Virginia National Bankshares Corp
Form 10-Q
May 15, 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 March 31, 2015
[ ]	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: **000-55117**

VIRGINIA NATIONAL BANKSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**46-2331578**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
404 People Place, Charlottesville, Virginia	**22911**
(Address of principal executive offices)	**(Zip Code)**

(434) 817-8621
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of May 11, 2015:

Class of Stock	Shares Outstanding
Common Stock, Par Value $2.50	2,688,781

VIRGINIA NATIONAL BANKSHARES CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	March 31, 2015 (unaudited)	*December 31, 2014
ASSETS		
Cash and due from banks	$ 13,388	$ 12,834
Federal funds sold	8,796	41,273
Securities:		
Available for sale, at fair value	154,674	141,816
Restricted securities, at cost	1,586	1,565
Total securities	156,260	143,381
Loans	340,645	313,254
Allowance for loan losses	(3,404)	(3,164)
Loans, net	337,241	310,090
Premises and equipment, net	9,335	9,465
Other real estate owned, net of valuation allowance	1,177	1,177
Bank owned life insurance	13,141	13,034
Accrued interest receivable and other assets	4,581	5,799
Total assets	$ 543,919	$ 537,053
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	$ 163,556	$ 152,107
Interest-bearing	83,253	93,208
Money market deposit accounts	101,148	94,310
Certificates of deposit and other time deposits	113,687	117,094
Total deposits	461,644	456,719
Securities sold under agreements to repurchase	19,514	17,995
Accrued interest payable and other liabilities	1,178	1,707
Total liabilities	482,336	476,421
Shareholders' equity:		
Preferred stock, $2.50 par value, 2,000,000 shares authorized, no shares outstanding	-	-
Common stock, $2.50 par value, 10,000,000 shares authorized; 2,688,781 and 2,688,336 shares issued and outstanding on March 31, 2015 and December 31, 2014	6,722	6,721
Capital surplus	27,902	27,889
Retained earnings	26,192	25,978
Accumulated other comprehensive income	767	44
Total shareholders' equity	61,583	60,632
Total liabilities and shareholders' equity	$ 543,919	$ 537,053

* Derived from audited Consolidated Financial Statements

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	For the three months ended March 31, 2015 **(Unaudited)**	March 31, 2014 **(Unaudited)**
Interest and dividend income:		
Loans, including fees	$ 3,262	$ 3,189
Federal funds sold	23	19
Investment securities:		
Taxable	582	524
Tax exempt	116	119
Dividends	21	21
Other	7	3
Total interest and dividend income	4,011	3,875
Interest expense:		
Demand and savings deposits	57	50
Certificates and other time deposits	167	167
Federal funds purchased and securities sold under agreements to repurchase	12	9
Total interest expense	236	226
Net interest income	3,775	3,649
Provision for loan losses	317	-
Net interest income after provision for loan losses	3,458	3,649
Non-interest income:		
Trust income	449	492
Customer service fees	234	215
Debit/credit card and ATM fees	180	173
Earnings/increase in value of bank owned life insurance	108	107
Royalty income	45	-
Gains on sales of securities	22	13
Other	146	77
Total non-interest income	1,184	1,077
Non-interest expense:		
Salaries and employee benefits	2,316	2,236
Net occupancy	496	492
Equipment	130	146
Other	1,176	1,291
Total non-interest expense	4,118	4,165
Income before income taxes	524	561
Provision for income taxes	109	55
Net income	$ 415	$ 506
Earnings per common share, basic	$ 0.15	$ 0.19
Earnings per common share, diluted	$ 0.15	$ 0.19

See Notes to Consolidated Financial Statements.

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	For the three months ended March 31, 2015	March 31, 2014
Net income	$ 415	$ 506
Other comprehensive income		
Unrealized gain on securities, net of tax of $380 and $295 for the three months ended March 31, 2015 and 2014	738	574
Reclassification adjustment net of tax of ($7) and ($4) for the three months ended March 31, 2015 and 2014	(15)	(9)
Total other comprehensive income	723	565
Total comprehensive income	$ 1,138	$ 1,071

See Notes to Consolidated Financial Statements.

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(dollars in thousands, except per share data)
(unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013	$ 6,725	$ 27,915	$ 24,747	$ (1,431)	$ 57,956
Stock option/grant expense	-	19	-	-	19
Cash dividend ($0.05 per share)	-	-	(134)	-	(134)
Net income	-	-	506	-	506
Other comprehensive income	-	-	-	565	565
Balance, March 31, 2014	$ 6,725	$ 27,934	$ 25,119	$ (866)	$ 58,912
Balance, December 31, 2014	$ 6,721	$ 27,889	$ 25,978	$ 44	$ 60,632
Stock options exercised	3	20	-	-	23
Stock purchased under stock repurchase plan	(2)	(16)	-	-	(18)
Stock option expense	-	9	-	-	9
Cash dividend ($0.075 per share)	-	-	(201)	-	(201)
Net income	-	-	415	-	415
Other comprehensive income	-	-	-	723	723
Balance, March 31, 2015	$ 6,722	$ 27,902	$ 26,192	$ 767	$ 61,583

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the three months ended March 31, 2015	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 415	$ 506
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	317	-
Net amortization and accretion of securities	196	164
Gains on sales of securities	(22)	(13)
Earnings/increase in value of bank owned life insurance	(108)	(107)
Depreciation and amortization	296	288
Stock option/stock grant expense	9	19
Writedown of other real estate owned	-	18
Losses on sale of other real estate owned	-	18
Decrease in accrued interest receivable and other assets	845	11,308
Decrease in accrued interest payable and other liabilities	(529)	(6,786)
Net cash provided by operating activities	1,419	5,415
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale securities	(26,770)	(12,027)
Net (increase) decrease in restricted investments	(21)	144
Proceeds from maturities, calls and principal payments of available for sale securities	11,533	7,067
Proceeds from sale of available for sale securities	3,302	1,515
Net (increase) decrease in loans	(27,468)	7,881
Proceeds from sale of other real estate owned	-	177
Purchase of bank premises and equipment	(166)	(75)
Net cash (used in) provided by investing activities	(39,590)	4,682
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, and money market accounts	8,332	28,667
Net (decrease) increase in certificates of deposit and other time deposits	(3,407)	994
Net increase (decrease) in securities sold under agreements to repurchase	1,519	(2,849)
Common stock repurchased	(18)	-
Proceeds from stock options exercised	23	-
Cash dividends	(201)	(134)
Net cash provided by financing activities	6,248	26,678
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (31,923)	$ 36,775
CASH AND CASH EQUIVALENTS:		
Beginning of period	$ 54,107	$ 40,072
End of period	$ 22,184	$ 76,847
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 243	$ 243
Taxes	$ 309	$ 2,073
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on available for sale securities	$ 1,096	$ 856
Transfer of loans to other real estate owned	$ -	$ 108

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2015

Note 1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Virginia National Bankshares Corporation (the Company), its subsidiary Virginia National Bank (the Bank), and the Bank s subsidiary, VNBTrust, National Association which offers services under the name VNB Wealth Management (VNBTrust or VNB Wealth). All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included.

The preparation of financial statements in conformity with GAAP and the reporting guidelines prescribed by regulatory authorities requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ 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, deferred tax assets and other real estate owned. Operating results for the three-month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company s Form 10-K for the year ended December 31, 2014. If needed, certain previously reported amounts have been reclassified to conform to current period presentation. No such reclassifications were significant.

Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU clarify 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, the amendments require 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. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. 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. 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, most industry-specific guidance, and some cost guidance included in Subtopic 605-35, Revenue Recognition Construction-Type and Production-Type Contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements.

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. 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. 2014-14, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and are intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. Early adoption is permitted provided the entity has already adopted ASU 2014-04. The adoption of the new guidance did not have a material impact on the Company s 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 any 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.

Note 2. Securities

The amortized cost and fair values of securities available for sale as of March 31, 2015 and December 31, 2014 were as follows (dollars in thousands):

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	$ 41,696	$ 385	$ (19)	$ 42,062
Corporate bonds	20,341	224	-	20,565
Asset-backed securities	2,129	-	(14)	2,115
Mortgage-backed securities/CMOs	66,588	543	(170)	66,961
Municipal bonds	22,757	269	(55)	22,971
	$ 153,511	$ 1,421	$ (258)	$ 154,674

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	$ 31,189	$ 395	$ (56)	$ 31,528
Corporate bonds	21,373	21	(118)	21,276
Asset-backed securities	2,133	-	(28)	2,105
Mortgage-backed securities/CMOs	63,327	297	(404)	63,220
Municipal bonds	23,727	157	(197)	23,687
	$ 141,749	$ 870	$ (803)	$ 141,816

The Company s portfolio of securities available for sale is comprised of fixed rate and adjustable rate bonds, whose prices move inversely with interest rates. At the end of any accounting period, the portfolio may have both unrealized gains and losses. Unrealized losses within the Company s portfolio typically occur as market interest rates rise. Such unrealized losses are considered temporary in nature. An other-than-temporary impairment (OTTI) is considered to exist if any of the following conditions are met: it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, or the Company does not expect to recover the security s entire amortized cost basis (even if the Company does not intend to sell). In the event that a security would suffer impairment for a reason that was other than temporary, the Company would be expected to write down the security s value to its new fair value, and the amount of the write down would be included in earnings as a realized loss. As of March 31, 2015, management has concluded that none of its investment securities have an OTTI based upon the information available, at this time. Additionally, management has the ability to hold any security with an unrealized loss until maturity or until such time as the value of the security has recovered from its unrealized loss position.

For the three months ended March 31, 2015, proceeds from the sales and calls of securities amounted to $7.702 million and gross net realized gains on these securities were $22 thousand. For the three months ended March 31, 2014, proceeds from the sales of securities amounted to $1.515 million and gross net realized gains on these securities were $13 thousand.

The following table summarizes all securities with unrealized losses, segregated by length of time in a continuous unrealized loss position, at March 31, 2015 and December 31, 2014 (dollars in thousands):

March 31, 2015

	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 4,995	$ (4)	$ 986	$ (15)	$ 5,981	$ (19)
Corporate bonds	-	-	-	-	-	-
Asset-backed securities	98	-	2,017	(14)	2,115	(14)
Mortgage-backed/CMOs	7,433	(6)	14,176	(164)	21,609	(170)
Municipal bonds	2,342	(23)	1,949	(32)	4,291	(55)
	$ 14,868	$ (33)	$ 19,128	$ (225)	$ 33,996	$ (258)

December 31, 2014

	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 6,375	$ (21)	$ 966	$ (35)	$ 7,341	$ (56)
Corporate bonds	13,213	(102)	3,032	(16)	16,245	(118)
Asset-backed securities	98	-	2,007	(28)	2,105	(28)
Mortgage-backed/CMOs	6,276	(35)	25,081	(369)	31,357	(404)
Municipal bonds	1,769	(19)	10,330	(178)	12,099	(197)
	$ 27,731	$ (177)	$ 41,416	$ (626)	$ 69,147	$ (803)

Securities having carrying values of $31.058 million at March 31, 2015 were pledged as collateral to secure public deposits and securities sold under agreement to repurchase. At December 31, 2014, securities having carrying values of $23.799 million were similarly pledged.

Restricted securities are securities with limited marketability and consist of stock in the Federal Reserve Bank of Richmond (FRB), the Federal Home Loan Bank of Atlanta (FHLB), and CBB Financial Corporation (CBBFC), the holding company for Community Bankers Bank, totaling $1.586 million as of March 31, 2015 and 1.565 million as of December 31, 2014. These restricted securities are carried at cost.

Note 3. Loans

The composition of the loan portfolio by loan classification at March 31, 2015 and December 31, 2014 appears below (dollars in thousands).

	March 31 2015	December 31 2014
Commercial		
Commercial and industrial - organic	$ 47,684	$ 46,125
Commercial and industrial - syndicated	26,655	14,815
Total commercial and industrial	74,339	60,940
Real estate construction and land		
Residential construction	324	337
Other construction and land	12,317	11,575
Total construction and land	12,641	11,912
Real estate mortgages		
1-4 family residential	61,720	60,162
Home equity lines of credit	23,983	25,498
Multifamily	23,154	26,462
Commercial owner occupied	54,769	60,868
Commercial non-owner occupied	76,655	54,012
Total real estate mortgage	240,281	227,002
Consumer		
Consumer revolving credit	3,845	3,428
Consumer all other credit	9,539	9,972
Total consumer	13,384	13,400
Total loans	340,645	313,254
Less: Allowance for loan losses	(3,404)	(3,164)
Net loans	$ 337,241	$ 310,090

Accounting guidance requires certain disclosures about investments in impaired loans, the allowance for loan losses and interest income recognized on impaired loans. A loan is considered impaired when it is probable that the Company will be unable to collect all principal and interest amounts when due according to the contractual terms of the loan agreement. Factors involved in determining impairment include, but are not limited to, expected future cash flows, financial condition of the borrower, and current economic conditions.

Generally, loans are placed on non-accrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other non-accrual loans is recognized only to the extent of interest payments received.

Troubled Debt Restructurings (TDRs) are considered impaired loans. TDRs occur when the Company agrees to modify the original terms of a loan by granting a concession that it would not otherwise consider due to the deterioration in the financial condition of the borrower. These concessions are done in an attempt to improve the paying capacity of the borrower, and in some cases to avoid foreclosure, and are made with the intent to restore the loan to a performing status once sufficient payment history can be demonstrated. These concessions could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

Following is a breakdown by class of the loans classified as impaired loans as of March 31, 2015 and December 31, 2014 (dollars in thousands). These loans are reported at their recorded investment, which is the carrying amount of the loan as reflected on the Company s balance sheet, net of charge-offs and other amounts applied to reduce the net book balance. Average recorded investment in impaired loans is computed using an average of month-end balances for these loans for either the three months ended March 31, 2015 or the twelve months ended December 31, 2014. Interest income recognized is for the three months ended March 31, 2015 or the twelve months ended December 31, 2014.

March 31, 2015	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Other construction and land	$ 66	$ 107	$ -	$ 67	$ -
1-4 family residential mortgages	1,043	1,063	-	811	6
Commercial owner occupied real estate	1,093	1,093	-	1,097	12
Impaired loans with a valuation allowance	-	-	-	-	-
Total impaired loans	$ 2,202	$ 2,263	$ -	$ 1,975	$ 18

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Other construction and land	$ 69	$ 109	$ -	$ 79	$ 1
1-4 family residential mortgages	525	545	-	437	16
Home equity lines of credits	-	-	-	50	3
Commercial owner occupied real estate	1,103	1,103	-	1,124	60
Commercial non-owner occupied real estate	-	-	-	46	-
Impaired loans with a valuation allowance	-	-	-	-	-
Total impaired loans	$ 1,697	$ 1,757	$ -	$ 1,736	$ 80

Non-accrual loans are shown below by class (dollars in thousands):

	March 31, 2015	**December 31, 2014**
Other construction and land	$ 66	$ 69
1-4 family residential mortgages	145	149
Commercial non-owner occupied real estate	-	-
Total nonaccrual loans	$ 211	$ 218

The following provides a summary, by class, of TDRs that continue to accrue interest under the terms of the restructuring agreement, which are considered to be performing, and TDRs that have been placed in non-accrual status, which are considered to be nonperforming (dollars in thousands).

Troubled debt restructuring (TDRs)	March 31, 2015		December 31, 2014	
	No. of Loans	Recorded Investment	No. of	Recorded