a single valuation approach or a combination of approaches including the comparable sales, income and cost approach. Appraised amounts used in the impairment calculation are typically discounted 10 percent to account for selling and marketing costs, if the repayment of the loan is to come from the sale of the collateral. Although appraisals are not obtained each year on all impaired loans, the collateral values used in the impairment calculations are evaluated quarterly by management. Based on management's knowledge of the collateral and the current real estate market conditions, appraised values may be further discounted to reflect facts and circumstances known to management since the initial appraisal was performed.

Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a level 3 classification of the inputs for determining fair value. Because of the high degree of judgment required in estimating the fair value of collateral underlying impaired loans and because of the relationship between fair value and general economic conditions, we consider the fair value of impaired loans to be highly sensitive to changes in market conditions.

Premises and Equipment

Premises and equipment are recorded at acquisition cost net of accumulated depreciation.

Depreciation is charged to operations over the estimated useful lives of the assets. The estimated useful lives and methods of depreciation are as follows:

Description	Life in Years.	Method
Banking Premises	15-40	Straight-Line and Accelerated
Furniture and Equipment	5-10	Straight-Line and Accelerated

Expenditures for major renewals and betterments are capitalized. Maintenance and repairs are charged to operations as incurred. When property and equipment are retired or sold, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss is reflected in other income or expense.

Intangible Assets

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits.

Transfers 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.

Statement of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from demand deposits, interest-bearing checking accounts, savings accounts, loans and certificates of deposit are reported net.

Advertising Costs

The Company expenses the cost of advertising in the periods in which those costs are incurred.

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(1) Summary of Significant Accounting Policies (Continued)

Income Taxes

The provision for income taxes is based upon income for financial statement purposes, adjusted for nontaxable income and nondeductible expenses. Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes.

Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company and its subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

Positions taken in the Company’s tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of income.

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at estimated fair value at the date of acquisition less the cost of disposal. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. Routine holding costs and gains or losses upon disposition are included in other noninterest expense.

Bank-Owned Life Insurance

The Company has purchased life insurance on the lives of certain key members of management and directors. The life insurance policies are recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if applicable. Increases in the cash surrender value are recorded as other income in the consolidated statements of income. The cash surrender value of the insurance contracts is recorded in other assets on the consolidated balance sheets in the amount of $14,371 and $13,940 as of September 30, 2014 and December 31, 2013, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners and are not reported in the consolidated statements of operations but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) as total comprehensive income (loss).

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

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(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Adoption of New Accounting Standards

In January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

(2) Investment Securities

Investment securities as of September 30, 2014 and December 31, 2013 are summarized as follows:

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	$ 279,533	$ 182	$ (9,705)	$ 270,010
State, County & Municipal	3,544	21	(28)	3,537
	$ 283,077	$ 203	$ (9,733)	$ 273,547
Securities Held to Maturity:				
State, County and Municipal	$ 33	$ -	$ -	$ 33

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	$ 273,029	$ 119	$ (13,800)	$ 259,348
State, County & Municipal	3,979	15	(84)	3,910
	$ 277,008	$ 134	$ (13,884)	$ 263,258
Securities Held to Maturity:				
State, County and Municipal	$ 37	$ -	$ -	$ 37

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Part I (Continued)
Item 1 (Continued)

(2) Investment Securities (Continued)

The amortized cost and fair value of investment securities as of September 30, 2014, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. This is often the case with mortgage-backed securities, which are disclosed separately in the table below.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due In One Year or Less	$718	$721	$-	$ -
Due After One Year Through Five Years	734	745	33	33
Due After Five Years Through Ten Years	1,169	1,160	-	-
Due After Ten Years	923	911	-	-
	$3,544	$3,537	$33	$ 33
Mortgage-Backed Securities	279,533	270,010	-	-
	$283,077	$273,547	$33	$ 33

Proceeds from the sale of investments available for sale during the first nine months of 2014 totaled $0 compared to $36,217 for the first nine months of 2013. The sale of investments available for sale during the first nine months of 2014 resulted in gross realized gains of $0 and losses of $0. The gross realized gain of $1 for the first nine months of 2014 was due to a gain on a call for a held to maturity investment. The sale of investments available for sale during the first nine months of 2013 resulted in gross realized gains of $191 and losses of $(193).

Investment securities having a carry value approximating $113,540 and $112,913 as of September 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at September 30, 2014 and December 31, 2013 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2014						
U.S. Government Agencies						
Mortgage-Backed	$74,078	$ (602)	$178,358	$ (9,103)	$252,436	$ (9,705)
State, County and Municipal	474	(6)	1,380	(22)	1,854	(28)
	$74,552	$ (608)	$179,738	$ (9,125)	$254,290	$ (9,733)

December 31, 2013						
U.S. Government Agencies						
Mortgage-Backed	$190,064	$ (9,441)	$63,194	$ (4,359)	$253,258	$ (13,800)
State, County and Municipal	1,647	(84)	-	-	1,647	(84)
	$191,711	$ (9,525)	$63,194	$ (4,359)	$254,905	$ (13,884)

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(2) Investments (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2014, the debt securities with unrealized losses have depreciated 3.69 percent from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government, other governments or U.S. corporations. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

(3) Loans

The following table presents the composition of loans segregated by class of loans, as of September 30, 2014 and December 31, 2013.

	September 30, 2014	December 31, 2013
Commercial and Agricultural		
Commercial	$46,481	$48,107
Agricultural	23,017	10,666
Real Estate		
Commercial Construction	50,455	52,739
Residential Construction	9,700	6,549
Commercial	327,498	341,783
Residential	204,313	206,258
Farmland	50,401	47,035
Consumer and Other		
Consumer	23,448	25,676
Other	7,968	12,405
Total Loans	$743,281	$751,218

Commercial and industrial loans are extended to a diverse group of businesses within the Company's market area. These loans are often underwritten based on the borrower's ability to service the debt from income from the business. Real estate construction loans often require loan funds to be advanced prior to completion of the project. Due to uncertainties inherent in estimating construction costs, changes in interest rates and other economic conditions, these loans often pose a higher risk than other types of loans. Consumer loans are originated at the bank level. These loans are generally smaller loan amounts spread across many individual borrowers to help minimize risk.

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grade assigned to commercial and consumer loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the Company's geographic markets.

The Company uses a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the grades is as follows:

(3) Loans (Continued)

Grades 1 and 2 – Borrowers with these assigned grades range in risk from virtual absence of risk to minimal risk. Such loans may be secured by Company-issued and controlled certificates of deposit or properly margined equity securities or bonds. Other loans comprising these grades are made to companies that have been in existence for a long period of time with many years of consecutive profits and strong equity, good liquidity, excellent debt service ability and unblemished past performance, or to exceptionally strong individuals with collateral of unquestioned value that fully secures the loans. Loans in this category fall into the "pass" classification.

Grades 3 and 4 – Loans assigned these "pass" risk grades are made to borrowers with acceptable credit quality and risk. The risk ranges from loans with no significant weaknesses in repayment capacity and collateral protection to acceptable loans with one or more risk factors considered to be more than average.

Grade 5 – This grade includes "special mention" loans on management's watch list and is intended to be used on a temporary basis for pass grade loans where risk-modifying action is intended in the short-term.

Grade 6 – This grade includes "substandard" loans in accordance with regulatory guidelines. This category includes borrowers with well-defined weaknesses that jeopardize the payment of the debt in accordance with the agreed terms. Loans considered to be impaired are assigned this grade, and these loans often have assigned loss allocations as part of the allowance for loan and lease losses. Generally, loans on which interest accrual has been stopped would be included in this grade.

Grades 7 and 8 – These grades correspond to regulatory classification definitions of "doubtful" and "loss," respectively. In practice, any loan with these grades would be for a very short period of time, and generally the Company has no loans with these assigned grades. Management manages the Company's problem loans in such a way that uncollectible loans or uncollectible portions of loans are charged off immediately with any residual, collectible amounts assigned a risk grade of 6.

The following table presents the loan portfolio by credit quality indicator (risk grade) as of September 30, 2014 and December 31, 2013. Those loans with a risk grade of 1, 2, 3 or 4 have been combined in the pass column for presentation purposes.

September 30, 2014

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	$41,379	$3,058	$ 2,044	$46,481
Agricultural	22,825	35	157	23,017
Real Estate				
Commercial Construction	44,084	1,979	4,392	50,455
Residential Construction	9,591	109	-	9,700
Commercial	306,612	9,959	10,927	327,498
Residential	180,906	10,480	12,927	204,313
Farmland	48,428	475	1,498	50,401
Consumer and Other				

Consumer	22,710	226	512	23,448
Other	7,764	-	204	7,968
Total Loans	$684,299	$26,321	$ 32,661	$743,281

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(3) Loans (Continued)

December 31, 2013

	Pass	Special Mention	Substandard	Total Loans
Commercial and Agricultural				
Commercial	$41,759	$2,770	$ 3,578	$48,107
Agricultural	10,638	17	11	10,666
Real Estate				
Commercial Construction	42,669	1,512	8,558	52,739
Residential Construction	6,341	208	-	6,549
Commercial	317,567	10,760	13,456	341,783
Residential	182,977	13,524	9,757	206,258
Farmland	44,777	507	1,751	47,035
Consumer and Other				
Consumer	24,609	320	747	25,676
Other	12,355	1	49	12,405
Total Loans	$683,692	$29,619	$ 37,907	$751,218

A loan's risk grade is assigned at the inception of the loan and is based on the financial strength of the borrower and the type of collateral. Loan risk grades are subject to reassessment at various times throughout the year as part of the Company's ongoing loan review process. Loans with an assigned risk grade of 6 or below and an outstanding balance of $250,000 or more are reassessed on a quarterly basis. During this reassessment process individual reserves may be identified and placed against certain loans which are not considered impaired.

In assessing the overall economic condition of the markets in which it operates, the Company monitors the unemployment rates for its major service areas. The unemployment rates are reviewed on a quarterly basis as part of the allowance for loan loss determination.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or 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 provision. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due.

Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

The following table represents an age analysis of past due loans and nonaccrual loans, segregated by class of loans, as of September 30, 2014 and December 31, 2013:

September 30, 2014

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Agricultural						
Commercial	$457	$ -	$ 457	$ 492	$45,532	$46,481
Agricultural	19	-	19	45	22,953	23,017
Real Estate						
Commercial Construction	500	-	500	3,239	46,716	50,455
Residential Construction	-	-	-	-	9,700	9,700
Commercial	3,230	-	3,230	3,473	320,795	327,498
Residential	7,585	-	7,585	4,563	192,165	204,313
Farmland	292	-	292	984	49,125	50,401
Consumer and Other						
Consumer	476	7	483	173	22,792	23,448
Other	-	-	-	202	7,766	7,968
Total Loans	$12,559	$ 7	$ 12,566	$ 13,171	$717,544	$743,281

December 31, 2013

	Accruing Loans					
	30-89 Days Past Due	90 Days or More Past Due	Total Accruing Loans Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial and Agricultural						
Commercial	$581	$ -	$ 581	$ 1,646	$45,880	$48,107
Agricultural	81	-	81	-	10,585	10,666
Real Estate						
Commercial Construction	140	-	140	8,222	44,377	52,739
Residential Construction	-	-	-	-	6,549	6,549
Commercial	2,287	-	2,287	7,367	332,129	341,783
Residential	5,274	-	5,274	4,933	196,051	206,258

Farmland	351	-	351	1,630	45,054	47,035
Consumer and Other						
Consumer	454	4	458	307	24,911	25,676
Other	198	-	198	9	12,198	12,405
Total Loans	$9,366	$ 4	$ 9,370	$ 24,114	$717,734	$751,218

Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of September 30, 2014:

September 30, 2014

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 394	$ 394	$ -	$ 803	$ 6	$ 14
Agricultural	50	45	-	53	(4)	6
Commercial Construction	9,210	3,101	-	3,347	2	2
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	17,346	16,656	-	19,058	427	445
Residential Real Estate	4,729	3,953	-	5,054	150	142
Farmland	1,330	984	-	782	(19)	11
Consumer	181	173	-	215	7	10
Other	212	201	-	198	3	8
	33,452	25,507	-	29,510	572	638
With An Allowance Recorded						
Commercial	99	99	99	527	-	-
Agricultural	-	-	-	-	-	-
Commercial Construction	210	139	59	1,993	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	5,931	5,931	283	6,508	142	143
Residential Real Estate	4,106	3,349	605	1,751	66	70
Farmland	398	398	31	574	8	7
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	10,744	9,916	1,077	11,353	216	220
Total						
Commercial	493	493	99	1,330	6	14
Agricultural	50	45	-	53	(4)	6
Commercial Construction	9,420	3,240	59	5,340	2	2
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	23,277	22,587	283	25,566	569	588
Residential Real Estate	8,835	7,302	605	6,805	216	212
Farmland	1,728	1,382	31	1,356	(11)	18
Consumer	181	173	-	215	7	10
Other	212	201	-	198	3	8

$ 44,196	$ 35,423	$ 1,077	$ 40,863	$ 788	$ 858

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Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of December 31, 2013:

December 31, 2013	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 305	$ 305	$ -	$ 216	$ 24	$ 25
Agricultural	-	-	-	10	-	-
Commercial Construction	7,856	4,750	-	4,106	35	41
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	20,121	19,253	-	13,199	494	504
Residential Real Estate	7,837	6,362	-	4,564	224	209
Farmland	303	303	-	1,859	1	1
Consumer	313	307	-	253	18	21
Other	9	9	-	2	1	1
	36,744	31,289	-	24,209	797	802
With An Allowance Recorded						
Commercial	1,453	1,453	434	1,689	15	21
Agricultural	-	-	-	-	-	-
Commercial Construction	5,923	3,472	830	5,025	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	5,874	5,874	424	11,072	157	148
Residential Real Estate	1,949	1,849	526	3,662	26	24
Farmland	1,327	1,327	85	664	45	47
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	16,526	13,975	2,299	22,112	243	240
Total						
Commercial	1,758	1,758	434	1,905	39	46
Agricultural	-	-	-	10	-	-
Commercial Construction	13,779	8,222	830	9,131	35	41
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	25,995	25,127	424	24,271	651	652
Residential Real Estate	9,786	8,211	526	8,226	250	233
Farmland	1,630	1,630	85	2,523	46	48
Consumer	313	307	-	253	18	21
Other	9	9	-	2	1	1

$ 53,270	$ 45,264	$ 2,299	$ 46,321	$ 1,040	$ 1,042

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Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

The following table details impaired loan data as of September 30, 2013:

September 30, 2013

	Unpaid Contractual Principal Balance	Impaired Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Collected
With No Related Allowance Recorded						
Commercial	$ 266	$ 265	$ -	$ 98	$ 11	$ 14
Agricultural	-	-	-	13	-	-
Commercial Construction	8,335	5,010	-	2,220	17	23
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	8,559	8,064	-	8,493	95	113
Residential Real Estate	7,378	5,830	-	2,022	157	152
Farmland	2,277	2,277	-	1,618	-	-
Consumer	295	281	-	141	12	14
Other	-	-	-	-	-	-
	27,110	21,727	-	14,605	292	316
With An Allowance Recorded						
Commercial	1,465	1,465	108	1,280	14	19
Agricultural	-	-	-	-	-	-
Commercial Construction	5,924	3,473	573	4,386	-	-
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	15,061	15,061	1,559	7,785	287	285
Residential Real Estate	2,804	2,804	774	3,331	65	64
Farmland	1,329	1,329	202	-	44	47
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
	26,583	24,132	3,216	16,782	410	415
Total						
Commercial	1,731	1,730	108	1,378	25	33
Agricultural	-	-	-	13	-	-
Commercial Construction	14,259	8,483	573	6,606	17	23
Residential Construction	-	-	-	-	-	-
Commercial Real Estate	23,620	23,125	1,559	16,278	382	398
Residential Real Estate	10,182	8,634	774	5,353	222	216
Farmland	3,606	3,606	202	1,618	44	47
Consumer	295	281	-	141	12	14
Other	-	-	-	-	-	-

$ 53,693	$ 45,859	$ 3,216	$ 31,387	$ 702	$ 731

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Part I (Continued)
Item 1 (Continued)

(3) Loans (Continued)

Troubled Debt Restructurings (TDRs) are troubled loans on which the original terms of the loan have been modified in favor of the borrower due to deterioration in the borrower's financial condition. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Loan modifications are reviewed and approved by the Company's senior lending staff, who then determine whether the loan meets the criteria for a TDR. Generally, the types of concessions granted to borrowers that are evaluated in determining whether a loan is classified as a TDR include:

Interest rate reductions – Occur when the stated interest rate is reduced to a nonmarket rate or a rate the borrower would not be able to obtain elsewhere under similar circumstances.

Amortization or maturity date changes – Result when the amortization period of the loan is extended beyond what is considered a normal amortization period for loans of similar type with similar collateral.

Principal reductions – These are often the result of commercial real estate loan workouts where two new notes are created. The primary note is underwritten based upon our normal underwriting standards and is structured so that the projected cash flows are sufficient to repay the contractual principal and interest of the newly restructured note. The terms of the secondary note vary by situation and often involve that note being charged-off, or the principal and interest payments being deferred until after the primary note has been repaid. In situations where a portion of the note is charged-off during modification there is often no specific reserve allocated to those loans. This is due to the fact that the amount of the charge-off usually represents the excess of the original loan balance over the collateral value and the Company has determined there is no additional exposure on those loans.

As discussed in Note 1, Summary of Significant Accounting Policies, once a loan is identified as a TDR, it is accounted for as an impaired loan. The Company had no unfunded commitments to lend to a customer that has a troubled debt restructured loan as of September 30, 2014. The following tables present the number of loan contracts restructured during the three month and nine month period ended September 30, 2014 and 2013. It shows the pre- and post-modification recorded investment as well as the number of contracts and the recorded investment for those TDRs modified during the previous twelve months which subsequently defaulted during the period. Loans modified in a troubled debt restructuring are considered to be in default once the loan becomes 90 days past due.

Troubled Debt Restructurings	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	# of Contracts	Pre-Modification	Post-Modification	# of Contracts	Pre-Modification	Post-Modification
Commercial Real Estate	-	$ -	$ -	2	$ 1,771	$ 1,775
Residential Real Estate	-	-	-	1	49	49
Farmland	-	-	-	1	401	401
Total Loans	-	$ -	$ -	4	$ 2,221	$ 2,225

Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013

Troubled Debt Restructurings

	# of Contracts	Pre-Modification	Post-Modification	# of Contracts	Pre-Modification	Post-Modification
Commercial Construction	-	$ -	$ -	2	229	226
Commercial Real Estate	-	-	-	1	226	226
Residential Real Estate	-	-	-	2	1,025	1,001
Total Loans	-	$ -	$ -	5	$ 1,480	$ 1,453

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(3) Loans (Continued)

The company did not have any TDRs that subsequently defaulted for the three months and the nine months ended September 30, 2014.

(4) Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses, segregated by class of loan, for the nine month period ended September 30, 2014 and September 30, 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other loan categories and periodically may result in reallocation within the provision categories.

September 30, 2014

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 1,017	$ (453)	$ 69	$ 29	$ 662
Agricultural	294	-	2	8	304
Real Estate					
Commercial Construction	1,782	(1,541)	302	499	1,042
Residential Construction	138	-	-	-	138
Commercial	4,379	(761)	109	522	4,249
Residential	3,278	(670)	27	150	2,785
Farmland	312	(234)	20	6	104
Consumer and Other					
Consumer	243	(274)	64	93	126
Other	363	-	14	1	378
	$ 11,806	$ (3,933)	$ 607	$ 1,308	$ 9,788

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(4) Allowance for Loan Losses (Continued)

September 30, 2013

	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Commercial and Agricultural					
Commercial	$ 981	$ (105)	$ 51	$ 95	$ 1,022
Agricultural	296	(27)	4	24	297
Real Estate					
Commercial Construction	1,890	(1,779)	193	1,601	1,905
Residential Construction	138	-	-	-	138
Commercial	5,163	(1,865)	293	1,677	5,268
Residential	3,406	(535)	28	481	3,380
Farmland	291	(21)	22	19	311
Consumer and Other					
Consumer	228	(333)	82	300	277
Other	344	(4)	10	3	353
	$ 12,737	$ (4,669)	$ 683	$ 4,200	$ 12,951

The loss history period used at September 30, 2014 was based on the loss rate from the eight quarters ended June 30, 2014.

During the third quarter 2013, management implemented a change to its methodology for calculating the allowance for loan losses. This change was intended to better reflect the current position of the loan portfolio. Prior to the third quarter, the allowance for loan loss calculation incorporated a qualitative factor related to improvements in credit administration. These improvements, which began in 2008, included organizational changes to credit administration, specifically related to managing past due loans, grading of loans, recognition of losses and underwriting of new loans. Primary among the organizational changes was the appointment of experienced lending officers to oversee the lending function, as well as the appointment of a chief credit officer. Management feels these organizational changes are now fully implemented, as evidenced by a lower charge-off rate, and therefore, the qualitative factor is no longer relevant. The removal of this qualitative factor did not result in a significant adjustment to the recorded allowance for loan loss balance.

The Company determines its individual reserves during its quarterly review of substandard loans. This process involves reviewing all loans with a risk grade of 6 or greater and an outstanding balance of $250,000 or more, regardless of the loans impairment classification.

Since not all loans in the substandard category are considered impaired, this quarterly review process may result in the identification of specific reserves on nonimpaired loans. Management considers those loans graded substandard, but not classified as impaired, to be higher risk loans and, therefore, makes specific allocations to the allowance for those loans if warranted. The total of such loans is $12.7 million and $5.3 million as of September 30, 2014 and 2013, respectively. Specific allowance allocations were made for these loans totaling $1.1 million and $295 thousand as of September 30, 2014 and 2013, respectively. Since these loans are not considered impaired, both the loan balance and related specific allocation are included in the “Collectively Evaluated for Impairment” column of the following tables.

At September 30, 2014, there were impaired loans totaling $4.41 million below the $250,000 review threshold which were not individually reviewed for impairment. Those loans were subject to the bank’s general loan loss reserve methodology and are included in the “Collectively Evaluated for Impairment” column of the following tables. Likewise, at September 30, 2013, impaired loans totaling $3.34 million were below the $250,000 review threshold and were subject to the bank’s general loan loss reserve methodology and are included in the “Collectively Evaluated for Impairment” column of the following tables.

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(4) Allowance for Loan Losses (Continued)

The following tables present breakdowns of the allowance for loan losses, segregated by impairment methodology for September 30, 2014 and 2013:

September 30, 2014

	Ending Allowance Balance			Ending Loan Balance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Agricultural						
Commercial	$99	$ 563	$662	$100	$ 46,381	$46,481
Agricultural	-	304	304	-	23,017	23,017
Real Estate						
Commercial Construction	59	983	1,042	3,039	47,416	50,455
Residential Construction	-	138	138	-	9,700	9,700
Commercial	283	3,966	4,249	21,348	306,150	327,498
Residential	605	2,180	2,785	5,522	198,791	204,313
Farmland	31	73	104	1,009	49,392	50,401
Consumer and Other						
Consumer	-	126	126	-	23,448	23,448
Other	-	378	378	-	7,968	7,968
Total End of Period Balance	$1,077	$ 8,711	$9,788	$31,018	$ 712,263	$743,281

September 30, 2013

	Ending Allowance Balance			Ending Loan Balance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial and Agricultural						
Commercial	$108	$ 914	$1,022	$1,555	$ 47,607	$49,162
Agricultural	-	297	297	-	17,613	17,613
Real Estate						
Commercial Construction	573	1,332	1,905	7,702	37,248	44,950
Residential Construction	-	138	138	-	4,680	4,680
Commercial	1,559	3,709	5,268	22,729	312,715	335,444
Residential	774	2,606	3,380	6,949	200,809	207,758
Farmland	202	109	311	3,583	45,705	49,288

Consumer and Other						
Consumer	-	277	277	-	26,235	26,235
Other	-	353	353	-	12,914	12,914
Total End of Period Balance	$3,216	$ 9,735	$12,951	$42,518	$ 705,526	$748,044

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(5) Other Real Estate Owned

The aggregate carrying amount of Other Real Estate Owned (OREO) at September 30, 2014 and December 31, 2013 was $10,833 and $15,502, respectively. All of the Company's other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure. The following table details the change in OREO for the nine months ended September 30, 2014 and the year ended December 31, 2013.

	Nine Months Ended September 30, 2014	Twelve Months Ended December 31, 2013
Balance, Beginning	$ 15,502	$ 15,941
Additions	2,652	10,251
Sales of OREO	(6,205)	(7,804)
Losses on Sale	(511)	(1,564)
Provision for Losses	(605)	(1,322)
Balance, Ending	$ 10,833	$ 15,502

(6) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $451 and $401 as of September 30, 2014 and December 31, 2013.

Components of interest-bearing deposits as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
Interest-Bearing Demand	$ 327,862	$ 357,291
Savings	58,626	54,095
Time, $100,000 and Over	215,332	220,673
Other Time	223,249	240,210
	$ 825,069	$ 872,269

At September 30, 2014 and December 31, 2013, the Company had brokered deposits of $25,528 and $26,580, respectively. All of these brokered deposits represent Certificate of Deposits Account Registry Service (CDARS) reciprocal deposits. The CDARS deposits are ones in which customers placed core deposits into the CDARS program for FDIC insurance coverage and the Company receives reciprocal brokered deposits in a like amount. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000 was approximately $139,964 and $143,389 as of September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014 and December 31, 2013, the scheduled maturities of certificates of deposits are as follows:

Maturity	September 30, 2014	December 31, 2013
One Year and Under	$ 309,865	$ 322,971
One to Three Years	100,619	106,946
Three Years and Over	28,097	30,966
	$ 438,581	$ 460,883

(7) Other Borrowed Money

Other borrowed money at September 30, 2014 and December 31, 2013 is summarized as follows:

	September 30, 2014	December 31, 2013
Federal Home Loan Bank Advances	$ 40,000	$ 40,000

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2017 to 2020 and interest rates ranging from 0.48 percent to 4.75 percent. As collateral on the outstanding FHLB advances, the Company has provided a blanket lien on its portfolio of qualifying residential first mortgage loans and commercial loans. At September 30, 2014 the book value of those loans pledged was approximately $93,091. At September 30, 2014 the Company had remaining credit availability from the FHLB of approximately $127,240. The Company may be required to pledge additional qualifying collateral in order to utilize the full amount of the remaining credit line.

The aggregate stated maturities of other borrowed money at September 30, 2014 are as follows:

Year	Amount
2017	$9,000
2018	20,500
2019	