SUMMIT FINANCIAL GROUP INC
Form 10-Q
August 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 – Q

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

For the quarterly period ended June 30, 2018
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___________ to __________.

Commission File Number 0-16587

Summit Financial Group, Inc.
(Exact name of registrant as specified in its charter)

West Virginia	55-0672148
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

300 North Main Street

Moorefield, West Virginia	26836
(Address of principal executive offices)	(Zip Code)

(304) 530-1000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer þ Non-accelerated filer o
Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Common Stock, $2.50 par value

12,470,334 shares outstanding as of August 3, 2018

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Item 1. Financial Statements

Consolidated Balance Sheets (unaudited)

Dollars in thousands, except per share amounts	June 30, 2018 (unaudited)	December 31, 2017 (*)
ASSETS		
Cash and due from banks	$8,314	$9,641
Interest bearing deposits with other banks	38,097	42,990
Cash and cash equivalents	46,411	52,631
Securities available for sale	283,221	328,723
Other investments	12,844	14,934
Loans held for sale	135	—
Loans, net	1,617,373	1,593,744
Property held for sale	21,606	21,470
Premises and equipment, net	36,017	34,209
Accrued interest receivable	8,425	8,329
Goodwill and other intangible assets	26,665	27,513
Cash surrender value of life insurance policies	41,932	41,358
Other assets	13,023	11,329
Total assets	$2,107,652	$2,134,240
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing	$217,134	$217,493
Interest bearing	1,422,862	1,383,108
Total deposits	1,639,996	1,600,601
Short-term borrowings	202,429	250,499
Long-term borrowings	20,743	45,751
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	15,016	16,295
Total liabilities	1,897,773	1,932,735
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1.00 par value, authorized 250,000 shares	—	—
Common stock and related surplus, $2.50 par value; authorized 20,000,000 shares; issued: 2018 - 12,470,334 shares and 2017 - 12,465,296 shares; outstanding: 2018 - 12,373,747 shares and 2017 - 12,358,562	81,572	81,098
Unallocated common stock held by Employee Stock Ownership Plan - 2018 - 96,587 shares and 2017 - 106,734 shares	(1,043)	(1,152)
Retained earnings	130,336	119,827
Accumulated other comprehensive (loss) income	(986)	1,732
Total shareholders' equity	209,879	201,505

Total liabilities and shareholders' equity	$2,107,652	$2,134,240

(*) - Derived from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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Consolidated Statements of Income (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Dollars in thousands, (except per share amounts)	2018	2017	2018	2017
Interest income				
Interest and fees on loans				
Taxable	$20,820	$19,550	$41,043	$35,100
Tax-exempt	142	167	286	288
Interest and dividends on securities				
Taxable	1,240	1,330	2,612	2,459
Tax-exempt	1,063	1,019	2,082	1,741
Interest on interest bearing deposits with other banks	134	165	274	317
Total interest income	23,399	22,231	46,297	39,905
Interest expense				
Interest on deposits	4,309	2,634	7,858	5,024
Interest on short-term borrowings	1,242	1,079	2,648	2,073
Interest on long-term borrowings and subordinated debentures	573	670	1,258	1,331
Total interest expense	6,124	4,383	11,764	8,428
Net interest income	17,275	17,848	34,533	31,477
Provision for loan losses	750	250	1,250	500
Net interest income after provision for loan losses	16,525	17,598	33,283	30,977
Noninterest income				
Insurance commissions	1,013	988	2,126	1,957
Trust and wealth management fees	672	595	1,339	695
Service charges on deposit accounts	1,116	1,064	2,207	1,747
Bank card revenue	801	683	1,550	1,216
Realized securities gains, net	87	90	819	32
Bank owned life insurance income	249	253	523	503
Other	210	243	459	346
Total noninterest income	4,148	3,916	9,023	6,496
Noninterest expenses				
Salaries, commissions and employee benefits	6,922	6,758	13,744	11,945
Net occupancy expense	840	826	1,672	1,393
Equipment expense	1,071	1,031	2,153	1,766
Professional fees	385	354	719	639
Advertising and public relations	188	148	291	256
Amortization of intangibles	413	429	848	526
FDIC premiums	240	295	480	505
Bank card expense	361	381	696	718
Foreclosed properties expense, net of losses	350	224	675	590
Litigation settlement	—	—	—	9,900
Merger-related expenses	—	1,455	—	1,564
Other	1,965	2,035	3,771	3,151
Total noninterest expenses	12,735	13,936	25,049	32,953
Income before income tax expense	7,938	7,578	17,257	4,520
Income tax expense	1,658	2,300	3,534	858
Net income	$6,280	$5,278	$13,723	$3,662

Basic earnings per common share	$0.51	$0.43	$1.11	$0.32
Diluted earnings per common share	$0.51	$0.43	$1.10	$0.32

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Consolidated Statements of Comprehensive Income (unaudited)

Dollars in thousands	For the Three Months Ended June 30, 2018	2017
Net income	$6,280	$5,278
Other comprehensive (loss) income:		
Net unrealized gain on cashflow hedge of: 2018 - $496, net of deferred taxes of $119; 2017 - $270, net of deferred taxes of $100	377	170
Net unrealized (loss) gain on securities available for sale of: 2018 - ($625), net of deferred taxes of ($150) and reclassification adjustment for net realized gains included in net income of $87, net of tax of $21; 2017 - $2,983, net of deferred taxes of $1,104 and reclassification adjustment for net realized gains included in net income of $90, net of tax of $33	(475)	1,879
Net unrealized gain on other post-retirement benefits of: 2017 - $348, net of deferred taxes of $129	—	219
Total other comprehensive (loss) income	(98)	2,268
Total comprehensive income	$6,182	$7,546

Dollars in thousands	For the Six Months Ended June 30, 2018	2017
Net income	$13,723	$3,662
Other comprehensive (loss) income:		
Net unrealized gain on cashflow hedge of: 2018 - $1,437, net of deferred taxes of $345; 2017 - $1,059, net of deferred taxes of $392	1,092	667
Net unrealized (loss) gain on securities available for sale of: 2018 - ($5,013), net of deferred taxes of ($1,203) and reclassification adjustment for net realized gains included in net income of $819, net of tax of $197; 2017 - $3,286, net of deferred taxes of $1,216 and reclassification adjustment for net realized gains included in net income of $32, net of tax of $12	(3,810)	2,070
Net unrealized gain on other post-retirement benefits of: 2017 - $348, net of deferred taxes of $129	—	219
Total other comprehensive (loss) income	(2,718)	2,956
Total comprehensive income	$11,005	$6,618

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Consolidated Statements of Shareholders’ Equity (unaudited)

Dollars in thousands (except per share amounts)	Common Stock and Related Surplus	Unallocated Common Stock Held by ESOP	Retained Earnings	Accumulated Other Compre-hensive (Loss)	Total Share-holders' Equity
Balance, December 31, 2017	$ 81,098	$ (1,152)	$ 119,827	$ 1,732	$ 201,505
Six Months Ended June 30, 2018					
Net income	—	—	13,723	—	13,723
Other comprehensive loss	—	—	—	(2,718)	(2,718)
Exercise of stock options - 200 shares	4	—	—	—	4
Share-based compensation expense	193	—	—	—	193
Unallocated ESOP shares committed to be released - 10,147 shares	151	109	—	—	260
Common stock issuances from reinvested dividends - 4,838 shares	126	—	—	—	126
Common stock cash dividends declared ($0.26 per share)	—	—	(3,214)	—	(3,214)
Balance, June 30, 2018	$ 81,572	$ (1,043)	$ 130,336	$ (986)	$ 209,879
Balance, December 31, 2016	$ 46,757	$ (1,583)	$ 113,448	$ (3,262)	$ 155,360
Six Months Ended June 30, 2017					
Net income	—	—	3,662	—	3,662
Other comprehensive income	—	—	—	2,956	2,956
Exercise of stock options - 2,000 shares	12	—	—	—	12
Share-based compensation expense	184	—	—	—	184
Unallocated ESOP shares committed to be released - 19,711 shares	240	213	—	—	453
Acquisition of First Century Bankshares, Inc. - 1,537,912 shares, net of issuance costs	32,968	—	—	—	32,968
Common stock issuances from reinvested dividends - 3,133 shares	69	—	—	—	69
Common stock cash dividends declared ($0.22 per share)	—	—	(2,532)	—	(2,532)
Balance, June 30, 2017	$ 80,230	$ (1,370)	$ 114,578	$ (306)	$ 193,132

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Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Six Months Ended June 30, 2018	June 30, 2017
Cash Flows from Operating Activities		
Net income	$13,723	$3,662
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,058	851
Provision for loan losses	1,250	500
Share-based compensation expense	193	184
Deferred income tax benefit	(193)	(157)
Loans originated for sale	(7,764)	(7,948)
Proceeds from sale of loans	7,775	7,220
Gains on loans held for sale	(146)	(149)
Realized securities gains, net	(819)	(32)
Gain on disposal of assets	(16)	(80)
Write-downs of foreclosed properties	420	447
Amortization of securities premiums, net	1,872	2,054
Accretion related to acquisitions, net	(310)	(573)
Amortization of intangibles	848	526
Earnings on bank owned life insurance	(574)	(538)
Increase in accrued interest receivable	(96)	(343)
Increase in other assets	(1,210)	(371)
Increase (decrease) in other liabilities	1,358	(1,634)
Net cash provided by operating activities	17,369	3,619
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	1,050	2,010
Proceeds from sales of securities available for sale	69,235	111,176
Principal payments received on securities available for sale	13,393	16,355
Purchases of securities available for sale	(44,243)	(97,230)
Purchases of other investments	(5,938)	(10,879)
Proceeds from redemptions of other investments	7,397	9,830
Net loan originations	(26,200)	(4,609)
Purchases of premises and equipment	(2,866)	(4,175)
Proceeds from disposal of premises and equipment	12	—
Proceeds from sales of repossessed assets & property held for sale	1,225	3,375
Cash and cash equivalents acquired in acquisition, net of $14,989 cash consideration paid	—	39,053
Net cash provided by investing activities	13,065	64,906
Cash Flows from Financing Activities		
Net increase (decrease) in demand deposit, NOW and savings accounts	25,848	(6,279)
Net increase (decrease) in time deposits	13,661	(25,763)
Net decrease in short-term borrowings	(48,071)	(26,043)
Repayment of long-term borrowings	(25,008)	(910)
Net proceeds from issuance of common stock	126	(90)
Exercise of stock options	4	12
Dividends paid on common stock	(3,214)	(2,532)
Net cash used in financing activities	(36,654)	(61,605)
(Decrease) increase in cash and cash equivalents	(6,220)	6,920

Cash and cash equivalents:		
Beginning	52,631	46,616
Ending	$46,411	$53,536

(Continued)

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Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Six Months Ended June 30, 2018	June 30, 2017
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$11,713	$8,388
Income taxes	$4,066	$2,621
Supplemental Disclosures of Noncash Investing and Financing Activities		
Real property and other assets acquired in settlement of loans	$906	$188
Supplemental Disclosures of Noncash Transactions Included in Acquisition		
Assets acquired	$—	$350,894
Liabilities assumed	$—	$361,045

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NOTE 1. BASIS OF PRESENTATION

We, Summit Financial Group, Inc. and subsidiaries, prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual year end financial statements. In our opinion, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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 materially from these estimates.

The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year. The consolidated financial statements and notes included herein should be read in conjunction with our 2017 audited financial statements and Annual Report on Form 10-K.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Recently Adopted

We adopted ASU 2014-09, Revenue from Contracts with Customers: Topic 606, and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. We concluded that ASU 2014-09 did not materially change the method in which we currently recognize revenue for these revenue streams. We also completed our evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on our evaluation, we determined that any classification changes are immaterial to both revenue and expense.

ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 was effective for us on January 1, 2018 and did not have a significant impact on our financial statements. In accordance with (iv) above, we measure the fair value of our loan portfolio using exit price notion (see Note 3. Fair Value Measurements).

Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

While we are currently assessing the impact of the adoption of this pronouncement, we expect the primary impact to our consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under non-cancellable operating leases on our consolidated balance sheets resulting in the recording of right of use assets and lease obligations. Our current minimum commitments under long-term operating leases are disclosed in Note 12, Commitments and Contingencies.
During June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. We will adopt the guidance by the first quarter of 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. In this regard, we have thus far formed a cross-functional implementation team comprised of personnel from risk management, operations and information technology, loan administration and finance and engaged a third-party to assist us. The implementation team has developed a project plan and is staying informed about the broader industry's perspectives and insights, and is identifying and researching key decision points. We are in the process of preparing a readiness assessment and gap analysis relative to required data which will serve to direct our areas of focus. We will continue to evaluate the impact the new standard will have on our consolidated financial statements as the final impact will be dependent, among other items, upon the loan portfolio composition and credit quality at the adoption date, as well as economic conditions, financial models used and forecasts at that time.
In March of 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset date), rather than contractual maturity date as currently required under GAAP. The ASU does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the ASU. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. The adoption of the new pronouncement will not have a significant impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities which will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. We are assessing the impact of ASU 2017-12 and do not expect it to have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments expand the scope of Topic 718 to include share-based payments issued to non-employees for goods or services, which were previously excluded. The amendments will align the accounting for share-based payments to nonemployees and employees more similarly and are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of ASU 2018-07 to have a material impact on our consolidated financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

Dollars in thousands	Balance at June 30, 2018	Fair Value Measurements Using: Level 1	Level 2	Level 3
Securities available for sale				
U.S. Government sponsored agencies	$28,682	$—	$28,682	$ —
Mortgage backed securities:				
Government sponsored agencies	76,505	—	76,505	—
Nongovernment sponsored entities	821	—	821	—
State and political subdivisions	18,975	—	18,975	—
Corporate debt securities	10,725	—	10,725	—
Other equity securities	137	—	137	—
Tax-exempt state and political subdivisions	147,376	—	147,376	—
Total securities available for sale	$283,221	$—	$283,221	$ —
Derivative financial assets				
Interest rate swaps	$927	$—	$927	$ —
Derivative financial liabilities				
Interest rate swaps	$620	$—	$620	$ —

Dollars in thousands	Balance at December 31, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Securities available for sale				
U.S. Government sponsored agencies	$ 31,613	$—	$31,613	$ —
Mortgage backed securities:				
Government sponsored agencies	121,321	—	121,321	—
Nongovernment sponsored entities	2,077	—	2,077	—
State and political subdivisions	17,677	—	17,677	—
Corporate debt securities	16,245	—	16,245	—
Other equity securities	137	—	137	—
Tax-exempt state and political subdivisions	139,653	—	139,653	—
Total securities available for sale	$ 328,723	$—	$328,723	$ —
Derivative financial assets				
Interest rate swaps	$ 312	$—	$312	$ —
Derivative financial liabilities				
Interest rate swaps	$ 2,057	$—	$2,057	$ —

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

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Dollars in thousands	Balance at June 30, 2018	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$135	$—	$135	$ —
Collateral-dependent impaired loans				
Construction and development	$648	$—	$648	$ —
Residential real estate	785	—	785	—
Total collateral-dependent impaired loans	$1,433	$—	$1,433	$ —
Property held for sale				
Commercial real estate	$1,733	$—	$1,733	$ —
Construction and development	16,673	—	16,673	—
Residential real estate	439	—	439	—
Total property held for sale	$18,845	$—	$18,845	$ —

Dollars in thousands	Balance at December 31, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ —	$—	$—	$ —
Collateral-dependent impaired loans				
Commercial real estate	$ 518	$—	$518	$ —
Construction and development	940	—	940	—
Residential real estate	203	—	203	—
Total collateral-dependent impaired loans	$ 1,661	$—	$1,661	$ —
Property held for sale				
Commercial real estate	$ 1,493	$—	$1,493	$ —
Construction and development	16,177	—	16,177	—
Residential real estate	322	—	322	—
Total property held for sale	$ 17,992	$—	$17,992	$ —

The carrying values and estimated fair values of our financial instruments are summarized below:

	June 30, 2018		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$46,411	$46,411	$—	$46,411	$—
Securities available for sale	283,221	283,221	—	283,221	—
Other investments	12,844	12,844	—	12,844	—
Loans held for sale, net	135	135	—	135	—

Loans, net	1,617,373	1,611,346	—	1,433	1,609,913
Accrued interest receivable	8,425	8,425	—	8,425	—
Derivative financial assets	927	927	—	927	—
	$1,969,336	$1,963,309	$—	$353,396	$1,609,913
Financial liabilities					
Deposits	$1,639,996	$1,634,320	$—	$1,634,320	$—
Short-term borrowings	202,429	202,429	—	202,429	—
Long-term borrowings	20,743	20,929	—	20,929	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	967	967	—	967	—
Derivative financial liabilities	620	620	—	620	—
	$1,884,344	$1,878,854	$—	$1,878,854	$—

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Dollars in thousands	December 31, 2017		Fair Value Measurements Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$52,631	$52,631	$—	$52,631	$—
Securities available for sale	328,723	328,723	—	328,723	—
Other investments	14,934	14,934	—	14,934	—
Loans held for sale, net	—	—	—	—	—
Loans, net	1,593,744	1,592,821	—	1,661	1,591,160
Accrued interest receivable	8,329	8,329	—	8,329	—
Derivative financial assets	312	312	—	312	—
	$1,998,673	$1,997,750	$—	$406,590	$1,591,160
Financial liabilities					
Deposits	$1,600,601	$1,620,033	$—	$1,620,033	$—
Short-term borrowings	250,499	250,499	—	250,499	—
Long-term borrowings	45,751	46,530	—	46,530	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	987	987	—	987	—
Derivative financial liabilities	2,057	2,057	—	2,057	—
	$1,919,484	$1,939,695	$—	$1,939,695	$—

NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended June 30,					
	2018			2017		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$6,280			$5,278		
Basic earnings per share	$6,280	12,366,522	$0.51	$5,278	12,288,514	$0.43
Effect of dilutive securities:						
Stock options		7,814			10,593	
Stock appreciation rights (SARs)		57,648			80	
Diluted earnings per share	$6,280	12,431,984	$0.51	$5,278	12,299,187	$0.43

	For the Six Months Ended June 30,					
	2018			2017		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$13,723			$3,662		
Basic earnings per share	$13,723	12,362,679	$1.11	$3,662	11,517,721	$0.32

Effect of dilutive securities:						
Stock options		7,668			11,549	
Stock appreciation rights (SARs)		55,405			17,455	
Diluted earnings per share	$13,723	12,425,751	$1.10	$3,662	11,546,725	$0.32

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Stock option and stock appreciation right (SAR) grants are disregarded in this computation if they are determined to be anti-dilutive. There were no anti-dilutive stock options for the three and six months ended June 30, 2018. Our anti-dilutive stock options for the three and six months ended June 30, 2017 were 23,400 shares. Our anti-dilutive SARs for the three and six months ended June 30, 2018 and June 30, 2017 were 87,615.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at June 30, 2018 and December 31, 2017 are summarized as follows:

	June 30, 2018			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$28,830	$224	$372	$28,682
Residential mortgage-backed securities:				
Government-sponsored agencies	77,142	662	1,299	76,505
Nongovernment-sponsored entities	820	6	5	821
State and political subdivisions				
General obligations	6,086	—	208	5,878
Other revenues	13,468	1	372	13,097
Corporate debt securities	10,893	—	168	10,725
Total taxable debt securities	137,239	893	2,424	135,708
Tax-exempt debt securities				
State and political subdivisions				
General obligations	74,920	741	512	75,149
Water and sewer revenues	21,858	203	105	21,956
Lease revenues	12,366	162	4	12,524
Sales tax revenues	5,235	32	29	5,238
Other revenues	32,664	226	381	32,509
Total tax-exempt debt securities	147,043	1,364	1,031	147,376
Equity securities	137	—	—	137
Total securities available for sale	$284,419	$2,257	$3,455	$283,221

	December 31, 2017			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$31,260	$498	$145	$31,613
Residential mortgage-backed securities:				
Government-sponsored agencies	120,948	1,276	903	121,321
Nongovernment-sponsored entities	2,045	39	7	2,077
State and political subdivisions				
General obligations	6,090	—	55	6,035
Other revenues	11,657	47	62	11,642
Corporate debt securities	16,375	—	130	16,245
Total taxable debt securities	188,375	1,860	1,302	188,933
Tax-exempt debt securities				
State and political subdivisions				
General obligations	65,560	1,530	198	66,892
Water and sewer revenues	23,108	566	3	23,671
Lease revenues	13,024	451	2	13,473
Electric revenues	6,205	128	—	6,333
Sales tax revenues	4,126	140	—	4,266
University revenues	5,272	38	9	5,301
Other revenues	19,101	616	—	19,717
Total tax-exempt debt securities	136,396	3,469	212	139,653
Equity securities	137	—	—	137
Total securities available for sale	$324,908	$5,329	$1,514	$328,723

The below information is relative to the five states where issuers with the highest volume of state and political subdivision securities held in our portfolio are located. We own no such securities of any single issuer which we deem to be a concentration.

	June 30, 2018			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
California	$20,384	$215	$ 154	$ 20,445
Texas	19,978	226	97	20,107
Michigan	15,800	108	216	15,692
New York	13,605	127	176	13,556
West Virginia	12,119	92	97	12,114

Management performs pre-purchase and ongoing analysis to confirm that all investment securities meet applicable credit quality standards.

The maturities, amortized cost and estimated fair values of securities at June 30, 2018, are summarized as follows:

Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$28,893	$28,891

Due from one to five years	49,496	49,248
Due from five to ten years	46,075	44,936
Due after ten years	159,818	160,009
Equity securities	137	137
	$ 284,419	$ 283,221

The proceeds from sales, calls and maturities of securities available for sale, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the six months ended June 30, 2018 and 2017 are as follows:

Dollars in thousands	Proceeds from Sales	Calls and Maturities	Principal Payments	Gross realized Gains	Losses
For the Six Months Ended June 30,					
2018					
Securities available for sale	$69,235	$ 1,050	$ 13,393	$1,637	$ 818
2017					
Securities available for sale	$111,176	$ 2,010	$ 16,355	$230	$ 198

We held 117 available for sale securities having an unrealized loss at June 30, 2018. We do not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost bases. We believe that this decline in value is primarily attributable to the lack of market liquidity and to changes in market interest rates and not due to credit quality. Accordingly, no other-than-temporary impairment charge to earnings is warranted at this time.

Provided below is a summary of securities available for sale which were in an unrealized loss position at June 30, 2018 and December 31, 2017.

	June 30, 2018					
	Less than 12 months		12 months or more		Total	
Dollars in thousands	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$19,787	$ (318)	$2,003	$ (54)	$21,790	$ (372)
Residential mortgage-backed securities:						
Government-sponsored agencies	17,563	(559)	15,311	(740)	32,874	(1,299)
Nongovernment-sponsored entities	13	—	585	(5)	598	(5)
State and political subdivisions:						
General obligations	5,878	(208)	—	—	5,878	(208)
Other revenues	11,474	(344)	781	(28)	12,255	(372)
Corporate debt securities	960	(40)	3,661	(128)	4,621	(168)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	26,460	(370)	3,898	(142)	30,358	(512)
Water and sewer revenues	5,960	(105)	—	—	5,960	(105)
Lease revenues	1,121	(4)	—	—	1,121	(4)
Sales tax revenues	2,265	(29)	—	—	2,265	(29)
Other revenues	21,495	(381)	—	—	21,495	(381)
Total temporarily impaired securities	112,976	(2,358)	26,239	(1,097)	139,215	(3,455)
Total	$112,976	$ (2,358)	$26,239	$ (1,097)	$139,215	$ (3,455)

Dollars in thousands	December 31, 2017 Less than 12 months Estimated Fair Value	Unrealized Loss	12 months or more Estimated Fair Value	Unrealized Loss	Total Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$10,864	$ (91)	$2,394	$ (54)	$13,258	$ (145)
Residential mortgage-backed securities:						
Government-sponsored agencies	32,156	(269)	22,584	(634)	54,740	(903)
Nongovernment-sponsored entities	5	—	810	(7)	815	(7)
State and political subdivisions:						
General obligations	6,035	(55)	—	—	6,035	(55)
Other revenues	7,532	(62)	—	—	7,532	(62)
Corporate debt securities	3,008	(39)	1,659	(91)	4,667	(130)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	2,999	(20)	9,937	(178)	12,936	(198)
Water and sewer revenues	282	(3)	—	—	282	(3)
Lease revenues	569	(2)	—	—	569	(2)
University revenues	1,749	(9)	—	—	1,749	(9)
Total temporarily impaired securities	65,199	(550)	37,384	(964)	102,583	(1,514)
Total	$65,199	$ (550)	$37,384	$ (964)	$102,583	$ (1,514)

NOTE 6. LOANS

Loans are summarized as follows:

Dollars in thousands	June 30, 2018	December 31, 2017
Commercial	$171,410	$ 189,981
Commercial real estate		
Owner-occupied	262,174	250,202
Non-owner occupied	503,047	484,902
Construction and development		
Land and land development	74,018	67,219
Construction	25,711	33,412
Residential real estate		
Non-jumbo	343,044	354,101
Jumbo	66,831	62,267
Home equity	82,409	84,028
Mortgage warehouse lines	54,332	30,757
Consumer	34,249	36,202
Other	12,728	13,238
Total loans, net of unearned fees	1,629,953	1,606,309
Less allowance for loan losses	12,580	12,565
Loans, net	$1,617,373	$ 1,593,744

The outstanding balance and the recorded investment of acquired loans included in the consolidated balance sheet at June 30, 2018 and December 31, 2017 are as follows:

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	Acquired Loans					
	June 30, 2018			December 31, 2017		
Dollars in thousands	Purchased Credit Impaired	Purchased Performing	Total	Purchased Credit Impaired	Purchased Performing	Total
Outstanding balance	$5,259	$ 173,814	$179,073	$5,923	$ 220,131	$226,054
Recorded investment						
Commercial	$—	$ 11,192	$11,192	$9	$ 25,125	$25,134
Commercial real estate						
Owner-occupied	689	19,073	19,762	689	21,893	22,582
Non-owner occupied	1,319	29,153	30,472	1,837	33,293	35,130
Construction and development						
Land and land development	—	6,365	6,365	—	7,512	7,512
Construction	—	—	—	—	2,760	2,760
Residential real estate						
Non-jumbo	1,429	92,203	93,632	1,485	109,570	111,055
Jumbo	982	3,314	4,296	999	3,400	4,399
Home equity	—	2,923	2,923	—	3,311	3,311
Consumer	—	7,837	7,837	—	11,229	11,229
Other	—	135	135	—	211	211
Total recorded investment	$4,419	$ 172,195	$176,614	$5,019	$ 218,304	$223,323

The following table presents a summary of the change in the accretable yield of the purchased credit impaired ("PCI") loan portfolio for the three months and six months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Dollars in thousands	2018	2017	2018	2017
Accretable yield	$708	$245	$745	$290
Accretion	(32)	(55)	(69)	(86)
Additions for First Century Bankshares, Inc. acquisition	—	661	—	661
Reclassification of nonaccretable difference due to improvement in expected cash flows	—	—	—	—
Other changes, net	—	—	—	(14)
Accretable yield, June 30	$676	$851	$676	$851

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The following table presents the contractual aging of the recorded investment in past due loans by class as of June 30, 2018 and December 31, 2017.

	At June 30, 2018					
	Past Due					> 90 days
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	and Accruing
Commercial	$278	$191	$576	$1,045	$170,365	$ —
Commercial real estate						
Owner-occupied	55	—	437	492	261,682	—
Non-owner occupied	465	281	2,214	2,960	500,087	—
Construction and development						
Land and land development	101	168	3,229	3,498	70,520	—
Construction	—	—	—	—	25,711	—
Residential mortgage						
Non-jumbo	3,978	1,226	4,207	9,411	333,633	284
Jumbo	—	—	—	—	66,831	—
Home equity	254	9	397	660	81,749	—
Mortgage warehouse lines	—	—	—	—	54,332	—
Consumer	269	76	89	434	33,815	33
Other	—	—	—	—	12,728	—
Total	$5,400	$1,951	$11,149	$18,500	$1,611,453	$ 317

	At December 31, 2017					
	Past Due					> 90 days
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	and Accruing
Commercial	$488	$98	$229	$815	$189,166	$ —
Commercial real estate						
Owner-occupied	626	162	507	1,295	248,907	—
Non-owner occupied	369	150	2,065	2,584	482,318	237
Construction and development						
Land and land development	1,132	—	3,563	4,695	62,524	—
Construction	—	—	—	—	33,412	—
Residential mortgage						
Non-jumbo	4,220	2,379	4,451	11,050	343,051	—
Jumbo	—	—	—	—	62,267	—
Home equity	1,978	—	530	2,508	81,520	—
Mortgage warehouse lines	—	—	—	—	30,757	—
Consumer	417	196	167	780	35,422	37
Other	—	—	—	—	13,238	—
Total	$9,230	$2,985	$11,512	$23,727	$1,582,582	$ 274

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at June 30, 2018 and December 31, 2017.

Dollars in thousands	June 30, 2018	December 31, 2017
Commercial	$954	$ 696
Commercial real estate		
Owner-occupied	639	726
Non-owner occupied	2,599	2,201
Construction and development		
Land & land development	3,233	3,569
Construction	—	—
Residential mortgage		
Non-jumbo	7,443	6,944
Jumbo	—	—
Home equity	514	712
Mortgage warehouse lines	—	—
Consumer	77	201
Total	$15,459	$ 15,049

Impaired loans: Impaired loans include the following:

Loans which we risk-rate (loan relationships having aggregate balances in excess of $2.5 million, or loans exceeding $500,000 and exhibiting credit weakness) through our normal loan review procedures and which, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Risk-rated loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired.

Loans that have been modified in a troubled debt restructuring.

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring. Troubled debt restructurings typically result from our loss mitigation activities and occur when we grant a concession to a borrower who is experiencing financial difficulty in order to minimize our economic loss and to avoid foreclosure or repossession of collateral. Once restructured, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if the criteria set forth in accounting principles generally accepted in the United States are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and we would continue to report the loan in the impaired loan table below.

The following tables present loans individually evaluated for impairment at June 30, 2018 and December 31, 2017.

	June 30, 2018				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$464	$464	$ —	$266	$ 10
Commercial real estate					
Owner-occupied	4,679	4,685	—	2,714	129
Non-owner occupied	9,684	9,689	—	9,723	489
Construction and development					
Land & land development	5,007	5,007	—	5,104	112
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,602	3,612	—	3,332	152
Jumbo	3,510	3,509	—	3,514	167
Home equity	523	523	—	523	29
Mortgage warehouse lines	—	—	—	—	—
Consumer	13	13	—	14	1
Total without a related allowance	$27,482	$27,502	$ —	$25,190	$ 1,089
With a related allowance					
Commercial	$—	$—	$ —	$—	$ —
Commercial real estate					
Owner-occupied	6,737	6,737	161	6,746	274
Non-owner occupied	194	196	14	263	18
Construction and development					
Land & land development	1,077	1,078	430	1,083	54
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,989	2,989	540	2,263	100
Jumbo	829	829	109	831	49
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$11,826	$11,829	$ 1,254	$11,186	$ 495
Total					
Commercial	$27,842	$27,856	$ 605	$25,899	$ 1,086
Residential real estate	11,453	11,462	649	10,463	497
Consumer	13	13	—	14	1
Total	$39,308	$39,331	$ 1,254	$36,376	$ 1,584

The table above does not include PCI loans.

	December 31, 2017				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$243	$243	$ —	$259	$ 13
Commercial real estate					
Owner-occupied	7,109	7,111	—	5,149	265
Non-owner occupied	9,105	9,106	—	9,736	684
Construction and development					
Land & land development	5,018	5,018	—	4,743	329
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,190	4,199	—	4,214	240
Jumbo	3,555	3,554	—	3,592	228
Home equity	523	523	—	523	35
Mortgage warehouse lines	—	—	—	—	—
Consumer	17	17	—	28	3
Total without a related allowance	$29,760	$29,771	$ —	$28,244	$ 1,797
With a related allowance					
Commercial	$252	$252	$ 252	$262	$ —
Commercial real estate					
Owner-occupied	2,436	2,436	125	2,451	161
Non-owner occupied	1,338	1,344	517	676	43
Construction and development					
Land & land development	1,464	1,464	524	1,477	74
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	1,717	1,718	158	1,691	100
Jumbo	838	839	14	845	57
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$8,045	$8,053	$ 1,590	$7,402	$ 435
Total					
Commercial	$26,965	$26,974	$ 1,418	$24,753	$ 1,569
Residential real estate	10,823	10,833	172	10,865	660
Consumer	17	17	—	28	3
Total	$37,805	$37,824	$ 1,590	$35,646	$ 2,232

The table above does not include PCI loans.

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Included in impaired loans are TDRs of $27.8 million, of which $27.6 million were current with respect to restructured contractual payments at June 30, 2018, and $28.4 million, all of which were current with respect to restructured contractual payments at December 31, 2017. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

The following table presents by class the TDRs that were restructured during the three and six months ended June 30, 2018 and June 30, 2017 . Generally, the modifications were extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. All TDRs are evaluated individually for allowance for loan loss purposes.

	For the Three Months Ended June 30, 2018			For the Three Months Ended June 30, 2017		
Dollars in thousands	Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment	Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial	2	$ 157	$ 157	—	$ —	$ —
Residential real estate						
Non-jumbo	5	741	741	1	206	206
Total	7	$ 898	$ 898	1	$ 206	$ 206

	For the Six Months Ended June 30, 2018			For the Six Months Ended June 30, 2017		
Dollars in thousands	Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment	Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial	2	$ 157	$ 157	—	$ —	$ —
Residential real estate						
Non-jumbo	6	805	805	5	1,087	1,087
Total	8	$ 962	$ 962	5	$ 1,087	$ 1,087

The following table presents defaults during the stated period of TDRs that were restructured during the past twelve months. For purposes of these tables, a default is considered as either the loan was past due 30 days or more at any time during the period, or the loan was fully or partially charged off during the period.

	For the Three Months Ended June 30, 2018		For the Six Months Ended June 30, 2018	
Dollars in thousands	Number of Defaults	Recorded Investment at Default Date	Number of Defaults	Recorded Investment at Default Date
Commercial	2	$ 157	2	$ 157
Commercial real estate				
Owner-occupied	1	2,302	1	2,302
Non-owner occupied	1	341	1	341
Construction and development				
Land & land development	1	438	1	438
Residential real estate				

Non-jumbo	2		506	3		712
Total	7	$	3,744	8	$	3,950

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The following tables detail the activity regarding TDRs by loan type, net of fees, for the three and six months ended June 30, 2018, and the related allowance on TDRs.

For the Three Months Ended June 30, 2018

Dollars in thousands	Construction & Land Development			Commercial Real Estate		Residential Real Estate						
	Land & Land Develop- ment	Construc- tion	Commer- cial	Owner Occupied	Non- Owner Occupied	Non- jumbo	Jumbo	Home Equity	Mortgage Warehouse Lines	Con- sumer	Other	Total
Troubled debt restructurings												
Balance April 1, 2018	$ 2,968	$ —	$ 142	$ 9,474	$ 5,478	$ 4,519	$ 4,354	$ 523	$ —	$ 15	$ —	$ 27,473
Additions	—	—	157	—	—	741	—	—	—	—	—	898
Charge-offs	—	—	—	—	—	(55)	—	—	—	—	—	(55)
Net (paydowns) advances	(20)	—	(6)	(41)	(172)	(233)	(15)	—	—	(2)	—	(489)
Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—	—
Balance, June 30, 2018	$ 2,948	$ —	$ 293	$ 9,433	$ 5,306	$ 4,972	$ 4,339	$ 523	$ —	$ 13	$ —	$ 27,827
Allowance related to troubled debt restructurings	$ 430	$ —	$ —	$ 161	$ 14	$ 165	$ 108	$ —	$ —	$ —	$ —	$ 878

For the Six Months Ended June 30, 2018

Dollars in thousands	Construction & Land Development			Commercial Real Estate		Residential Real Estate						
	Land & Land Develop- ment	Construc- tion	Commer- cial	Owner Occupied	Non- Owner Occupied	Non- jumbo	Jumbo	Home Equity	Mortgage Warehouse Lines	Con- sumer	Other	Total
Troubled debt restructurings												
Balance January 1, 2018	$ 3,043	$ —	$ 412	$ 9,545	$ 5,234	$ 5,195	$ 4,393	$ 523	$ —	$ 18	$ —	$ 28,363
Additions	—	—	157	—	—	805	—	—	—	—	—	962
Charge-offs	—	—	—	—	—	(55)	—	—	—	—	—	(55)
Net (paydowns) advances	(95)	—	(276)	(112)	72	(973)	(54)	—	—	(5)	—	(1,443)
Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—	—
Balance, June 30, 2018	$ 2,948	$ —	$ 293	$ 9,433	$ 5,306	$ 4,972	$ 4,339	$ 523	$ —	$ 13	$ —	$ 27,827
	$ 430	$ —	$ —	$ 161	$ 14	$ 165	$ 108	$ —	$ —	$ —	$ —	$ 878

Allowance related to troubled debt restructurings

The following table presents the recorded investment in construction and development, commercial, and commercial real estate loans which are generally evaluated based upon our internal risk ratings.

Loan Risk Profile by Internal Risk Rating

	Construction and Development						Commercial Real Estate					
	Land and Land Development		Construction		Commercial		Owner Occupied		Non-Owner Occupied		Mortgage Warehouse Lines	
Dollars in thousands	6/30/2018	12/31/2017	6/30/2018	12/31/2017	6/30/2018	12/31/2017	6/30/2018	12/31/2017	6/30/2018	12/31/2017	6/30/2018	12/3
Pass	$68,747	$60,850	$25,585	$33,412	$164,582	$186,941	$255,289	$242,702	$494,277	$474,522	$54,332	$30
OLEM (Special Mention)	798	1,397	126	—	6,095	2,267	1,748	3,534	1,779	2,221	—	—
Substandard	4,473	4,972	—	—	733	773	5,137	3,966	6,991	8,159	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—
Total	$74,018	$67,219	$25,711	$33,412	$171,410	$189,981	$262,174	$250,202	$503,047	$484,902	$54,332	$30

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The following table presents the recorded investment and payment activity in consumer, residential real estate, and home equity loans, which are generally evaluated based on the aging status of the loans.

	Performing		Nonperforming	
Dollars in thousands	6/30/2018	12/31/2017	6/30/2018	12/31/2017
Residential real estate				
Non-jumbo	$335,600	$ 347,183	$7,444	$ 6,918
Jumbo	66,831	62,267	—	—
Home Equity	81,895	83,316	514	712
Consumer	34,139	35,932	110	270
Other	12,728	13,238	—	—
Total	$531,193	$ 541,936	$8,068	$ 7,900

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NOTE 7. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the six month period ended June 30, 2018 and for the year ended December 31, 2017 is as follows:

	June 30,	December 31,
Dollars in thousands	2018	2017
Balance, beginning of year	$12,565	$ 11,674
Charge-offs:		
Commercial	50	23
Commercial real estate		
Owner occupied	38	5
Non-owner occupied	500	65
Construction and development		
Land and land development	220	3
Construction	—	33
Residential real estate		
Non-jumbo	393	359
Jumbo	—	2
Home equity	25	158
Mortgage warehouse lines	—	—
Consumer	120	389
Other	139	251
Total	1,485	1,288
Recoveries:		
Commercial	13	124
Commercial real estate		
Owner occupied	13	89
Non-owner occupied	—	91
Construction and development		
Land and land development	15	278
Construction	1	—
Residential real estate		
Non-jumbo	64	134
Jumbo	—	—
Home equity	2	30
Mortgage warehouse lines	—	—
Consumer	79	82
Other	63	101
Total	250	929
Net charge-offs	1,235	359
Provision for loan losses	1,250	1,250
Balance, end of period	$12,580	$ 12,565

The following table presents the activity in the allowance for loan losses, balance in the allowance for loan losses and recorded investment in loans by portfolio segment and based on impairment during the first six months of 2018 and for the year ended 2017:

	For the Six Months Ended June 30, 2018					At June 30, 2018				At June 30, 2018			
	Allowance for loan losses					Allowance related to:				Loans			
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Loans acquired with deteriorated credit quality (PCI)	Total	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Loans acquired with deteriorated credit quality (PCI)	Total
Commercial	$ 1,303	$ (50)	$ 13	$ (329)	$ 937	$ —	$ 937	$ —	$ 937	$ 464	$ 170,946	$ —	$ 171,410
Commercial real estate													
Owner occupied	2,424	(38)	13	47	2,446	161	2,285	—	2,446	11,416	250,069	689	262,174
Non-owner occupied	4,950	(500)	—	501	4,951	14	4,932	5	4,951	9,878	491,850	1,319	503,047
Construction and development													
Land and land development	641	(220)	15	183	619	430	189	—	619	6,084	67,934	—	74,018
Construction	153	—	1	(29)	125	—	125	—	125	—	25,711	—	25,711
Residential real estate													
Non-jumbo	1,911	(393)	64	820	2,402	540	1,859	3	2,402	6,591	335,024	1,429	343,044
Jumbo	72	—	—	364	436	109	327	—	436	4,339	61,510	982	66,831
Home equity	638	(25)	2	(344)	271	—	271	—	271	523	81,886	—	82,409
Mortgage warehouse lines	—	—	—	—	—	—	—	—	—	—	54,332	—	54,332
Consumer	210	(120)	79	37	206	—	206	—	206	13	34,236	—	34,249
Other	263	(139)	63	—	187	—	187	—	187	—	12,728	—	12,728
Total	$ 12,565	$ (1,485											