OLD POINT FINANCIAL CORP
Form 10-Q
August 10, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended 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: 000-12896

OLD POINT FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

VIRGINIA	54-1265373
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 West Mellen Street, Hampton, Virginia 23663
(Address of principal executive offices) (Zip Code)

(757) 728-1200
(Registrant's telephone number, including area code)

Not Applicable
(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 o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 o

Non-accelerated filer o Smaller reporting company
(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). o Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

4,959,009 shares of common stock ($5.00 par value) outstanding as of July 31, 2015

OLD POINT FINANCIAL CORPORATION

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PART I - FINANCIAL INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	June 30, 2015	December 31, 2014
	(dollars in thousands except per share data)	
	(unaudited)	
Assets		
Cash and due from banks	$19,684	$31,081
Interest-bearing due from banks	339	833
Federal funds sold	1,033	1,391
Cash and cash equivalents	21,056	33,305
Securities available-for-sale, at fair value	132,176	139,346
Securities held-to-maturity (fair value of $88,717 and $94,406)	85,635	90,089
Restricted securities	2,866	2,293
Loans, net of allowance for loan losses of $7,397 and $7,075	564,142	528,919
Premises and equipment, net	41,865	42,075
Bank-owned life insurance	23,968	23,525
Other real estate owned, net of valuation allowance of $1,870 and $2,908	4,961	5,106
Other assets	16,833	11,622
Total assets	$893,502	$876,280
Liabilities & Stockholders' Equity		
Deposits:		
Noninterest-bearing deposits	$184,965	$186,280
Savings deposits	317,053	307,078
Time deposits	221,642	223,296
Total deposits	723,660	716,654
Overnight repurchase agreements	27,468	37,404
Term repurchase agreements	412	412
Federal Home Loan Bank advances	45,000	30,000
Accrued expenses and other liabilities	7,374	3,313
Total liabilities	803,914	787,783
Commitments and contingencies		
Stockholders' equity:		
Common stock, $5/share par value, 10,000,000 shares authorized; 4,959,009 shares issued and outstanding	24,795	24,795
Additional paid-in capital	16,392	16,392
Retained earnings	54,894	53,203
Accumulated other comprehensive loss, net	(6,493)	(5,893)

Total stockholders' equity	89,588	88,497
Total liabilities and stockholders' equity	$893,502	$876,280

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(unaudited, dollars in thousands except per share data)			
Interest and Dividend Income:				
Interest and fees on loans	$6,485	$6,122	$12,840	$12,115
Interest on due from banks	3	0	10	3
Interest on federal funds sold	1	0	1	5
Interest on securities:				
Taxable	615	962	1,301	1,967
Tax-exempt	415	426	838	855
Dividends and interest on all other securities	31	26	64	57
Total interest and dividend income	7,550	7,536	15,054	15,002
Interest Expense:				
Interest on savings deposits	57	52	109	123
Interest on time deposits	544	595	1,072	1,244
Interest on federal funds purchased, securities sold under agreements to repurchase and other borrowings	8	8	16	17
Interest on Federal Home Loan Bank advances	309	307	614	609
Total interest expense	918	962	1,811	1,993
Net interest income	6,632	6,574	13,243	13,009
Provision for loan losses	25	100	300	350
Net interest income, after provision for loan losses	6,607	6,474	12,943	12,659
Noninterest Income:				
Income from fiduciary activities	914	793	1,894	1,748
Service charges on deposit accounts	994	1,056	1,976	2,030
Other service charges, commissions and fees	1,058	1,041	2,063	1,993
Income from bank-owned life insurance	222	217	443	433
Income from Old Point Mortgage	125	6	158	31
Loss on sale of available-for-sale securities, net	0	(7)	0	(7)
Other operating income	46	47	102	87
Total noninterest income	3,359	3,153	6,636	6,315
Noninterest Expense:				
Salaries and employee benefits	5,057	4,981	10,106	9,834
Occupancy and equipment	1,304	1,205	2,631	2,319
Data processing	407	433	765	856
FDIC insurance	153	183	300	367
Customer development	161	207	315	399
Legal and audit expenses	160	153	274	277
Other outside service fees	195	152	309	271
Employee professional development	162	220	293	388
Marketing and advertising	83	127	169	251
Postage and courier	97	113	183	234

Loan expenses	58	118	83	216
Stationery and supplies	93	118	181	237
Capital stock tax	111	127	225	261
ATM and check losses	142	79	279	194
Loss (gain) on write-down/sale of other real estate owned	3	(26)	72	57
Other operating expenses	308	277	596	569
Total noninterest expense	8,494	8,467	16,781	16,730
Income before income taxes	1,472	1,160	2,798	2,244
Income tax expense	193	59	314	166
Net income	$1,279	$1,101	$2,484	$2,078
Basic earnings per share				
Weighted average shares outstanding	4,959,009	4,959,009	4,959,009	4,959,009
Net income per share of common stock	$0.26	$0.22	$0.50	$0.42
Diluted earnings per share				
Weighted average shares outstanding	4,959,009	4,959,009	4,959,009	4,959,009
Net income per share of common stock	$0.26	$0.22	$0.50	$0.42

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(unaudited, dollars in thousands)			
Net income	$1,279	$1,101	$2,484	$2,078
Other comprehensive income (loss), net of tax				
Net unrealized gains (losses) on available-for-sale securities	(1,002)	1,932	(911)	3,484
Amortization of unrealized losses on securities transferred to held-to-maturity	170	133	311	259
Other comprehensive income (loss)	(832)	2,065	(600)	3,743
Comprehensive income	$447	$3,166	$1,884	$5,821

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

(unaudited, dollars in thousands except per share data)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
SIX MONTHS ENDED JUNE 30, 2015						
Balance at beginning of period	4,959,009	$ 24,795	$ 16,392	$ 53,203	$ (5,893)	$ 88,497
Net income	0	0	0	2,484	0	2,484
Other comprehensive loss, net of tax	0	0	0	0	(600)	(600)
Cash dividends ($0.16 per share)	0	0	0	(793)	0	(793)
Balance at end of period	4,959,009	$ 24,795	$ 16,392	$ 54,894	$ (6,493)	$ 89,588
SIX MONTHS ENDED JUNE 30, 2014						
Balance at beginning of period	4,959,009	$ 24,795	$ 16,392	$ 50,376	$ (10,802)	$ 80,761
Net income	0	0	0	2,078	0	2,078
Other comprehensive income, net of tax	0	0	0	0	3,743	3,743
Cash dividends ($0.12 per share)	0	0	0	(595)	0	(595)
Balance at end of period	4,959,009	$ 24,795	$ 16,392	$ 51,859	$ (7,059)	$ 85,987

See Notes to Consolidated Financial Statements.

Old Point Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Six Months Ended June 30,	2015	2014
	(unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,484	$ 2,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,257	1,030
Provision for loan losses	300	350
Net loss on sale of available-for-sale securities	0	7
Net amortization of securities	1,111	1,125
Net loss on disposal of premises and equipment	1	0
Net loss on write-down/sale of other real estate owned	72	57
Income from bank owned life insurance	(443)	(433)
Deferred tax expense	138	130
Increase in other assets	(5,034)	(675)
Increase in other liabilities	4,061	761
Net cash provided by operating activities	3,947	4,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(42,381)	(2,275)
Proceeds from redemption (cash used in purchases) of restricted securities	(573)	85
Proceeds from maturities and calls of available-for-sale securities	40,690	170
Proceeds from maturities and calls of held-to-maturity securities	300	0
Proceeds from sales of available-for-sale securities	2,055	13,702
Paydowns on available-for-sale securities	4,918	4,796
Paydowns on held-to-maturity securities	4,021	2,701
Purchases of government-guaranteed student loans	(14,315)	0
Net increase in all other loans	(21,662)	(20,060)
Proceeds from sales of other real estate owned	522	711
Purchases of premises and equipment	(1,048)	(3,083)
Net cash used in investing activities	(27,473)	(3,253)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in noninterest-bearing deposits	(1,315)	2,764
Increase in savings deposits	9,975	6,396
Decrease in time deposits	(1,654)	(18,037)
Decrease in federal funds purchased, repurchase agreements and other borrowings, net	(9,936)	(5,497)
Increase in Federal Home Loan Bank advances	20,000	10,000
Repayment of Federal Home Loan Bank advances	(5,000)	(5,000)
Cash dividends paid on common stock	(793)	(595)
Net cash provided by (used in) financing activities	11,277	(9,969)
Net decrease in cash and cash equivalents	(12,249)	(8,792)
Cash and cash equivalents at beginning of period	33,305	31,325
Cash and cash equivalents at end of period	$ 21,056	$ 22,533
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		

Cash payments for:		
Interest	$ 1,815	$ 2,054
Income tax	$ 200	$ 360
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS		
Unrealized gain (loss) on securities available-for-sale	$ (1,381)	$ 5,271
Loans transferred to other real estate owned	$ 454	$ 892
Book value of equity securities transferred from other assets to available-for-sale	$ 0	$ 100
Amortization of unrealized loss on securities transferred to held-to-maturity	$ 471	$ 392

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of Old Point Financial Corporation (the Company) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial position at June 30, 2015 and December 31, 2014, the statements of income and comprehensive income for the three and six months ended June 30, 2015 and 2014, and the statements of changes in stockholders' equity and cash flows for the six months ended June 30, 2015 and 2014. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2014 annual report on Form 10-K. Certain previously reported amounts have been reclassified to conform to current period presentation, none of which were material in nature.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Old Point National Bank of Phoebus (the Bank) and Old Point Trust & Financial Services N.A. (Trust). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. Entities where the Company holds 20 to 50 percent of the voting rights, or has the ability to exercise significant influence, or both, are accounted for under the equity method. As discussed below, the Company consolidates entities deemed to be variable interest entities (VIEs) when it is determined to be the primary beneficiary.

NATURE OF OPERATIONS

Old Point Financial Corporation is a holding company that conducts substantially all of its operations through two subsidiaries, The Old Point National Bank of Phoebus and Old Point Trust & Financial Services, N.A. The Bank serves individual and commercial customers, the majority of which are in Hampton Roads, Virginia. As of June 30, 2015, the Bank had 18 branch offices. The Bank offers a full range of deposit and loan products to its retail and commercial customers. Trust offers a full range of services for individuals and businesses. Products and services include retirement planning, estate planning, financial planning, estate and trust administration, retirement plan administration, tax services and investment management services.

VARIABLE INTEREST ENTITIES

A legal entity is referred to as a VIE if any of the following conditions exist, which are outlined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) variable interest accounting guidance (FASB ASC 810-10-15-14): (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

Note 2. Securities

Amortized costs and fair values of securities held-to-maturity as of the dates indicated are as follows:

	Amortized	Gross	Gross	Fair

	Cost	Unrealized Gains	Unrealized Losses	Value
	(in thousands)			
June 30, 2015				
Obligations of U.S. Government agencies	$100	$ 0	$ (2)	$98
Obligations of state and political subdivisions	28,932	393	(20)	29,305
Mortgage-backed securities	56,603	2,711	0	59,314
Total	$85,635	$ 3,104	$ (22)	$88,717
December 31, 2014				
Obligations of U.S. Government agencies	$100	$ 0	$ (3)	$97
Obligations of state and political subdivisions	29,529	449	(18)	29,960
Mortgage-backed securities	60,460	3,889	0	64,349
Total	$90,089	$ 4,338	$ (21)	$94,406

Amortized costs and fair values of securities available-for-sale as of the dates indicated are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2015				
U.S. Treasury securities	$20,000	$ 0	$ 0	$20,000
Obligations of U.S. Government agencies	4,486	2	(155)	4,333
Obligations of state and political subdivisions	48,843	390	(849)	48,384
Mortgage-backed securities	56,403	0	(868)	55,535
Money market investments	746	0	0	746
Corporate bonds	3,097	7	(6)	3,098
Other marketable equity securities	100	0	(20)	80
Total	$133,675	$ 399	$ (1,898)	$132,176
December 31, 2014				
U.S. Treasury securities	$20,000	$ 0	$ 0	$20,000
Obligations of U.S. Government agencies	4,768	2	(152)	4,618
Obligations of state and political subdivisions	49,783	698	(235)	50,246
Mortgage-backed securities	61,296	34	(442)	60,888
Money market investments	719	0	0	719
Corporate bonds	2,798	3	(11)	2,790
Other marketable equity securities	100	0	(15)	85
Total	$139,464	$ 737	$ (855)	$139,346

There were no gains or losses recorded on the sale of available-for-sale securities in the three or six months ended June 30, 2015. For the three and six months ended June 30, 2014, there were no gains, and gross losses were $7 thousand.

OTHER-THAN-TEMPORARILY IMPAIRED SECURITIES
Management assesses whether the Company intends to sell or it is more-likely-than-not that the Company will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Company separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of expected future cash flows is due to factors that are not credit related, which are recognized in other comprehensive income.

The present value of expected future cash flows is determined using the best-estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best-estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds, and structural support, including subordination and guarantees.

The Company has a process in place to identify debt securities that could potentially have a credit or interest-rate related impairment that is other-than-temporary. This process involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts, and cash flow projections as indicators of credit issues. On a quarterly basis, management reviews all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. Management considers relevant facts and circumstances in evaluating whether a credit or interest-rate related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (a) the extent and length of time the fair value has been below cost; (b) the reasons for the decline in value; (c) the financial position and access to capital of the issuer, including the current and future impact of any specific events; and (d) for fixed maturity securities, the Company's intent to sell a security or whether it is more-likely-than-not the Company will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity, and for equity securities, the Company's ability and intent to hold the security for a period of time that allows for the recovery in value.

The Company has not recorded impairment charges through income on securities for the three or six months ended June 30, 2015 or the year ended December 31, 2014.

TEMPORARILY IMPAIRED SECURITIES

The following table shows the number of securities with unrealized losses, and the gross unrealized losses and fair value of the Company's investments with unrealized losses that are deemed to be temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of the dates indicated.

	June 30, 2015						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Debt securities:							
Obligations of U.S. Government agencies	$0	$0	$155	$4,031	$155	$4,031	1
Obligations of state and political subdivisions	568	20,987	281	3,850	849	24,837	45
Mortgage-backed securities	868	55,535	0	0	868	55,535	8
Corporate bonds	4	1,395	2	298	6	1,693	13
Other marketable equity securities	0	0	20	80	20	80	1
Total securities available-for-sale	$1,440	$77,917	$458	$8,259	$1,898	$86,176	68
Securities Held-to-Maturity							
Obligations of U.S. Government agencies	$0	$0	$2	$98	$2	$98	1
Obligations of state and political subdivisions	15	2,684	5	535	20	3,219	6
Total securities held-to-maturity	$15	$2,684	$7	$633	$22	$3,317	7
Total securities	$1,455	$80,601	$465	$8,892	$1,920	$89,493	75

	December 31, 2014						
	Less Than Twelve Months		More Than Twelve Months		Total		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Number of Securities
	(dollars in thousands)						
Securities Available-for-Sale							
Debt securities:							
U.S. Treasury securities	$0	$20,000	$0	$0	$0	$20,000	1
Obligations of U.S. Government agencies	0	0	152	4,316	152	4,316	1
Obligations of state and political subdivisions	2	604	233	11,951	235	12,555	24
Mortgage-backed securities	62	16,589	380	32,104	442	48,693	6
Corporate bonds	3	1,096	8	792	11	1,888	14
Other marketable equity securities	15	85	0	0	15	85	1
Total securities available-for-sale	$82	$38,374	$773	$49,163	$855	$87,537	47

Securities Held-to-Maturity							
Obligations of U.S. Government agencies	$0	$0	$3	$97	$3	$97	1
Obligations of state and political subdivisions	2	1,261	16	1,203	18	2,464	6
Total securities held-to-maturity	$2	$1,261	$19	$1,300	$21	$2,561	7
Total securities	$84	$39,635	$792	$50,463	$876	$90,098	54

Certain investments within the Company's portfolio had unrealized losses at June 30, 2015 and December 31, 2014, as shown in the tables above. The unrealized losses were caused by increases in market interest rates. Because the Company does not intend to sell the investments and management believes it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2015 or December 31, 2014.

Restricted Securities
The restricted security category is comprised of stock in the Federal Home Loan Bank of Atlanta (FHLB) and the Federal Reserve Bank (FRB). These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and the securities lack a market. Therefore, FHLB and FRB stock is carried at cost and evaluated for impairment. When evaluating these stocks for impairment, their value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. Restricted stock is viewed as a long-term investment and management believes that the Company has the ability and the intent to hold this stock until its value is recovered.

Note 3. Loans and the Allowance for Loan Losses

The following is a summary of the balances in each class of the Company's loan portfolio as of the dates indicated:

	June 30, 2015	December 31, 2014
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$95,940	$91,318
Commercial	279,108	287,531
Construction	15,594	9,082
Second mortgages	14,910	13,403
Equity lines of credit	46,909	43,662
Total mortgage loans on real estate	452,461	444,996
Commercial loans	39,999	37,698
Consumer loans	53,141	30,493
Other	25,938	22,807
Total loans	571,539	535,994
Less: Allowance for loan losses	(7,397)	(7,075)
Loans, net of allowance and deferred fees (1)	$564,142	$528,919

(1) Deferred loan fees totaled $412 thousand and $473 thousand at June 30, 2015 and December 31, 2014, respectively.

Overdrawn deposit accounts are reclassified as loans and included in the Other category in the table above. Overdrawn deposit accounts totaled $575 thousand and $541 thousand at June 30, 2015 and December 31, 2014, respectively.

CREDIT QUALITY INFORMATION
The Company uses internally-assigned risk grades to estimate the capability of borrowers to repay the contractual obligations of their loan agreements as scheduled or at all. The Company's internal risk grade system is based on experiences with similarly graded loans. Credit risk grades are updated at least quarterly as additional information becomes available, at which time management analyzes the resulting scores to track loan performance.

The Company's internally assigned risk grades are as follows:

- Pass: Loans are of acceptable risk.
- Other Assets Especially Mentioned (OAEM): Loans have potential weaknesses that deserve management's close attention.
- Substandard: Loans reflect significant deficiencies due to several adverse trends of a financial, economic or managerial nature.
-

- Doubtful: Loans have all the weaknesses inherent in a substandard loan with added characteristics that make collection or liquidation in full based on currently existing facts, conditions and values highly questionable or improbable.
- Loss: Loans have been charged off because they are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

The following table presents credit quality exposures by internally assigned risk ratings as of the dates indicated:

Credit Quality Information
As of June 30, 2015
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$94,425	$0	$ 1,515	$95,940
Commercial	263,804	10,426	4,878	279,108
Construction	14,356	0	1,238	15,594
Second mortgages	14,562	0	348	14,910
Equity lines of credit	46,636	0	273	46,909
Total mortgage loans on real estate	433,783	10,426	8,252	452,461
Commercial loans	36,958	0	3,041	39,999
Consumer loans	53,111	0	30	53,141
Other	25,938	0	0	25,938
Total	$549,790	$10,426	$ 11,323	$571,539

Credit Quality Information
As of December 31, 2014
(in thousands)

	Pass	OAEM	Substandard	Total
Mortgage loans on real estate:				
Residential 1-4 family	$89,480	$0	$ 1,838	$91,318
Commercial	272,654	10,602	4,275	287,531
Construction	8,026	0	1,056	9,082
Second mortgages	13,306	0	97	13,403
Equity lines of credit	42,976	0	686	43,662
Total mortgage loans on real estate	426,442	10,602	7,952	444,996
Commercial loans	36,007	1,669	22	37,698
Consumer loans	30,463	0	30	30,493
Other	22,807	0	0	22,807
Total	$515,719	$12,271	$ 8,004	$535,994

As of June 30, 2015 and December 31, 2014, the Company did not have any loans internally classified as Loss or Doubtful.

AGE ANALYSIS OF PAST DUE LOANS BY CLASS

All classes of loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Interest and fees continue to accrue on past due loans until the date the loan is placed in nonaccrual status, if applicable. The following table includes an aging analysis of the recorded investment in past due loans as of the dates indicated. Also included in the table below are loans that are 90 days or more past due as to interest and principal and still accruing interest, because they are well-secured and in the process of collection. Loans in nonaccrual status that are also past due are included in the aging categories in the table below.

Age Analysis of Past Due Loans as of June 30, 2015

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$342	$97	$439	$878	$95,062	$95,940	$ 221
Commercial	795	231	194	1,220	277,888	279,108	0
Construction	0	0	477	477	15,117	15,594	0
Second mortgages	58	0	247	305	14,605	14,910	0
Equity lines of credit	50	0	39	89	46,820	46,909	39
Total mortgage loans on real estate	1,245	328	1,396	2,969	449,492	452,461	260
Commercial loans	168	0	0	168	39,831	39,999	0
Consumer loans	979	606	2,854	4,439	48,702	53,141	2,853
Other	53	2	3	58	25,880	25,938	3
Total	$2,445	$936	$4,253	$7,634	$563,905	$571,539	$ 3,116

(1) For purposes of this table, Total Current Loans includes loans that are 1 - 29 days past due.

In the table above, the consumer category includes student loans with principal amounts that are 97 - 98% guaranteed by the federal government. The past due portion of these guaranteed loans totaled $4.4 million at June 30, 2015.

Age Analysis of Past Due Loans as of December 31, 2014

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Total Current Loans (1)	Total Loans	Recorded Investment > 90 Days Past Due and Accruing
	(in thousands)						
Mortgage loans on real estate:							
Residential 1-4 family	$1,043	$55	$792	$1,890	$89,428	$91,318	$ 0
Commercial	31	0	432	463	287,068	287,531	0
Construction	0	0	499	499	8,583	9,082	0
Second mortgages	81	32	168	281	13,122	13,403	107
Equity lines of credit	49	0	0	49	43,613	43,662	0
Total mortgage loans on real estate	1,204	87	1,891	3,182	441,814	444,996	107
Commercial loans	195	0	10	205	37,493	37,698	10

Consumer loans	1,099	323	1,019	2,441	28,052	30,493	1,019
Other	51	3	5	59	22,748	22,807	5
Total	$2,549	$413	$2,925	$5,887	$530,107	$535,994	$ 1,141

(1) For purposes of this table, Total Current Loans includes loans that are 1 - 29 days past due.

In the table above, the consumer category includes student loans with principal amounts that are 97 - 98% guaranteed by the federal government. The past due portion of these guaranteed loans totaled $2.4 million at December 31, 2014.

Although the portion of the student loan portfolio that is 90 days or more past due would normally be considered impaired, the Company does not include these loans in its impairment analysis due to the government guarantee (which includes both principal and interest) and the small size of the individual loans.

NONACCRUAL LOANS
The Company generally places commercial loans (including construction loans and commercial loans secured and not secured by real estate) in nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loan reaches 90 days past due, unless the credit is well-secured and in the process of collection.

Under regulatory rules, consumer loans, which are loans to individuals for household, family and other personal expenditures, and consumer loans secured by real estate (including residential 1 - 4 family mortgages, second mortgages, and equity lines of credit) are not required to be placed in nonaccrual status. Although consumer loans and consumer loans secured by real estate are not required to be placed in nonaccrual status, the Company may elect to place these loans in nonaccrual status, if necessary to avoid a material overstatement of interest income. Generally, consumer loans secured by real estate are placed in nonaccrual status only when payments are 120 days past due.

Generally, consumer loans not secured by real estate are placed in nonaccrual status only when part of the principal has been charged off. If a charge-off has not occurred sooner for other reasons, a consumer loan not secured by real estate will generally be placed in nonaccrual status when payments are 120 days past due. These loans are charged off or written down to the net realizable value of the collateral when deemed uncollectible, when classified as a "loss," when repayment is unreasonably protracted, when bankruptcy has been initiated, or when the loan is 120 days or more past due unless the credit is well-secured and in the process of collection.

When management places a loan in nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted for by the cash or cost recovery method, until it qualifies for return to accrual status or is charged off. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, or when the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments for at least six months.

The following table presents loans in nonaccrual status by class of loan as of the dates indicated:

Nonaccrual Loans by Class		
	June 30, 2015	December 31, 2014
	(in thousands)	
Mortgage loans on real estate		
Residential 1-4 family	$315	$ 924
Commercial	2,536	4,086
Construction	478	499
Second mortgages	247	61
Total	$3,576	$ 5,570

The following table presents the interest income that the Company would have earned under the original terms of its nonaccrual loans and the actual interest recorded by the Company on nonaccrual loans for the periods presented:

	Six Months Ended June 30,	
	2015	2014

	(in thousands)	
Interest income that would have been recorded under original loan terms	$110	$369
Actual interest income recorded for the period	97	170
Reduction in interest income on nonaccrual loans	$13	$199

TROUBLED DEBT RESTRUCTURINGS
The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who are experiencing financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reduction in the interest rate below current market rates for borrowers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The Company defines a TDR as nonperforming if the TDR is in nonaccrual status or is 90 days or more past due and still accruing interest at the report date.

When the Company modifies a loan, management evaluates any possible impairment as stated in the impaired loan section below.

The following table presents TDRs during the period indicated, by class of loan. There were no troubled debts restructured in the three or six months ended June 30, 2015 or the three months ended June 30, 2014.

Troubled Debt Restructurings by Class
For the Six Months Ended June 30, 2014
(dollars in thousands)

	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification	Current Investment on June 30, 2014
Mortgage loans on real estate:				
Residential 1-4 family	1	$ $276	$ $276	$ $272
Construction	1	103	103	103
Second mortgages	1	89	89	88
Total	3	$ $468	$ $468	$ $463

All loans restructured in the first six months of 2014 were given below-market rates for debt with similar risk characteristics. At June 30, 2015 and December 31, 2014, the Company had no outstanding commitments to disburse additional funds on any TDR. Also at June 30, 2015 and December 31, 2014, the Company had $216 thousand and $446 thousand in loans secured by residential 1 - 4 family real estate that were in the process of foreclosure.

The following table presents TDRs for the periods indicated for which there was a payment default where the default occurred within twelve months of restructuring. The Company considers a TDR in default when any of the following occurs: the loan, as restructured, becomes 90 days or more past due; the loan is moved to nonaccrual status following the restructure; the loan is restructured again under terms that would qualify it as a TDR if it were not already so classified; or any portion of the loan is charged off. In the first and second quarters of 2015 and the second quarter of 2014, there were no defaulting TDRs where the default occurred within twelve months of restructuring.

Restructurings that Subsequently Defaulted
For the Six Months Ended June 30, 2014
(in thousands)
Mortgage loans on real estate:

Residential 1-4 family	$94

The TDR in the table above is factored into the determination of the allowance for loan losses as of the period indicated. This loan is included in the impaired loan analysis, as discussed below.

IMPAIRED LOANS

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts when due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans and loans modified in a TDR. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole or remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, when foreclosure is probable, instead of the discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is in nonaccrual status, all payments are applied to principal under the cost-recovery method. For financial statement purposes, the recorded investment in the loan is the actual principal balance reduced by payments that would otherwise have been applied to interest. When reporting information on these loans to the applicable customers, the unpaid principal balance is reported as if payments were applied to principal and interest under the original terms of the loan agreements. Therefore, the unpaid principal balance reported to the customer would be higher than the recorded investment in the loan for financial statement purposes. When the ultimate collectability of the total principal of the impaired loan is not in doubt and the loan is in nonaccrual status, contractual interest is credited to interest income when received under the cash-basis method.

The following table includes the recorded investment and unpaid principal balances (a portion of which may have been charged off) for impaired loans with the associated allowance amount, if applicable, as of the dates presented. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized for the periods presented. The average balances are calculated based on daily average balances.

Impaired Loans by Class
(in thousands)

	As of June 30, 2015				For the six months ended June 30, 2015	
	Unpaid Principal Balance	Recorded Investment Without Valuation Allowance	Recorded Investment With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$1,926	$1,438	$ 456	$ 111	$2,053	$ 45
Commercial	11,201	6,040	3,464	139	9,616	230
Construction	578	477	100	57	593	3
Second mortgages	600	377	194	6	603	9
Total mortgage loans on real estate	$14,305	$8,332	$ 4,214	$ 313	$12,865	$ 287
Commercial loans	1,503	1,175	329	11	1,626	46
Consumer loans	13	13	0	0	13	1
Total	$15,821	$9,520	$ 4,543	$ 324	$14,504	$ 334

Impaired Loans by Class
(in thousands)

	As of December 31, 2014				For the Year Ended December 31, 2014	
	Unpaid Principal Balance	Recorded Investment Without Valuation Allowance	Recorded Investment With Valuation Allowance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Mortgage loans on real estate:						
Residential 1-4 family	$2,898	$2,083	$ 646	$ 91	$4,099	$ 126
Commercial	11,766	4,729	5,322	163	10,669	449
Construction	1,157	623	534	270	2,431	55
Second mortgages	506	195	282	178	470	25
Total mortgage loans on real estate	$16,327	$7,630	$ 6,784	$ 702	$17,669	$ 655

Commercial loans	0	0	0	0	37	0
Consumer loans	14	14	0	0	26	1
Total	$16,341	$7,644	$ 6,784	$ 702	$17,732	$ 656

MONITORING OF LOANS AND EFFECT OF MONITORING FOR THE ALLOWANCE FOR LOAN LOSSES
Loan officers are responsible for continual portfolio analysis and prompt identification and reporting of problem loans, which includes assigning a risk grade to each applicable loan at its origination and revising such grade as the situation dictates. Loan officers maintain frequent contact with borrowers, which should enable the loan officer to identify potential problems before other personnel. In addition, meetings with loan officers and upper management are held to discuss problem loans and review risk grades. Nonetheless, in order to avoid over-reliance upon loan officers for problem loan identification, the Company's loan review system provides for review of loans and risk grades by individuals who are independent of the loan approval process. Risk grades and historical loss rates (determined by migration analysis) by risk grades are used as a component of the calculation of the allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES
Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and probable losses inherent in the loan portfolio. The Company segments the loan portfolio into categories as defined by Schedule RC-C of the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income Form 041 (Call Report). Loans are segmented into the following pools: commercial, real estate-construction, real estate-mortgage, consumer and other loans. The Company also sub-segments the real estate-mortgage segment into four classes: residential 1-4 family, commercial real estate, second mortgages and equity lines of credit.

The Company uses an internally developed risk evaluation model in the estimation of the credit risk process. The model and assumptions used to determine the allowance are independently validated and reviewed to ensure that the theoretical foundation, assumptions, data integrity, computational processes and reporting practices are appropriate and properly documented.

Each portfolio segment has risk characteristics as follows:

- Commercial: Commercial loans carry risks associated with the successful operation of a business or project, in addition to other risks associated with the ownership of a business. The repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
- Real estate-construction: Construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may at any point in time be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be the loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Real estate-mortgage: Residential mortgage loans and equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. Commercial real estate loans carry risks associated with the successful operation of a business if owner occupied. If non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts.
- Consumer loans: Consumer loans carry risks associated with the continued credit-worthiness of the borrowers and the value of the collateral. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.
- Other loans: Other loans are loans to mortgage companies, loans for purchasing or carrying securities, and loans to insurance, investment and finance companies. These loans carry risks associated with the successful operation of a business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time, depend on interest rates or fluctuate in active trading markets.

Each segment of the portfolio is pooled by risk grade or by days past due. Loans not secured by real estate and made to individuals for household, family and other personal expenditures are segmented into pools based on days past due, while all other loans, including loans to consumers that are secured by real estate, are segmented by risk grades. A historical loss percentage is then calculated by migration analysis and applied to each pool. The migration analysis applied to all pools is able to track the risk grading and historical performance of individual loans throughout a number of periods set by management, which provides management with information regarding trends (or migrations) in a particular loan segment. At December 31, 2014 and June 30, 2015, management used twelve-quarter migration periods.

Management also provides an allocated component of the allowance for loans that are specifically identified that may be impaired, and are individually analyzed for impairment. An allocated allowance is established when the discounted value of expected future cash flows from the impaired loan (or the collateral value or observable market price of the impaired loan) is lower than the carrying value of that loan.

Based on credit risk assessments and management's analysis of qualitative factors, additional loss factors are applied to loan balances. These additional qualitative factors include: economic conditions, trends in growth, loan concentrations, changes in certain loans, changes in underwriting, changes in management and changes in the legal and regulatory environment.

ALLOWANCE FOR LOAN LOSSES BY SEGMENT

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $7.4 million adequate to cover loan losses inherent in the loan portfolio at June 30, 2015.

The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the periods presented. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

ALLOWANCE FOR LOAN LOSSES AND RECORDED INVESTMENT IN LOANS
(in thousands)

For the Six Months Ended June 30, 2015	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 595	$ 703	$5,347	$ 219	$211	$7,075
Charge-offs	(35)	0	(14)	(49)	(85)	(183)
Recoveries	27	1	127	23	27	205
Provision for loan losses	157	11	(158)	187	103	300
Ending balance	$ 744	$ 715	$5,302	$ 380	$256	$7,397
Ending balance individually evaluated for impairment	$ 11	$ 57	$256	$ 0	$0	$324
Ending balance collectively evaluated for impairment	733	658	5,046	380	256	7,073
Ending balance	$ 744	$ 715	$5,302	$ 380	$256	$7,397
Loan Balances:						
Ending balance individually evaluated for impairment	$ 1,504	$ 577	$11,969	$ 13	$0	$14,063
Ending balance collectively evaluated for impairment	38,495	15,017	424,898	53,128	25,938	557,476
Ending balance	$ 39,999	$ 15,594	$436,867	$ 53,141	$25,938	$571,539

For the Year Ended December 31, 2014	Commercial	Real Estate - Construction	Real Estate - Mortgage	Consumer	Other	Total
Allowance for Loan Losses:						
Balance at the beginning of period	$ 350	$ 662	$5,357	$ 294	$168	$6,831
Charge-offs	(286)	(51)	(563)	(163)	(175)	(1,238)
Recoveries	55	173	524	64	66	882
Provision for loan losses	476	(81)	29	24	152	600
Ending balance	$ 595	$ 703	$5,347	$ 219	$211	$7,075
Ending balance individually evaluated for impairment	$ 0	$ 270	$432	$ 0	$0	$702
Ending balance collectively evaluated for impairment	595	433	4,915	219	211	6,373

Ending balance	$ 595	$ 703	$5,347	$219	$211	$7,075
Loan Balances:						
Ending balance individually evaluated for impairment	$ 0	$ 1,157	$13,257	$14	$0	$14,428
Ending balance collectively evaluated for impairment	37,698	7,925	422,657	30,479	22,807	521,566
Ending balance	$ 37,698	$ 9,082	$435,914	$30,493	$22,807	$535,994

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Note 4. Low-Income Housing Tax Credits
The Company was invested in 4 separate housing equity funds at June 30, 2015 and 3 separate funds at December 31, 2014. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia; develop and implement strategies to maintain projects as low-income housing; deliver Federal Low Income Housing Credits to investors; allocate tax losses and other possible tax benefits to investors; and preserve and protect project assets.

The investments in these funds were recorded as other assets on the consolidated balance sheets and were $4.3 million and $722 thousand at June 30, 2015 and December 31, 2014, respectively. The expected terms of these investments and the related tax benefits run through 2032. During the six months ended June 30, 2015 and 2014, the Company recognized tax credits and other tax benefits related to these investments of $221 thousand and $208 thousand, respectively. Total projected tax credits to be received for 2015 are $314 thousand, which is based on the most recent quarterly estimates received from the funds. Additional capital calls expected for the funds totaled $3.7 million and $2.7 million at June 30, 2015 and December 31, 2014, respectively, and are recorded in accrued expenses and other liabilities on the consolidated balance sheet at June 30, 2015.

Note 5. Share-Based Compensation
Share-based compensation arrangements include stock options, restricted stock awards, performance-based awards, stock appreciation rights and employee stock purchase plans. Accounting standards require all share-based payments to employees to be valued using a fair value method on the date of grant and to be expensed based on that fair value over the applicable vesting period.

Historically, the Company has only granted share-based compensation in the form of stock options. There were no options granted in the first six months of 2015.

On March 9, 2008, the Company's 1998 Stock Option Plan expired. Options to purchase 76,210 shares of common stock were outstanding under the Company's 1998 Stock Option Plan at June 30, 2015. The exercise price of each option equals the market price of the Company's common stock on the date of the grant and each option's maximum term is ten years.

Stock option activity for the six months ended June 30, 2015 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2015	81,210	$ 20.05		
Granted	0	0		
Exercised	0	0		
Canceled or expired	(5,000)	20.05		
Options outstanding, June 30, 2015	76,210	$ 20.05	2.30	$ 0
Options exercisable, June 30, 2015	76,210	$ 20.05	2.30	$ 0

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on June 30, 2015. This amount changes based on changes in the market value of the Company's common stock. As of June 30, 2015, the outstanding options had no intrinsic value because the exercise prices of all outstanding options were above the market value of a share of the Company's common stock.

No options were exercised during the six months ended June 30, 2015.

As of June 30, 2015, all outstanding stock options were fully vested and there was no unrecognized stock-based compensation expense.

Note 6. Pension Plan

The Company provides pension benefits for eligible participants through a non-contributory defined benefit pension plan. The plan was frozen effective September 30, 2006; therefore, no additional participants will be added to the plan. The components of net periodic pension plan cost are as follows for the periods indicated:

Three months ended June 30,	2015	2014
	(in thousands)	
Interest cost	$65	$69
Expected return on plan assets	(90)	(91)
Amortization of net loss	98	55
Net periodic pension plan cost	$73	$33

Six months ended June 30,	2015	2014
	(in thousands)	
Interest cost	$131	$137
Expected return on plan assets	(179)	(182)
Amortization of net loss	197	110
Net periodic pension plan cost	$149	$65

At June 30, 2015, management had not yet determined the amount, if any, that the Company will contribute to the plan in the year ending December 31, 2015.

Note 7. Stockholders' Equity and Earnings per Share

STOCKHOLDERS' EQUITY – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents information on amounts reclassified out of accumulated other comprehensive loss, by category, during the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,		Affected Line Item on Consolidated Statements of Income
	2015	2014	2015	2014	
	(in thousands)				
Available-for-sale securities					
Realized losses on sales of securities	$0	$(7)	$0	$(7)	Loss on sale of available-for-sale securities, net
Tax benefit	0	(2)	0	(2)	Income tax expense
	$0	$(5)	$0	$(5)	Net of tax
Securities transferred to held-to-maturity					
Amortization of unrealized loss	$($257)	$($201)	$($471)	$($392)	Interest on securities (taxable)
Tax benefit	(87)	(68)	(160)	(133)	Income tax expense
	$($170)	$($133)	$($311)	$($259)	Net of tax

The following table presents the changes in accumulated other comprehensive loss, by category, net of tax, for the periods indicated:

	Unrealized Gains (Losses) on Securities	Unrealized Losses on Securities Transferred to Held-to-Maturity	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
	(in thousands)			
Six Months Ended June 30, 2015				
Balance at beginning of period	$(78)	$ (3,386)	$(2,429)	$ (5,893)
Net change for the period	(911)	311	0	(600)
Balance at end of period	$(989)	$ (3,075)	$(2,429)	$ (6,493)
Six Months Ended June 30, 2014				
Balance at beginning of period	$(5,317)	$ (3,937)	$(1,548)	$ (10,802)
Net change for the period	3,484	259	0	3,743
Balance at end of period	$(1,833)	$ (3,678)	$(1,548)	$ (7,059)

The following table presents the change in each component of accumulated other comprehensive loss on a pre-tax and after-tax basis for the periods indicated.

	Six Months Ended June 30, 2015		
	Pretax	Tax	Net-of-Tax
	(in thousands)		
Unrealized losses on available-for-sale securities	$(1,381)	$(470)	$ (911)
Amortization of unrealized loss on securities transferred to held-to-maturity	471	160	311
Total change in accumulated other comprehensive loss	$(910)	$(310)	$ (600)

	Six Months Ended June 30, 2014		
	Pretax	Tax	Net-of-Tax
	(in thousands)		
Unrealized gains on available-for-sale securities			
Unrealized holding gains arising during the period	$5,271	$1,792	$ 3,479
Less reclassification adjustment for losses recognized in income	(7)	(2)	(5)
Net unrealized gains on securities	5,278	1,794	3,484
Market adjustment on securities transferred to held-to-maturity			
Amortization	392	133	259

Total change in accumulated other comprehensive loss	$5,670	$1,927	$ 3,743

EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, including the effect of dilutive potential common shares attributable to outstanding stock options. The Company did not include an average of 77 thousand and 151 thousand potential common shares attributable to outstanding stock options in the diluted earnings per share calculation for the first six months of 2015 and 2014, respectively, because they were antidilutive. Antidilutive shares were 76 and 150 for the second quarters of 2015 and 2014, respectively.

Note 8. Recent Accounting Pronouncements

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures". This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)", should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company is currently assessing the impact that ASU 2014-12 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity". The amendments in this ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Company does not expect the adoption of ASU 2014-16 to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB ASC and improves current GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE), and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. The Company does not expect the adoption of ASU 2015-02 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued 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." The amendments in this ASU provide 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. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this ASU are effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115." The amendments in ASU 2015-08 amend various Securities and Exchange Commission paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

Note 9. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topics of FASB ASU 2010-06 and FASB ASU 2011-04, the fair value of a financial instrument is the price that would be received in the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value can be a reasonable point within a range that is most representative of fair value under current market conditions.

In estimating the fair value of assets and liabilities, the Company relies mainly on two models. The first model, used by the Company's bond accounting service provider, determines the fair value of securities. Securities are priced based on an evaluation of observable market data, including benchmark yield curves, reported trades, broker/dealer quotes, and issuer spreads. Pricing is also impacted by credit information about the issuer, perceived market movements, and current news events impacting the individual sectors. For assets other than securities and for all liabilities, fair value is determined using the Company's asset/liability modeling software. The software uses current yields, anticipated yield changes, and estimated duration of assets and liabilities to calculate fair value.

In accordance with ASC 820, "Fair Value Measurements and Disclosures," the Company groups its financial assets and financial liabilities generally measured at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 –	Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2 –	Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3 –	Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Debt and equity securities with readily determinable fair values that are classified as "available-for-sale" are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's available-for-sale securities are considered to be Level 2 securities.

The following table presents the balances of certain assets measured at fair value on a recurring basis as of the dates indicated:

		Fair Value Measurements at June 30, 2015 Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Available-for-sale securities				
U.S. Treasury securities	$ 20,000	$ 0	$ 20,000	$ 0
Obligations of U.S. Government agencies	4,333	0	4,333	0
Obligations of state and political subdivisions	48,384	0	48,384	0
Mortgage-backed securities	55,535	0	55,535	0
Money market investments	746	0	746	0
Corporate bonds	3,098	0	3,098	0
Other marketable equity securities	80	0	80	0
Total available-for-sale securities	$ 132,176	$ 0	$ 132,176	$ 0

		Fair Value Measurements at December 31, 2014 Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Available-for-sale securities				
U.S. Treasury securities	$ 20,000	$ 0	$ 20,000	$ $0
Obligations of U.S. Government agencies	4,618	0	4,618	0
Obligations of state and political subdivisions	50,246	0	50,246	0
Mortgage-backed securities	60,888	0	60,888	0
Money market investments	719	0	719	0
Corporate bonds	2,790	0	2,790	0
Other marketable equity securities	85	0	85	0
Total available-for-sale securities	$ 139,346	$ 0	$ 139,346	$ $0

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS
Under certain circumstances, adjustments are made to the fair value for assets and liabilities although they are not measured at fair value on an ongoing basis.

Impaired loans
Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of fair value and loss associated with impaired loans can be based on the observable market price of the loan, the fair value of the collateral securing the loan, or the present value of the loan's expected future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable, with the vast majority of the collateral in real estate.

The value of real estate collateral is determined utilizing an income, market, or cost valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company. In the case of loans with lower balances, the Company may obtain a real estate evaluation instead of an appraisal. Evaluations utilize many of the same techniques as appraisals, and are typically performed by independent appraisers. Once received, appraisals and evaluations are reviewed by trained staff independent of the lending function to verify consistency and reasonability. Appraisals and evaluations are based on significant unobservable inputs, including but not limited to: adjustments made to comparable properties, judgments about the condition of the subject property, the availability and suitability of comparable properties, capitalization rates, projected income of the subject or comparable properties, vacancy rates, projected depreciation rates, and the state of the local and regional economy. The Company may also elect to make additional reductions in the collateral value based on management's best judgment, which represents another source of unobservable inputs. Because of the subjective nature of collateral valuation, impaired loans are considered Level 3.

Impaired loans may be secured by collateral other than real estate. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). If a loan is not collateral-dependent, its impairment may be measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate. Because the loan is discounted at its effective rate of interest, rather than at a market rate, the loan is not considered to be held at fair value and is not included in the tables below. Collateral-dependent impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as part of the provision for loan losses on the Consolidated Statements of Income.

Other Real Estate Owned (OREO)

Loans are transferred to OREO when the collateral securing them is foreclosed on. The measurement of gain or loss associated with OREOs is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. If there is a contract for the sale of a property, and management reasonably believes the transaction will be consummated in accordance with the terms of the contract, fair value is based on the sale price in that contract (Level 1). If management has recent information about the sale of identical properties, such as when selling multiple condominium units on the same property, the remaining units would be valued based on the observed market data (Level 2). Lacking either a contract or such recent data, management would obtain an appraisal or evaluation of the value of the collateral as discussed above under Impaired Loans (Level 3). After the asset has been booked, a new appraisal or evaluation is obtained when management has reason to believe the fair value of the property may have changed and no later than two years after the last appraisal or evaluation was received. Any fair value adjustments to OREOs below the original book value are recorded in the period incurred and expensed against current earnings.

The following table presents the assets carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded. Assets are shown by class of loan and by level in the fair value hierarchy, as of the dates indicated. Certain impaired loans are valued by the present value of the loan's expected future cash flows, discounted at the interest rate of the loan rather than at a market rate. These loans are not carried on the consolidated balance sheets at fair value and, as such, are not included in the table below.

		Carrying Value at June 30, 2015 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$189	$0	$ 0	$ 189
Commercial	176	0	0	176
Construction	43	0	0	43
Second mortgages	40	0	0	40

Total	$448	$0	$ 0	$ 448
Other real estate owned				
Residential 1-4 family	$1,332	$0	$ 0	$ 1,332
Commercial	1,154	0	0	1,154
Construction	1,590	0	0	1,590
Total	$4,076	$0	$ 0	$ 4,076

		Carrying Value at December 31, 2014 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Impaired loans				
Mortgage loans on real estate:				
Residential 1-4 family	$399	$0	$ 0	$ 399
Commercial	1,973	0	0	1,973
Construction	264	0	0	264
Second mortgages	104	0	0	104
Total	$2,740	$0	$ 0	$ 2,740
Other real estate owned				
Residential 1-4 family	$884	$0		