FIRST NATIONAL CORP /VA/
Form 10-Q
August 14, 2015
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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, 2015

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: 0-23976

(Exact name of registrant as specified in its charter)

Virginia **(State or other jurisdiction of** **incorporation or organization)**	**54-1232965** **(I.R.S. Employer** **Identification No.)**
112 West King Street, Strasburg, Virginia **(Address of principal executive offices)**	**22657** **(Zip Code)**

(540) 465-9121

(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 x 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of August 14, 2015, 4,911,648 shares of common stock, par value $1.25 per share, of the registrant were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements
FIRST NATIONAL CORPORATION

Consolidated Balance Sheets

(in thousands, except share and per share data)

	(unaudited) June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 11,870	$ 6,043
Interest-bearing deposits in banks	99,274	18,802
Securities available for sale, at fair value	112,468	83,292
Securities held to maturity, at carrying value (fair value, 2015, $36,851; 2014, $0)	37,343	
Restricted securities, at cost	1,391	1,366
Loans held for sale	1,978	328
Loans, net of allowance for loan losses, 2015, $6,129; 2014, $6,718	385,592	371,692
Other real estate owned, net of valuation allowance, 2015, $137; 2014, $375	2,407	1,888
Premises and equipment, net	21,277	16,126
Accrued interest receivable	1,423	1,261
Bank owned life insurance	11,521	11,357
Core deposit intangibles, net	2,765	55
Other assets	6,518	5,955
Total assets	$ 695,827	$ 518,165
Liabilities and Shareholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$ 147,790	$ 104,986
Savings and interest-bearing demand deposits	322,239	237,618
Time deposits	150,853	101,734
Total deposits	$ 620,882	$ 444,338
Federal funds purchased		52
Other borrowings	13	26

Trust preferred capital notes	9,279	9,279
Accrued interest payable and other liabilities	6,214	4,906
Total liabilities	$ 636,388	$ 458,601
Shareholders Equity		
Preferred stock, $1,000 per share liquidation preference; authorized 1,000,000 shares; 14,595 shares issued and outstanding	$ 14,595	$ 14,595
Common stock, par value $1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2015, 4,910,826 shares; 2014, 4,904,577 shares	6,139	6,131
Surplus	6,899	6,835
Retained earnings	33,642	33,557
Accumulated other comprehensive loss, net	(1,836)	(1,554)
Total shareholders equity	$ 59,439	$ 59,564
Total liabilities and shareholders equity	$ 695,827	$ 518,165

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

Three months ended June 30, 2015 and 2014

(in thousands, except per share data)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Interest and Dividend Income		
Interest and fees on loans	$ 4,688	$ 4,403
Interest on deposits in banks	68	14
Interest and dividends on securities available for sale:		
Taxable interest	540	562
Tax-exempt interest	78	95
Dividends	18	21
Total interest and dividend income	$ 5,392	$ 5,095
Interest Expense		
Interest on deposits	$ 266	$ 372
Interest on federal funds purchased	1	
Interest on trust preferred capital notes	55	54
Interest on other borrowings	2	30
Total interest expense	$ 324	$ 456
Net interest income	$ 5,068	$ 4,639
Recovery of loan losses	(100)	(400)
Net interest income after recovery of loan losses	$ 5,168	$ 5,039
Noninterest Income		
Service charges on deposit accounts	$ 752	$ 643
ATM and check card fees	497	365
Wealth management fees	499	472
Fees for other customer services	184	126
Income from bank owned life insurance	90	89

Net gains on sale of securities available for sale				22
Net gains on sale of loans		50		
Other operating income		237		8
Total noninterest income	$	2,309	$	1,725
Noninterest Expense				
Salaries and employee benefits	$	3,597	$	2,554
Occupancy		339		278
Equipment		422		295
Marketing		163		126
Stationery and supplies		229		94
Legal and professional fees		431		247
ATM and check card fees		190		163
FDIC assessment		64		122
Bank franchise tax		130		105
Telecommunications expense		100		73
Data processing expense		226		134
Postage expense		80		49
Amortization expense		196		4
Other real estate owned expense (income), net		152		(70)
Other operating expense		536		374
Total noninterest expense	$	6,855	$	4,548

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

(Continued)

Three months ended June 30, 2015 and 2014

(in thousands, except per share data)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Income before income taxes	$ 622	$ 2,216
Income tax expense	178	674
Net income	$ 444	$ 1,542
Effective dividend and accretion on preferred stock	328	261
Net income available to common shareholders	$ 116	$ 1,281
Earnings per common share		
Basic	$ 0.02	$ 0.26
Diluted	$ 0.02	$ 0.26

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

Six months ended June 30, 2015 and 2014

(in thousands, except per share data)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Interest and Dividend Income		
Interest and fees on loans	$ 9,228	$ 8,618
Interest on deposits in banks	73	30
Interest and dividends on securities available for sale:		
Taxable interest	898	1,124
Tax-exempt interest	142	190
Dividends	39	42
Total interest and dividend income	$ 10,380	$ 10,004
Interest Expense		
Interest on deposits	$ 566	$ 772
Interest on federal funds purchased	2	
Interest on trust preferred capital notes	109	108
Interest on other borrowings	3	59
Total interest expense	$ 680	$ 939
Net interest income	$ 9,700	$ 9,065
Recovery of loan losses	(100)	(600)
Net interest income after recovery of loan losses	$ 9,800	$ 9,665
Noninterest Income		
Service charges on deposit accounts	$ 1,299	$ 1,273
ATM and check card fees	846	700
Wealth management fees	1,002	956
Fees for other customer services	291	213
Income from bank owned life insurance	164	163

Net gains (losses) on sale of securities available for sale		(52)		22
Net gains on sale of loans		105		
Other operating income		245		14
Total noninterest income	$	3,900	$	3,341
Noninterest Expense				
Salaries and employee benefits	$	6,722	$	5,063
Occupancy		656		593
Equipment		703		599
Marketing		260		235
Stationery and supplies		574		174
Legal and professional fees		643		449
ATM and check card fees		345		326
FDIC assessment		131		294
Bank franchise tax		252		199
Telecommunications expense		185		144
Data processing expense		413		249
Postage expense		197		89
Amortization expense		200		8
Other real estate owned expense (income), net		116		(39)
Net loss on disposal of premises and equipment				2
Other operating expense		945		776
Total noninterest expense	$	12,342	$	9,161

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

(Continued)

Six months ended June 30, 2015 and 2014

(in thousands, except per share data)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Income before income taxes	$ 1,358	$ 3,845
Income tax expense	370	1,157
Net income	$ 988	$ 2,688
Effective dividend and accretion on preferred stock	657	481
Net income available to common shareholders	$ 331	$ 2,207
Earnings per common share		
Basic	$ 0.07	$ 0.45
Diluted	$ 0.07	$ 0.45

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Comprehensive Income (Loss)

Three months ended June 30, 2015 and 2014

(in thousands)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Net income	$ 444	$ 1,542
Other comprehensive income (loss), net of tax		
Unrealized holding (losses) gains on available for sale securities, net of tax of ($457) and $239, respectively	(886)	465
Reclassification adjustment for gains included in net income, net of tax of $0 and ($7), respectively		(15)
Total other comprehensive income (loss)	(886)	450
Total comprehensive income (loss)	$ (442)	$ 1,992

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Comprehensive Income

Six months ended June 30, 2015 and 2014

(in thousands)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Net income	$ 988	$ 2,688
Other comprehensive income (loss), net of tax		
Unrealized holding (losses) gains on available for sale securities, net of tax of ($164) and $471, respectively	(316)	915
Reclassification adjustment for losses (gains) included in net income, net of tax of $18 and ($7), respectively	34	(15)
Total other comprehensive income (loss)	(282)	900
Total comprehensive income	$ 706	$ 3,588

See Notes to Consolidated Financial Statements

FIRST NATIONAL CORPORATION

Consolidated Statements of Cash Flows

Six months ended June 30, 2015 and 2014

(in thousands)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Cash Flows from Operating Activities		
Net income	$ 988	$ 2,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	566	494
Amortization of core deposit intangibles	200	8
Origination of loans held for sale	(7,781)	
Proceeds from sale of loans held for sale	6,236	
Net gains on sales of loans held for sale	(105)	
Recovery of loan losses	(100)	(600)
Provision for other real estate owned	137	86
Net (gains) losses on sale of securities available for sale	52	(22)
Net gains on sale of other real estate owned	(72)	(160)
Losses on disposal of premises and equipment		2
Income from bank owned life insurance	(164)	(163)
Accretion of discounts and amortization of premiums on securities, net	311	322
Accretion of premium on time deposits	81	
Stock-based compensation	52	
Bargain purchase gain on branch acquisition	(201)	
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(162)	44
(Increase) decrease in other assets	(302)	334
Increase (decrease) in other liabilities	1,290	(1,137)
Net cash provided by operating activities	$ 1,026	$ 1,896
Cash Flows from Investing Activities		
Proceeds from sales of securities available for sale	$	$ 3,453
Proceeds from maturities, calls, and principal payments of securities available for sale	7,690	6,247
Proceeds from maturities, calls, and principal payments of securities held to maturity	240	
Purchase of securities available for sale	(37,638)	(14,219)

Purchase of securities held to maturity	(37,602)	
Proceeds from redemption of restricted securities	638	168
Purchase of restricted securities	(663)	
Purchase of premises and equipment	(1,222)	(160)
Proceeds from sale of other real estate owned	354	1,021
Net increase in loans	(14,738)	(10,574)
Acquisition of branches, net of cash paid	179,501	
Net cash provided by (used in) investing activities	$ 96,560	$ (14,064)
Cash Flows from Financing Activities		
Net increase in demand deposits and savings accounts	$ 1,528	$ 8,370
Net decrease in time deposits	(11,867)	(7,883)
Proceeds from other borrowings	15,000	
Principal payments on other borrowings	(15,013)	(13)
Cash dividends paid on preferred stock	(657)	(379)
Cash dividends paid on common stock, net of reinvestment	(226)	(113)
Decrease in federal funds purchased	(52)	
Net cash used in financing activities	$ (11,287)	$ (18)

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FIRST NATIONAL CORPORATION

Consolidated Statements of Cash Flows

(Continued)

Six months ended June 30, 2015 and 2014

(in thousands)

	(unaudited) June 30, 2015	(unaudited) June 30, 2014
Increase (decrease) in cash and cash equivalents	$ 86,299	$ (12,186)
Cash and Cash Equivalents		
Beginning	24,845	31,508
Ending	$ 111,144	$ 19,322
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 617	$ 965
Income Taxes	$ 752	$ 321
Supplemental Disclosures of Noncash Investing and Financing Activities		
Unrealized gains on securities available for sale	$ 428	$ 1,364
Transfer from loans to other real estate owned	$ 938	$ 139
Issuance of common stock, dividend reinvestment plan	$ 17	$ 9
Transactions Related to Acquisition		
Assets acquired	$ 193,638	$
Liabilities assumed	186,819	
Net assets acquired	$ 6,819	$

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Changes in Shareholders Equity

Six months ended June 30, 2015 and 2014

(in thousands)

(unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	$ 14,564	$ 6,127	$ 6,813	$ 27,360	$ (1,304)	$ 53,560
Net income				2,688		2,688
Other comprehensive income					900	900
Cash dividends on common stock ($0.025 per share)				(122)		(122)
Issuance of 1,118 shares common stock, dividend reinvestment plan		1	8			9
Cash dividends on preferred stock				(379)		(379)
Accretion of preferred stock discount	31			(31)		
Balance, June 30, 2014	$ 14,595	$ 6,128	$ 6,821	$ 29,516	$ (404)	$ 56,656

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2014	$ 14,595	$ 6,131	$ 6,835	$ 33,557	$ (1,554)	$ 59,564
Net income				988		988
Other comprehensive loss					(282)	(282)
Cash dividends on common stock ($0.05 per share)				(246)		(246)
Stock-based compensation			52			52
Issuance of 2,067 shares common stock, dividend reinvestment plan		3	17			20
Issuance of 4,182 shares common stock, stock incentive plan		5	(5)			

Cash dividends on preferred stock				(657)		(657)
Balance, June 30, 2015	$ 14,595	$ 6,139	$ 6,899	$ 33,642	$ (1,836)	$ 59,439

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Notes to Consolidated Financial Statements

(unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of First National Corporation (the Company) and its subsidiaries, including First Bank (the Bank), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP. 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 positions at June 30, 2015 and December 31, 2014, the results of operations and comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014 and the cash flows and changes in shareholders equity for the six months ended June 30, 2015 and 2014. The statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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 ASU 2014-11 did not have an 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 does not expect the adoption of ASU 2014-12 to have an impact 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 an impact on its consolidated financial statements.

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Notes to Consolidated Financial Statements

(unaudited)

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 an 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 an 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 Accounting Standards Codification 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 an 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 an impact on its consolidated financial statements.

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Notes to Consolidated Financial Statements

(unaudited)

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 is currently assessing the impact that ASU 2015-05 will have 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 SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues, and did not have an impact on the Company s consolidated financial statements.

Note 2. Securities

The Company invests in U.S. agency and mortgage-backed securities, obligations of state and political subdivisions and corporate equity securities. Amortized costs and fair values of securities at June 30, 2015 and December 31, 2014 were as follows (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. agency and mortgage-backed securities	$ 97,013	$ 289	$ (1,082)	$ 96,220
Obligations of states and political subdivisions	16,084	253	(96)	16,241
Corporate equity securities	1	6		7
Total securities available for sale	$ 113,098	$ 548	$ (1,178)	$ 112,468

Securities held to maturity:				
U.S. agency and mortgage-backed securities	$ 30,376	$	$ (404)	$ 29,972
Obligations of states and political subdivisions	6,967	2	(90)	6,879
Total securities held to maturity	$ 37,343	$ 2	$ (494)	$ 36,851
Total securities	$ 150,441	$ 550	$ (1,672)	$ 149,319

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. agency and mortgage-backed securities	$ 67,462	$ 374	$ (807)	$ 67,029
Obligations of states and political subdivisions	16,031	325	(99)	16,257
Corporate equity securities	1	5		6
Total securities available for sale	$ 83,494	$ 704	$ (906)	$ 83,292

Notes to Consolidated Financial Statements

(unaudited)

At June 30, 2015 and December 31, 2014, investments in an unrealized loss position that were temporarily impaired were as follows (in thousands):

	June 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Securities available for sale:						
U.S. agency and mortgage-backed securities	$ 46,557	$ (537)	$ 20,815	$ (545)	$ 67,372	$ (1,082)
Obligations of states and political subdivisions	5,176	(48)	1,049	(48)	6,225	(96)
Total securities available for sale	$ 51,733	$ (585)	$ 21,864	$ (593)	$ 73,597	$ (1,178)
Securities held to maturity:						
U.S. agency and mortgage-backed securities	$ 26,882	$ (404)	$	$	$ 26,882	$ (404)
Obligations of states and political subdivisions	4,563	(90)			4,563	(90)
Total securities held to maturity	$ 31,445	$ (494)	$	$	$ 31,445	$ (494)
Total securities	$ 83,178	$ (1,079)	$ 21,864	$ (593)	$ 105,042	$ (1,672)

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Securities available for sale:						
U.S. agency and mortgage-backed securities	$ 8,677	$ (60)	$ 32,527	$ (747)	$ 41,204	$ (807)
Obligations of states and political subdivisions	715	(1)	2,841	(98)	3,556	(99)

Total securities available for sale	$ 9,392	$ (61)	$ 35,368	$ (845)	$ 44,760	$ (906)

The tables above provide information about securities that have been in an unrealized loss position for less than twelve consecutive months and securities that have been in an unrealized loss position for twelve consecutive months or more. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment is considered to be other-than-temporary if the Company (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security s entire amortized cost basis. Presently, the Company does not intend to sell any of these securities, does not expect to be required to sell these securities, and expects to recover the entire amortized cost of all the securities.

At June 30, 2015, there were forty-seven U.S. agency and mortgage-backed securities and twenty-four obligations of state and political subdivisions in an unrealized loss position. One hundred percent of the Company s investment portfolio is considered investment grade. The weighted-average re-pricing term of the portfolio was 4.7 years at June 30, 2015. At December 31, 2014, there were twenty-nine U.S. agency and mortgage-backed securities and seven obligations of states and political subdivisions in an unrealized loss position. One hundred percent of the Company s investment portfolio was considered investment grade at December 31, 2014. The weighted-average re-pricing term of the portfolio was 3.9 years at December 31, 2014. The unrealized losses at June 30, 2015 in the U.S. agency and mortgage-backed securities portfolio and the obligation of states and political subdivisions portfolio were related to changes in market interest rates and not credit concerns of the issuers.

The amortized cost and fair value of securities at June 30, 2015 by contractual maturity are shown below (in thousands). Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties. Corporate equity securities are not included in the maturity categories in the following maturity summary because they do not have a stated maturity date.

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	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$	$	$	$
Due after one year through five years	6,945	6,976		
Due after five years through ten years	21,699	21,557	10,062	9,890
Due after ten years	84,453	83,929	27,281	26,961
Corporate equity securities	1	6		
	$ 113,098	$ 112,468	$ 37,343	$ 36,851

Federal Home Loan Bank, Federal Reserve Bank and Community Bankers Bank stock are generally viewed as long-term investments and as restricted securities, which are carried at cost, because there is a minimal market for the stock. Therefore, when evaluating restricted securities for impairment, their value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider these investments to be other-than-temporarily impaired at June 30, 2015, and no impairment has been recognized. Restricted securities are not part of the securities portfolio.

The composition of restricted securities at June 30, 2015 and December 31, 2014 was as follows (in thousands):

	June 30, 2015	December 31, 2014
Federal Home Loan Bank stock	$ 466	$ 470
Federal Reserve Bank stock	875	846
Community Bankers Bank stock	50	50
	$ 1,391	$ 1,366

Note 3. Loans

Loans at June 30, 2015 and December 31, 2014 are summarized as follows (in thousands):

	June 30, 2015	December 31, 2014

Real estate loans:		
Construction and land development	$ 32,009	$ 29,475
Secured by 1-4 family residential	173,265	163,727
Other real estate loans	155,396	151,802
Commercial and industrial loans	19,319	21,166
Consumer and other loans	11,732	12,240
Total loans	$ 391,721	$ 378,410
Allowance for loan losses	(6,129)	(6,718)
Loans, net	$ 385,592	$ 371,692

Net deferred loan costs included in the above loan categories were $138 thousand and $130 thousand at June 30, 2015 and December 31, 2014, respectively. Consumer and other loans included $419 thousand and $285 thousand of demand deposit overdrafts at June 30, 2015 and December 31, 2014, respectively.

Risk characteristics of each loan portfolio class that are considered by the Company include:

1-4 family residential mortgage loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

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Real estate construction and land development loans carry risks that the project may not be finished according to schedule, the project may 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 a loan customer, may be unable to finish the construction project as planned because of financial pressure or other factors unrelated to the project.

Other real estate loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because repayment of these loans may be dependent upon the profitability and cash flows of the business or project.

Commercial and industrial loans carry risks associated with the successful operation of a business because 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 reliability.

Consumer and other loans carry risk associated with the continued creditworthiness of the borrower and the value of the collateral, i.e. rapidly depreciating assets such as automobiles, or lack thereof. Consumer loans are likely to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy, or other changes in circumstances.

The following table provides a summary of loan classes and an aging of past due loans as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015							
	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual Loans	90 Days or More Past Due and Accruing
Real estate loans:								

Construction and land development	$ 809	$ 595	$	$ 1,404	$ 30,605	$ 32,009	$ 1,979	$
1-4 family residential	773	345	384	1,502	171,763	173,265	520	129
Other real estate loans	258	454	2,569	3,281	152,115	155,396	4,047	374
Commercial and industrial	50		108	158	19,161	19,319	120	92
Consumer and other loans	3		5	8	11,724	11,732		5
Total	$ 1,893	$ 1,394	$ 3,066	$ 6,353	$ 385,368	$ 391,721	$ 6,666	$ 600

December 31, 2014

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual Loans	90 Days or More Past Due and Accruing
Real estate loans:								
Construction and land development	$ 2,441	$ 71	$	$ 2,512	$ 26,963	$ 29,475	$ 1,787	$
1-4 family residential	504	323	754	1,581	162,146	163,727	1,342	
Other real estate loans	554	800	2,519	3,873	147,929	151,802	4,756	
Commercial and industrial	10	106		116	21,050	21,166	115	
Consumer and other loans	14			14	12,226	12,240		
Total	$ 3,523	$ 1,300	$ 3,273	$ 8,096	$ 370,314	$ 378,410	$ 8,000	$

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Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Company s loan portfolio, management tracks certain credit quality indicators including trends related to the risk grading of specified classes of loans. The Company utilizes a risk grading matrix to assign a rating to each of its loans. The loan ratings are summarized into the following categories: pass, special mention, substandard, doubtful and loss. Pass rated loans include all risk rated credits other than those included in special mention, substandard or doubtful. Loans classified as loss are charged-off. Loan officers assign risk grades to loans at origination and as renewals arise. The Bank s Credit Administration department reviews risk grades for accuracy on a quarterly basis and as credit issues arise. In addition, a certain amount of loans are reviewed each year through the Company s internal and external loan review process. A description of the general characteristics of the loan grading categories is as follows:

Pass Loans classified as pass exhibit acceptable operating trends, balance sheet trends, and liquidity. Sufficient cash flow exists to service the loan. All obligations have been paid by the borrower as agreed.

Special Mention Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the Bank s credit position at some future date.

Substandard Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The Company considers all doubtful loans to be impaired and places the loan on non-accrual status.

Loss Loans classified as loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted.

The following tables provide an analysis of the credit risk profile of each loan class as of June 30, 2015 and December 31, 2014 (in thousands):

June 30, 2015

	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Construction and land development	$ 22,807	$ 4,376	$ 4,826	$	$ 32,009
Secured by 1-4 family residential	164,075	4,840	4,350		173,265
Other real estate loans	135,661	11,625	8,110		155,396
Commercial and industrial	18,575	437	307		19,319
Consumer and other loans	11,732				11,732
Total	$ 352,850	$ 21,278	$ 17,593	$	$ 391,721

	December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate loans:					
Construction and land development	$ 20,476	$ 2,962	$ 6,037	$	$ 29,475
Secured by 1-4 family residential	152,004	5,058	6,665		163,727
Other real estate loans	126,211	14,776	10,815		151,802
Commercial and industrial	20,428	463	275		21,166
Consumer and other loans	12,240				12,240
Total	$ 331,359	$ 23,259	$ 23,792	$	$ 378,410

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Note 4. Allowance for Loan Losses

The following tables present, as of June 30, 2015, December 31, 2014 and June 30, 2014, the total allowance for loan losses, the allowance by impairment methodology and loans by impairment methodology (in thousands):

	June 30, 2015					
	Construction and Land Development	Secured by 1-4 Family Residential	Other Real Estate	Commercial and Industrial	Consumer and Other Loans	Total
Allowance for loan losses:						
Beginning Balance, December 31, 2014	$ 1,403	$ 1,204	$ 3,658	$ 310	$ 143	$ 6,718
Charge-offs		(47)	(471)	(59)	(206)	(783)
Recoveries	2	83	1	62	146	294
Provision for (recovery of) loan losses	204	(314)	(16)	(55)	81	(100)
Ending Balance, June 30, 2015	$ 1,609	$ 926	$ 3,172	$ 258	$ 164	$ 6,129
Ending Balance:						
Individually evaluated for impairment	437	79	1,025	22		1,563
Collectively evaluated for impairment	1,172	847	2,147	236	164	4,566
Loans:						
Ending Balance	32,009	173,265	155,396	19,319	11,732	391,721
Individually evaluated for impairment	3,319	2,387	4,944	120		10,770
Collectively evaluated for impairment	28,690	170,878	150,452	19,199	11,732	380,951

	December 31, 2014					
	Construction and Land Development	Secured by 1-4 Family Residential	Other Real Estate	Commercial and Industrial	Consumer and Other Loans	Total
Allowance for loan losses:						
Beginning Balance, December 31, 2013	$ 2,710	$ 2,975	$ 4,418	$ 442	$ 99	$ 10,644
Charge-offs	(91)	(272)	(203)	(43)	(318)	(927)
Recoveries	80	15	509	18	229	851
Provision for (recovery of) loan losses	(1,296)	(1,514)	(1,066)	(107)	133	(3,850)
Ending Balance, December 31, 2014	$ 1,403	$ 1,204	$ 3,658	$ 310	$ 143	$ 6,718
Ending Balance:						
Individually evaluated for impairment	245	173	1,456	33		1,907
Collectively evaluated for impairment	1,158	1,031	2,202	277	143	4,811
Loans:						
Ending Balance	29,475	163,727	151,802	21,166	12,240	378,410
Individually evaluated for impairment	3,205	3,414	7,183	120		13,922
Collectively evaluated for impairment	26,270	160,313	144,619	21,046	12,240	364,488

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	June 30, 2014					
	Construction and Land Development	Secured by 1-4 Family Residential	Other Real Estate	Commercial and Industrial	Consumer and Other Loans	Total
Allowance for loan losses:						
Beginning Balance, December 31, 2013	$ 2,710	$ 2,975	$ 4,418	$ 442	$ 99	$ 10,644
Charge-offs		(104)	(203)	(36)	(202)	(545)
Recoveries	40	7	339	3	118	507
Provision for (recovery of) loan losses	(636)	18	(167)	65	120	(600)
Ending Balance, June 30, 2014	$ 2,114	$ 2,896	$ 4,387	$ 474	$ 135	$ 10,006
Ending Balance:						
Individually evaluated for impairment	779	126	911	57		1,873
Collectively evaluated for impairment	1,335	2,770	3,476	417	135	8,133
Loans:						
Ending Balance	32,795	151,043	146,483	24,797	12,372	367,490
Individually evaluated for impairment	6,427	3,297	9,994	164		19,882
Collectively evaluated for impairment	26,368	147,746	136,489	24,633	12,372	347,608

Impaired loans and the related allowance at June 30, 2015, December 31, 2014 and June 30, 2014, were as follows (in thousands):

	June 30, 2015						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized

Real estate loans:							
Construction and land development	$ 3,464	$ 2,684	$ 635	$ 3,319	$ 437	$ 3,165	$ 31
Secured by 1-4 family	2,476	2,155	232	2,387	79	2,864	57
Other real estate loans	5,416	2,453	2,491	4,944	1,025	6,828	34
Commercial and industrial	130	16	104	120	22	137	2
Consumer and other loans							
Total	$ 11,486	$ 7,308	$ 3,462	$ 10,770	$ 1,563	$ 12,994	$ 124

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	December 31, 2014						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate loans:							
Construction and land development	$ 3,299	$ 2,800	$ 405	$ 3,205	$ 245	$ 5,532	$ 40
Secured by 1-4 family	4,327	2,526	888	3,414	173	3,433	138
Other real estate loans	7,623	3,708	3,475	7,183	1,456	10,115	206
Commercial and industrial	127	5	115	120	33	159	1
Consumer and other loans							
Total	$ 15,376	$ 9,039	$ 4,883	$ 13,922	$ 1,907	$ 19,239	$ 385

	June 30, 2014						
	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate loans:							
Construction and land development	$ 8,746	$ 4,022	$ 2,405	$ 6,427	$ 779	$ 6,607	$ 21
Secured by 1-4 family	4,230	2,766	531	3,297	126	3,248	62
Other real estate loans	10,501	7,347	2,647	9,994	911	10,998	125
Commercial and industrial	170	11	153	164	57	185	1
Consumer and other loans							
Total	$ 23,647	$ 14,146	$ 5,736	$ 19,882	$ 1,873	$ 21,038	$ 209

The Recorded Investment amounts in the table above represent the outstanding principal balance on each loan represented in the table. The Unpaid Principal Balance represents the outstanding principal balance on each loan represented in the table plus any amounts that have been charged off on each loan and/or payments that have been applied towards principal on non-accrual loans.

As of June 30, 2015, loans classified as troubled debt restructurings (TDRs) and included in impaired loans in the disclosure above totaled $1.6 million. At June 30, 2015, $324 thousand of the loans classified as TDRs were performing under the restructured terms and were not considered non-performing assets. There were $1.9 million in TDRs at December 31, 2014, $790 thousand of which were performing under the restructured terms. Modified terms under TDRs may include rate reductions, extension of terms that are considered to be below market, conversion to interest only, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. There were no loans modified under TDRs during the three and six month periods ended June 30, 2015 and the three month period ended June 30, 2014. There was one other real estate loan classified as a TDR during the six month period ended June 30, 2014 because the loan term was extended at a below market rate of interest. The recorded investment for this loan prior to the modification totaled $283 thousand and the recorded investment after the modification totaled $344 thousand.

For the three and six months ended June 30, 2015 and 2014, there were no troubled debt restructurings that subsequently defaulted within twelve months of the loan modification. Management defines default as over ninety days past due or the foreclosure and repossession of the collateral and charge-off of the loan during the twelve month period subsequent to the modification.

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Note 5. Other Real Estate Owned (OREO)

At June 30, 2015 and December 31, 2014, OREO totaled $2.4 million and $1.9 million, respectively. OREO is primarily comprised of residential lots, raw land, non-residential properties and residential properties, and are located primarily in the Commonwealth of Virginia. Changes in the balance for OREO are as follows (in thousands):

	For the six months ended June 30, 2015	For the year ended December 31, 2014
Balance at the beginning of year, gross	$ 2,263	$ 4,695
Transfers in	938	139
Charge-offs	(375)	(1,302)
Sales proceeds	(354)	(1,502)
Gain on disposition	72	307
Deferred gain recognized		(73)
Depreciation		(1)
Balance at the end of period, gross	$ 2,544	$ 2,263
Less: valuation allowance	(137)	(375)
Balance at the end of period, net	$ 2,407	$ 1,888

At June 30, 2015, the carrying amount of residential real estate properties included in OREO was $245 thousand. There were no residential real estate properties included in OREO at December 31, 2014. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $23 thousand as of June 30, 2015.

Changes in the valuation allowance are as follows (in thousands):

	For the six months ended	For the year ended

	June 30, 2015	June 30, 2014	December 31, 2014
Balance at beginning of year	$ 375	$ 1,665	$ 1,665
Provision for losses	137	86	12
Charge-offs, net	(375)	(163)	(1,302)
Balance at end of period	$ 137	$ 1,588	$ 375

Net expenses applicable to OREO, other than the provision for losses, were $51 thousand and $35 thousand for the six months ended June 30, 2015 and 2014, respectively and $81 thousand for the year ended December 31, 2014.

Note 6. Other Borrowings

The Bank had unused lines of credit totaling $154.3 million and $121.1 million available with non-affiliated banks at June 30, 2015 and December 31, 2014, respectively. These amounts primarily consist of a blanket floating lien agreement with the Federal Home Loan Bank of Atlanta in which the Bank can borrow up to 19% of its total assets. The unused line of credit with FHLB totaled $109.1 million at June 30, 2015.

The Bank had a letter of credit from the FHLB totaling $23.0 million at June 30, 2015 and December 31, 2014. The Bank had collateral pledged on the borrowing line and the letter of credit at June 30, 2015 and December 31, 2014 including real estate loans totaling $103.8 million and $101.9 million, respectively, and Federal Home Loan Bank stock with a book value of $466 thousand and $470 thousand, respectively.

At June 30, 2015 and December 31, 2014, the Bank had a note payable totaling $13 and $26 thousand, respectively, secured by a deed of trust, for land purchased to construct a banking office, which requires monthly payments of $2 thousand and matures January 3, 2016. The fixed interest rate on this loan was 4.00%.

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Note 7. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total (as defined in the regulations), Tier 1 (as defined), and common equity Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital to average assets. Management believes, as of June 30, 2015 and December 31, 2014, that the Bank met all capital adequacy requirements to which it is subject.

As of June 30, 2015, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum risk-based capital and leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank s category.

A comparison of the capital of the Bank at June 30, 2015 and December 31, 2014 with the minimum regulatory guidelines were as follows (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2015:						
Total Capital (to Risk-Weighted Assets)	$ 72,362	18.28%	$ 31,666	8.00%	$ 39,582	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	$ 67,400	17.03%	$ 23,749	6.00%	$ 31,666	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$ 67,400	17.03%	$ 17,812	4.50%	$ 25,729	6.50%

Tier 1 Capital (to Average Assets)	$ 67,400	10.06%	$ 26,794	4.00%	$ 33,493	5.00%
December 31, 2014:						
Total Capital (to Risk-Weighted Assets)	$ 71,941	19.14%	$ 30,077	8.00%	$ 37,596	10.00%