SUMMIT FINANCIAL GROUP INC
Form 10-Q
November 03, 2017
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 September 30, 2017
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

12,428,342 shares outstanding as of November 1, 2017

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Item 1. Financial Statements

Consolidated Balance Sheets (unaudited)

Dollars in thousands, except per share amounts	September 30, 2017 (unaudited)	December 31, 2016 (*)	September 30, 2016 (unaudited)
ASSETS			
Cash and due from banks	$ 9,220	$ 4,262	$ 25,067
Interest bearing deposits with other banks	41,994	42,354	9,432
Cash and cash equivalents	51,214	46,616	34,499
Securities available for sale	328,726	266,542	262,102
Other investments	12,170	12,942	13,182
Loans held for sale	220	176	—
Loans, net	1,559,328	1,307,862	1,234,605
Property held for sale	22,622	24,504	24,767
Premises and equipment, net	34,220	23,737	21,802
Accrued interest receivable	7,979	6,167	5,470
Goodwill and other intangible assets	27,879	13,652	7,348
Cash surrender value of life insurance policies	41,076	39,143	38,504
Other assets	15,702	17,306	15,357
Total assets	$ 2,101,136	$ 1,758,647	$ 1,657,636
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Non interest bearing	$ 215,910	$ 149,737	$ 122,652
Interest bearing	1,400,858	1,145,782	1,034,132
Total deposits	1,616,768	1,295,519	1,156,784
Short-term borrowings	202,988	224,461	234,657
Long-term borrowings	45,755	46,670	74,146
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589
Other liabilities	17,254	17,048	18,640
Total liabilities	1,902,354	1,603,287	1,503,816
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: 2017 - 12,428,342 shares, December 2016 - 10,883,509 shares and September 2016 - 10,857,801 shares; outstanding: 2017 - 12,311,723 shares, December 2016 - 10,736,970 shares and September 2016 - 10,701,841 shares	80,496	46,757	46,114
Unallocated common stock held by Employee Stock Ownership Plan - 2017 - 116,619 shares, December 2016 - 146,539 shares and September 2016 - 155,960 shares	(1,260)	(1,583)	(1,684)
Retained earnings	119,157	113,448	109,808

Accumulated other comprehensive income (loss)	389	(3,262)	(418)
Total shareholders' equity	198,782	155,360	153,820
Total liabilities and shareholders' equity	$ 2,101,136	$ 1,758,647	$ 1,657,636

(*) - Derived from audited consolidated financial statements

See Notes to Consolidated Financial Statements

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Consolidated Statements of Income (unaudited)

Dollars in thousands, (except per share amounts)	For the Three Months Ended September 30, 2017	2016	For the Nine Months Ended September 30, 2017	2016
Interest income				
Interest and fees on loans				
Taxable	$19,387	$14,009	$54,487	$40,788
Tax-exempt	103	133	391	412
Interest and dividends on securities				
Taxable	1,283	1,138	3,742	3,284
Tax-exempt	1,114	621	2,855	1,857
Interest on interest bearing deposits with other banks	149	5	466	13
Total interest income	22,036	15,906	61,941	46,354
Interest expense				
Interest on deposits	2,963	2,209	7,987	6,533
Interest on short-term borrowings	1,160	675	3,233	1,334
Interest on long-term borrowings and subordinated debentures	681	985	2,012	2,937
Total interest expense	4,804	3,869	13,232	10,804
Net interest income	17,232	12,037	48,709	35,550
Provision for loan losses	375	—	875	500
Net interest income after provision for loan losses	16,857	12,037	47,834	35,050
Noninterest income				
Insurance commissions	1,043	1,016	3,000	3,030
Trust and wealth management fees	589	126	1,284	358
Service fees related to deposit accounts	1,863	1,138	4,737	3,175
Realized securities gains, net	26	61	58	836
Bank owned life insurance income	255	258	758	772
Other	224	150	659	430
Total noninterest income	4,000	2,749	10,496	8,601
Noninterest expenses				
Salaries, commissions and employee benefits	6,610	4,819	18,555	14,265
Net occupancy expense	847	525	2,239	1,576
Equipment expense	1,093	716	2,859	2,059
Professional fees	373	270	1,012	1,171
Advertising and public relations	137	93	393	280
Amortization of intangibles	448	50	974	150
FDIC premiums	310	200	815	800
Merger-related expenses	11	80	1,575	345
Foreclosed properties expense	171	100	397	317
Gain on sales of foreclosed properties, net	(29)	(169)	(111)	(451)
Write-downs of foreclosed properties	91	134	538	503
Litigation settlement	—	—	9,900	—
Other	2,385	1,601	6,253	4,395
Total noninterest expenses	12,447	8,419	45,399	25,410
Income before income tax expense	8,410	6,367	12,931	18,241
Income tax expense	2,480	2,086	3,339	5,655
Net income	$5,930	$4,281	$9,592	$12,586

Basic earnings per common share	$0.48	$0.40	$0.81	$1.18
Diluted earnings per common share	$0.48	$0.40	$0.81	$1.18

See Notes to Consolidated Financial Statements

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Consolidated Statements of Comprehensive Income (unaudited)

Dollars in thousands	For the Three Months Ended September 30, 2017	2016
Net income	$5,930	$4,281
Other comprehensive income (loss):		
Net unrealized gain on cashflow hedge of: 2017 - $497, net of deferred taxes of $184; 2016 - $965, net of deferred taxes of $357	313	608
Net unrealized gain (loss) on securities available for sale of: 2017 - $608, net of deferred taxes of $225 and reclassification adjustment for net realized gains included in net income of $26, net of tax of $10; 2016 - ($1,437), net of deferred taxes of ($532) and reclassification adjustment for net realized gains included in net income of $61, net of tax of $23	383	(905)
Total other comprehensive income (loss)	696	(297)
Total comprehensive income	$6,626	$3,984

Dollars in thousands	For the Nine Months Ended September 30, 2017	2016
Net income	$9,592	$12,586
Other comprehensive income:		
Net unrealized gain (loss) on cashflow hedge of: 2017 - $1,556, net of deferred taxes of $576; 2016 - ($2,114), net of deferred taxes of ($782)	980	(1,332)
Net unrealized gain on securities available for sale of: 2017 - $3,892, net of deferred taxes of $1,440 and reclassification adjustment for net realized gains included in net income of $58, net of tax of $21; 2016 - $2,175, net of deferred taxes of $805 and reclassification adjustment for net realized gains included in net income of $836, net of tax of $309	2,452	1,370
Net unrealized gain on other post-retirement benefits of: 2017 - $348, net of deferred taxes of $129	219	—
Total other comprehensive income	3,651	38
Total comprehensive income	$13,243	$12,624

See Notes to Consolidated Financial Statements

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 Income (Loss)	Total Share-holders' Equity
Balance, December 31, 2016	$46,757	$(1,583)	$113,448	$(3,262)	$155,360
Nine Months Ended September 30, 2017					
Net income	—	—	9,592	—	9,592
Other comprehensive income	—	—	—	3,651	3,651
Exercise of stock options - 2,000 shares	12	—	—	—	12
Share-based compensation expense	285	—	—	—	285
Unallocated ESOP shares committed to be released - 29,920 shares	358	323	—	—	681
Acquisition of First Century Bankshares, Inc. - 1,537,912 shares, net of issuance costs	32,968	—	—	—	32,968
Common stock issuances from reinvested dividends - 4,921 shares	116	—	—	—	116
Common stock cash dividends declared ($0.33 per share)	—	—	(3,883)	—	(3,883)
Balance, September 30, 2017	$80,496	$(1,260)	$119,157	$389	$198,782
Balance, December 31, 2015	$45,741	$(1,964)	$100,423	$(456)	$143,744
Nine Months Ended September 30, 2016					
Net income	—	—	12,586	—	12,586
Other comprehensive income	—	—	—	38	38
Share-based compensation expense	150	—	—	—	150
Unallocated ESOP shares committed to be released - 25,862 shares	148	280	—	—	428
Common stock issuances from reinvested dividends - 4,235 shares	75	—	—	—	75
Common stock cash dividends declared ($0.30 per share)	—	—	(3,201)	—	(3,201)
Balance, September 30, 2016	$46,114	$(1,684)	$109,808	$(418)	$153,820

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Consolidated Statements of Cash Flows (unaudited)

Dollars in thousands	Nine Months Ended September 30, 2017	September 30, 2016
Cash Flows from Operating Activities		
Net income	$9,592	$ 12,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,364	884
Provision for loan losses	875	500
Share-based compensation expense	285	150
Deferred income tax benefit	(364)	(235)
Loans originated for sale	(11,305)	(7,068)
Proceeds from sale of loans	11,492	8,001
Gains on loans held for sale	(231)	(154)
Realized securities gains, net	(58)	(836)
Gain on disposal of assets	(93)	(480)
Write-downs of foreclosed properties	538	503
Amortization of securities premiums, net	3,125	3,329
(Accretion) amortization related to acquisitions, net	(870)	9
Amortization of intangibles	974	150
Earnings on bank owned life insurance	(425)	(772)
(Increase) decrease in accrued interest receivable	(752)	75
Decrease (increase) in other assets	1,539	(762)
(Decrease) increase in other liabilities	(221)	673
Net cash provided by operating activities	15,465	16,553
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	2,610	630
Proceeds from sales of securities available for sale	131,345	63,641
Principal payments received on securities available for sale	24,349	27,696
Purchases of securities available for sale	(118,346)	(73,595)
Purchases of other investments	(13,116)	(15,389)
Proceeds from redemptions of other investments	13,274	10,942
Net loan originations	(26,099)	(156,744)
Purchases of premises and equipment	(5,672)	(1,199)
Proceeds from disposal of premises and equipment	—	43
Proceeds from sales of repossessed assets & property held for sale	4,463	3,659
Cash and cash equivalents acquired in acquisition, net of $14,989 cash consideration paid	39,053	—
Net cash provided by (used in) investing activities	51,861	(140,316)
Cash Flows from Financing Activities		
Net (decrease) increase in demand deposit, NOW and savings accounts	(9,812)	54,830
Net (decrease) increase in time deposits	(19,305)	35,243
Net (decrease) increase in short-term borrowings	(28,782)	63,263
Repayment of long-term borrowings	(915)	(1,435)
Net proceeds from issuance of common stock	(43)	75
Exercise of stock options	12	—
Dividends paid on common stock	(3,883)	(3,201)
Net cash provided by (used in) financing activities	(62,728)	148,775
Increase in cash and cash equivalents	4,598	25,012

Cash and cash equivalents:		
Beginning	46,616	9,487
Ending	$51,214	$ 34,499

(Continued)

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Consolidated Statements of Cash Flows (unaudited) - continued

Dollars in thousands	Nine Months Ended September 30, 2017	September 30, 2016
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$13,055	$ 10,889
Income taxes	$3,557	$ 5,768
Supplemental Disclosures of Noncash Investing and Financing Activities		
Real property and other assets acquired in settlement of loans	$289	$ 2,053

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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 nine months and quarter ended September 30, 2017 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 2016 audited financial statements and Annual Report on Form 10-K.

NOTE 2. SIGNIFICANT NEW AUTHORITATIVE ACCOUNTING GUIDANCE

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 securities available-for-sale. ASU 2016-01 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-02, Leases (Topic 842) will, among other things, require lessees to recognize a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and 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. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, Revenue from Contracts with Customers. ASU 2016-02 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. While our full evaluation of the potential impact of ASU 2016-02 is ongoing, preliminarily, we expect that its adoption will not be significant to our financial statements.

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, requires 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 and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. An implementation committee has been formed and continues to plan for the standards' implementation and evaluate the impact of ASU 2016-13 on our financial statements.

ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. ASU 2016-15 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

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ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business-inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. We do not expect the adoption of ASU 2017-01 to have a material impact on our consolidated financial statements.

ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost requires an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. We do not expect the adoption of ASU 2017-07 to have a material impact on our consolidated financial statements.

ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities shortens the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. We are currently assessing the impact that ASU 2017-08 will have on our consolidated financial statements.

During May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. We are currently assessing the impact that ASU 2017-09 will have on our consolidated financial statements.

During August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU modify the designation and measurement guidance for hedge accounting as well as provide for increased transparency regarding the presentation of economic results on both the financial statements and related footnotes. Certain aspects of hedge effectiveness assessments will also be simplified upon implementation of this update. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. We do not expect the adoption of ASU 2017-12 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 September 30, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$ 24,135	$ —	$ 24,135	$ —
Mortgage backed securities:				
Government sponsored agencies	121,759	—	121,759	—
Nongovernment sponsored entities	2,755	—	2,755	—
State and political subdivisions	13,435	—	13,435	—
Corporate debt securities	16,190	—	16,190	—
Other equity securities	137	—	137	—
Tax-exempt state and political subdivisions	150,315	—	150,315	—
Total available for sale securities	$ 328,726	$ —	$ 328,726	$ —
Derivative financial assets				
Interest rate swaps	$ 125	$ —	$ 125	$ —
Derivative financial liabilities				
Interest rate swaps	$ 3,056	$ —	$ 3,056	$ —

Dollars in thousands	Balance at December 31, 2016	Fair Value Measurements Using: Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$ 15,174	$ —	$ 15,174	$ —
Mortgage backed securities:				
Government sponsored agencies	138,846	—	138,846	—
Nongovernment sponsored entities	4,653	—	4,653	—
Corporate debt securities	18,170	—	18,170	—
Other equity securities	137	—	137	—
Tax-exempt state and political subdivisions	89,562	—	89,562	—
Total available for sale securities	$ 266,542	$ —	$ 266,542	$ —
Derivative financial assets				
Interest rate swaps	$ 200	$ —	$ 200	$ —
Derivative financial liabilities				
Interest rate swaps	$ 4,611	$ —	$ 4,611	$ —

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 September 30, 2017	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 220	$ —	$ 220	$ —
Collateral-dependent impaired loans				
Commercial real estate	$ 518	$ —	$ 518	$ —
Construction and development	945	—	945	—
Residential real estate	203	—	203	—
Total collateral-dependent impaired loans	$ 1,666	$ —	$ 1,666	$ —
Property held for sale				
Commercial real estate	$ 1,476	$ —	$ 1,292	$ 184
Construction and development	16,627	—	16,627	—
Residential real estate	352	—	352	—
Total property held for sale	$ 18,455	$ —	$ 18,271	$ 184

Dollars in thousands	Balance at December 31, 2016	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$ 176	$ —	$ 176	$ —
Collateral-dependent impaired loans				
Construction and development	$ 945	$ —	$ 945	$ —
Residential real estate	130	—	130	—
Total collateral-dependent impaired loans	$ 1,075	$ —	$ 1,075	$ —
Property held for sale				
Commercial real estate	$ 976	$ —	$ 976	$ —
Construction and development	19,327	—	19,327	—
Residential real estate	279	—	279	—
Total property held for sale	$ 20,582	$ —	$ 20,582	$ —

The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

Cash and cash equivalents: The carrying values of cash and cash equivalents approximate their estimated fair value.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Other investments: Other investments consists of FHLB stock, which does not have readily determinable fair values and is carried at cost and an investment in a limited partnership which owns interests in a diversified portfolio of qualified affordable housing projects which is reflected at its carrying value.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are

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estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Subordinated debentures owed to unconsolidated subsidiary trusts: The carrying values of subordinated debentures owed to unconsolidated subsidiary trusts approximate their estimated fair values.

Derivative financial instruments: The fair value of the interest rate swaps is valued using independent pricing models.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant and therefore, the estimated fair values and carrying values are not shown below.

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

	September 30, 2017		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$51,214	$51,214	$—	$51,214	$—
Securities available for sale	328,726	328,726	—	328,726	—
Other investments	12,170	12,170	—	12,170	—
Loans held for sale, net	220	220	—	220	—
Loans, net	1,559,328	1,557,227	—	1,666	1,555,561
Accrued interest receivable	7,979	7,979	—	7,979	—
Derivative financial assets	125	125	—	125	—
	$1,959,762	$1,957,661	$—	$402,100	$1,555,561
Financial liabilities					
Deposits	$1,616,768	$1,637,258	$—	$1,637,258	$—
Short-term borrowings	202,988	202,988	—	202,988	—
Long-term borrowings	45,755	46,962	—	46,962	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	912	912	—	912	—
Derivative financial liabilities	3,056	3,056	—	3,056	—
	$1,889,068	$1,910,765	$—	$1,910,765	$—

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	December 31, 2016		Fair Value Measurements Using:		
Dollars in thousands	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$46,616	$46,616	$—	$46,616	$—
Securities available for sale	266,542	266,542	—	266,542	—
Other investments	12,942	12,942	—	12,942	—
Loans held for sale, net	176	176	—	176	—
Loans, net	1,307,862	1,321,235	—	1,075	1,320,160
Accrued interest receivable	6,167	6,167	—	6,167	—
Derivative financial assets	200	200	—	200	—
	$1,640,505	$1,653,878	$—	$333,718	$1,320,160
Financial liabilities					
Deposits	$1,295,519	$1,309,820	$—	$1,309,820	$—
Short-term borrowings	224,461	224,461	—	224,461	—
Long-term borrowings	46,670	49,013	—	49,013	—
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	—	19,589	—
Accrued interest payable	736	736	—	736	—
Derivative financial liabilities	4,611	4,611	—	4,611	—
	$1,591,586	$1,608,230	$—	$1,608,230	$—

NOTE 4. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Three Months Ended September 30,					
	2017			2016		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$5,930			$4,281		
Basic earnings per share	$5,930	12,299,987	$0.48	$4,281	10,692,423	$0.40
Effect of dilutive securities:						
Stock options		10,911			12,865	
Stock appreciation rights (SARs)		8,061			21,851	
Diluted earnings per share	$5,930	12,318,959	$0.48	$4,281	10,727,139	$0.40

	For the Nine Months Ended September 30,					
	2017			2016		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$9,592			$12,586		
Basic earnings per share	$9,592	11,781,342	$0.81	$12,586	10,682,129	$1.18

Effect of dilutive securities:						
Stock options		11,336			8,774	
Stock appreciation rights (SARs)		14,324			1,443	
Diluted earnings per share	$9,592	11,807,002	$0.81	$12,586	10,692,346	$1.18

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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. Our anti-dilutive stock options for the quarter and nine months ended September 30, 2017 were 23,400 shares, and totaled 33,600 for the three months ended September 30, 2016 and 57,000 for the nine months ended September 30, 2016. Our anti-dilutive SARs for three and nine months ended September 30, 2017 were 87,615.

NOTE 5. SECURITIES

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at September 30, 2017, December 31, 2016, and September 30, 2016 are summarized as follows:

	September 30, 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	$23,591	$608	$64	$24,135
Residential mortgage-backed securities:				
Government-sponsored agencies	120,898	1,580	719	121,759
Nongovernment-sponsored entities	2,714	49	8	2,755
State and political subdivisions				
General obligations	2,803	11	1	2,813
Other revenues	10,568	83	29	10,622
Corporate debt securities	16,326	—	136	16,190
Total taxable debt securities	176,900	2,331	957	178,274
Tax-exempt debt securities				
State and political subdivisions				
General obligations	70,714	1,382	510	71,586
Water and sewer revenues	25,049	433	74	25,408
Lease revenues	14,250	283	71	14,462
Electric revenues	6,226	76	23	6,279
University revenues	5,290	3	22	5,271
Other revenues	26,831	593	115	27,309
Total tax-exempt debt securities	148,360	2,770	815	150,315
Equity securities	137	—	—	137
Total available for sale securities	$325,397	$5,101	$1,772	$328,726

	December 31, 2016			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$14,580	$642	$48	$15,174
Residential mortgage-backed securities:				
Government-sponsored agencies	138,451	1,554	1,159	138,846
Nongovernment-sponsored entities	4,631	44	22	4,653
Corporate debt securities	18,295	23	148	18,170
Total taxable debt securities	175,957	2,263	1,377	176,843
Tax-exempt debt securities				
State and political subdivisions				
General obligations	49,449	569	1,388	48,630

Water and sewer revenues	9,087	63	149	9,001
Lease revenues	9,037	7	201	8,843
Electric revenues	3,247	10	48	3,209
Sales tax revenues	2,870	—	34	2,836
Other revenues	17,321	93	371	17,043
Total tax-exempt debt securities	91,011	742	2,191	89,562
Equity securities	137	—	—	137
Total available for sale securities	$267,105	$3,005	$3,568	$266,542

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	September 30, 2016			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities:				
U.S. Government and agencies and corporations	$14,818	$921	$ 47	$15,692
Residential mortgage-backed securities:				
Government-sponsored agencies	132,913	2,556	264	135,205
Nongovernment-sponsored agencies	5,382	48	29	5,401
State and political subdivisions:				
Water and sewer revenues	250	—	—	250
Corporate debt securities	20,003	49	149	19,903
Total taxable debt securities	173,366	3,574	489	176,451
Tax-exempt debt securities:				
State and political subdivisions:				
General obligations	47,014	2,221	115	49,120
Water and sewer revenues	7,980	265	11	8,234
Lease revenues	7,392	321	38	7,675
Sales tax revenues	2,880	124	—	3,004
Other revenues	16,869	701	29	17,541
Total tax-exempt debt securities	82,135	3,632	193	85,574
Equity securities	77	—	—	77
Total available for sale securities	$255,578	$7,206	$ 682	$262,102

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.

	September 30, 2017			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Texas	$20,215	$440	$ 71	$ 20,584
Michigan	18,823	235	212	18,846
California	15,314	260	64	15,510
Illinois	12,463	244	38	12,669
Pennsylvania	10,603	91	79	10,615

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 September 30, 2017, are summarized as follows:

Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$46,461	$46,984
Due from one to five years	82,524	83,284
Due from five to ten years	33,110	33,119

Due after ten years	163,165	165,202
Equity securities	137	137
	$ 325,397	$ 328,726

The proceeds from sales, calls and maturities of available for sale securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized, for the nine months ended September 30, 2017 and 2016 are as follows:

Dollars in thousands	Proceeds from Sales	Calls and Maturities	Principal Payments	Gross realized Gains	Losses
For the Nine Months Ended September 30,					
2017					
Securities available for sale	$131,345	$ 2,610	$ 24,349	$416	$ 358
2016					
Securities available for sale	$63,641	$ 630	$ 27,696	$1,117	$ 281

We held 81 available for sale securities having an unrealized loss at September 30, 2017. 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 September 30, 2017 and December 31, 2016.

Dollars in thousands	September 30, 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	$5,374	$ (25)	$2,712	$ (39)	$8,086	$ (64)
Residential mortgage-backed securities:						
Government-sponsored agencies	29,222	(316)	13,476	(403)	42,698	(719)
Nongovernment-sponsored entities	—	—	949	(8)	949	(8)
State and political subdivisions:						
General obligations	734	(1)	—	—	734	(1)
Other revenues	4,816	(29)	—	—	4,816	(29)
Corporate debt securities	3,014	(39)	1,653	(97)	4,667	(136)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	14,204	(164)	10,236	(346)	24,440	(510)
Water and sewer revenues	6,702	(74)	—	—	6,702	(74)
Lease revenues	571	(2)	1,061	(69)	1,632	(71)
Electric revenues	2,146	(23)	—	—	2,146	(23)
University revenues	3,508	(22)	—	—	3,508	(22)
Other revenues	4,279	(42)	1,278	(73)	5,557	(115)
Total temporarily impaired securities	74,570	(737)	31,365	(1,035)	105,935	(1,772)
Total	$74,570	$ (737)	$31,365	$ (1,035)	$105,935	$ (1,772)

Dollars in thousands	December 31, 2016 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	$763	$ (5)	$2,575	$ (43)	$3,338	$ (48)
Residential mortgage-backed securities:						
Government-sponsored agencies	55,388	(985)	8,389	(174)	63,777	(1,159)
Nongovernment-sponsored entities	97	—	3,013	(22)	3,110	(22)
Corporate debt securities	968	(31)	3,136	(117)	4,104	(148)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	33,115	(1,388)	—	—	33,115	(1,388)
Water and sewer revenues	4,761	(149)	—	—	4,761	(149)
Lease revenues	7,011	(201)	—	—	7,011	(201)
Electric revenues	1,973	(48)	—	—	1,973	(48)
Sales tax revenues	2,836	(34)	—	—	2,836	(34)
Other revenues	8,445	(371)	—	—	8,445	(371)
Total temporarily impaired securities	115,357	(3,212)	17,113	(356)	132,470	(3,568)
Total	$115,357	$ (3,212)	$17,113	$ (356)	$132,470	$ (3,568)

NOTE 6. LOANS

Loans are summarized as follows:

Dollars in thousands	September 30, 2017	December 31, 2016	September 30, 2016
Commercial	$ 187,193	$ 119,088	$ 110,466
Commercial real estate			
Owner-occupied	239,840	203,047	192,254
Non-owner occupied	464,543	381,921	367,196
Construction and development			
Land and land development	71,412	72,042	65,430
Construction	28,756	16,584	11,276
Residential real estate			
Non-jumbo	355,642	265,641	228,777
Jumbo	61,253	65,628	57,276
Home equity	82,720	74,596	75,161
Mortgage warehouse lines	33,525	85,966	108,983
Consumer	36,915	25,534	19,756
Other	9,994	9,489	9,649
Total loans, net of unearned fees	1,571,793	1,319,536	1,246,224
Less allowance for loan losses	12,465	11,674	11,619
Loans, net	$ 1,559,328	$ 1,307,862	$ 1,234,605

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

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Dollars in thousands	Acquired Loans Purchased Credit Impaired	Purchased Performing	Total
Outstanding balance	$6,393	$ 238,314	$244,707
Recorded investment			
Commercial	$11	$ 31,430	$31,441
Commercial real estate			
Owner-occupied	695	23,084	23,779
Non-owner occupied	1,846	35,704	37,550
Construction and development			
Land and land development	—	9,080	9,080
Construction	—	2,226	2,226
Residential real estate			
Non-jumbo	1,861	114,756	116,617
Jumbo	1,005	3,443	4,448
Home equity	—	3,431	3,431
Consumer	—	13,050	13,050
Other	—	236	236
Total recorded investment	$5,418	$ 236,440	$241,858

The following table presents a summary of the change in the accretable yield of the PCI loan portfolio for the period from January 1, 2017 to September 30, 2017:

Dollars in thousands	
Accretable yield, January 1, 2017	$290
Accretion	(135)
Additions for First Century Bankshares, Inc. acquisition	661
Reclassification of nonaccretable difference due to improvement in expected cash flows	—
Other changes, net	(13)
Accretable yield, September 30, 2017	$803

The following table presents the contractual aging of the recorded investment in past due loans by class as of September 30, 2017 and 2016 and December 31, 2016.

	At September 30, 2017					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$204	$175	$65	$444	$186,749	$ —
Commercial real estate						
Owner-occupied	469	45	740	1,254	238,586	—
Non-owner occupied	177	252	1,969	2,398	462,145	—
Construction and development						
Land and land development	268	21	3,880	4,169	67,243	—
Construction	—	—	—	—	28,756	—
Residential mortgage						
Non-jumbo	4,860	2,062	4,837	11,759	343,883	—
Jumbo	—	—	—	—	61,253	—
Home equity	50	290	657	997	81,723	—
Mortgage warehouse lines	—	—	—	—	33,525	—

Consumer	387	173	405	965	35,950	35
Other	56	—	—	56	9,938	—
Total	$6,471	$3,018	$12,553	$22,042	$1,549,751	$ 35

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Dollars in thousands	At December 31, 2016 Past Due 30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$90	$86	$165	$341	$118,747	$ —
Commercial real estate						
Owner-occupied	93	—	509	602	202,445	—
Non-owner occupied	340	—	65	405	381,516	—
Construction and development						
Land and land development	423	129	3,852	4,404	67,638	—
Construction	—	—	—	—	16,584	—
Residential mortgage						
Non-jumbo	4,297	1,889	3,287	9,473	256,168	—
Jumbo	—	—	—	—	65,628	—
Home equity	—	302	57	359	74,237	—
Mortgage warehouse lines	—	—	—	—	85,966	—
Consumer	308	84	150	542	24,992	—
Other	—	—	—	—	9,489	—
Total	$5,551	$2,490	$8,085	$16,126	$1,303,410	$ —

Dollars in thousands	At September 30, 2016 Past Due 30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$301	$138	$602	$1,041	$109,425	$ —
Commercial real estate						
Owner-occupied	251	—	505	756	191,498	—
Non-owner occupied	311	78	—	389	366,807	—
Construction and development						
Land and land development	238	—	3,731	3,969	61,461	—
Construction	—	—	—	—	11,276	—
Residential mortgage						
Non-jumbo	1,932	1,488	2,762	6,182	222,595	—
Jumbo	—	—	—	—	57,276	—
Home equity	—	136	318	454	74,707	—
Mortgage warehouse lines	—	—	—	—	108,983	—
Consumer	135	44	148	327	19,429	21
Other	—	—	—	—	9,649	—
Total	$3,168	$1,884	$8,066	$13,118	$1,233,106	$ 21

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at September 30, 2017, December 31, 2016 and September 30, 2016.

	September 30,		December 31,
Dollars in thousands	2017	2016	2016
Commercial	$757	$846	$ 298
Commercial real estate			
Owner-occupied	740	505	509
Non-owner occupied	2,033	4,362	4,336
Construction and development			
Land & land development	3,931	4,360	4,465
Construction	—	—	—
Residential mortgage			
Non-jumbo	7,309	3,680	4,621
Jumbo	—	—	—
Home equity	773	494	194
Mortgage warehouse lines	—	—	—
Consumer	494	148	151
Total	$16,037	$14,395	$ 14,574

Impaired loans: Impaired loans include the following:

Loans which we risk-rate (consisting of 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 our accounting policy 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 September 30, 2017, December 31, 2016 and September 30, 2016.

	September 30, 2017				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$254	$254	$ —	$264	$ 10
Commercial real estate					
Owner-occupied	7,138	7,141	—	4,869	185
Non-owner occupied	9,884	9,886	—	10,142	511
Construction and development					
Land & land development	5,029	5,029	—	4,729	87
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,200	4,210	—	4,294	209
Jumbo	3,581	3,580	—	3,605	171
Home equity	524	523	—	523	25
Mortgage warehouse lines	—	—	—	—	—
Consumer	29	29	—	34	3
Total without a related allowance	$30,639	$30,652	$ —	$28,460	$ 1,201
With a related allowance					
Commercial	$259	$259	$ 259	$266	$ —
Commercial real estate					
Owner-occupied	2,448	2,448	127	2,456	121
Non-owner occupied	1,014	1,018	501	2	—
Construction and development					
Land & land development	1,470	1,470	525	1,482	56
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	1,728	1,729	217	1,681	82
Jumbo	841	842	15	847	42
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$7,760	$7,766	$ 1,644	$6,734	$ 301
Total					
Commercial	$27,496	$27,505	$ 1,412	$24,210	$ 970
Residential real estate	10,874	10,884	232	10,950	529
Consumer	29	29	—	34	3
Total	$38,399	$38,418	$ 1,644	$35,194	$ 1,502

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	December 31, 2016				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$285	$285	$ —	$247	$ 10
Commercial real estate					
Owner-occupied	520	520	—	534	31
Non-owner occupied	10,203	10,205	—	10,675	294
Construction and development					
Land & land development	5,227	5,227	—	5,270	80
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,055	4,065	—	3,910	193
Jumbo	3,640	3,639	—	3,693	175
Home equity	524	523	—	523	22
Mortgage warehouse lines	—	—	—	—	—
Consumer	44	44	—	50	5
Total without a related allowance	$24,498	$24,508	$ —	$24,902	$ 810
With a related allowance					
Commercial	$—	$—	$ —	$—	$ —
Commercial real estate					
Owner-occupied	6,864	6,864	347	6,879	269
Non-owner occupied	1,311	1,311	197	1,327	43
Construction and development					
Land & land development	2,066	2,066	585	2,074	80
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,055	2,057	251	1,851	78
Jumbo	853	853	24	862	44
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$13,149	$13,151	$ 1,404	$12,993	$ 514
Total					
Commercial	$26,476	$26,478	$ 1,129	$27,006	$ 807
Residential real estate	11,127	11,137	275	10,839	512
Consumer	44	44	—	50	5
Total	$37,647	$37,659	$ 1,404	$37,895	$ 1,324

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Dollars in thousands	September 30, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$791	$790	$ —	$400	$ 9
Commercial real estate					
Owner-occupied	4,914	4,914	—	4,932	188
Non-owner occupied	10,394	10,396	—	10,831	456
Construction and development					
Land & land development	6,181	6,181	—	6,207	104
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,852	3,861	—	3,732	170
Jumbo	3,683	3,682	—	3,711	176
Home equity	713	713	—	710	21
Mortgage warehouse lines	—	—	—	—	—
Consumer	48	48	—	52	5
Total without a related allowance	$30,576	$30,585	$ —	$30,575	$ 1,129
With a related allowance					
Commercial	$19	$19	$ 19	$6	$ —
Commercial real estate					
Owner-occupied	2,499	2,499	12	2,491	112
Non-owner occupied	1,321	1,321	132	1,332	43
Construction and development					
Land & land development	1,140	1,141	492	1,155	58
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,617	2,619	216	2,329	103
Jumbo	859	859	25	864	43
Home equity	—	—	—	—	—
Mortgage warehouse lines	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$8,455	$8,458	$ 896	$8,177	$ 359
Total					
Commercial	$27,259	$27,261	$ 655	$27,354	$ 970
Residential real estate	11,724	11,734	241	11,346	513
Consumer	48	48	—	52	5
Total	$39,031	$39,043	$ 896	$38,752	$ 1,488

Included in impaired loans are TDRs of $29.1 million, of which $28.3 million were current with respect to restructured contractual payments at September 30, 2017, and $28.6 million, of which $28.1 million were current with respect to restructured contractual payments at December 31, 2016. 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 nine months ended September 30, 2017 and September 30, 2016 . 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.

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Dollars in thousands	For the Three Months Ended September 30, 2017 Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment	For the Three Months Ended September 30, 2016 Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial real estate						
Owner-occupied	1	$ 2,302	$ 2,302	—	$ —	$ —
Non-owner occupied	1	148	148	—	—	—
Construction and development						
Land & land development	1	438	438	—	—	—
Residential real estate						
Non-jumbo	—	—	—	1	307	307
Total	3	$ 2,888	$ 2,888	1	$ 307	$ 307

Dollars in thousands	For the Nine Months Ended September 30, 2017 Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment	For the Nine Months Ended September 30, 2016 Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial real estate						
Owner-occupied	1	$ 2,302	$ 2,302	—	$ —	$ —
Non-owner occupied	1	148	148	—	—	—
Construction and development						
Land & land development	1	438	438	—	—	—
Residential real estate						
Non-jumbo	5	1,086	1,086	4	702	702
Consumer	—	—	—	1	2	2
Total	8	$ 3,974	$ 3,974	5	$ 704	$ 704

During the three months and nine months ended September 30, 2017, four non-jumbo residential real estate loans and one land & land development loan that had been restructured within the past twelve months defaulted. 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.

The following tables detail the activity regarding TDRs by loan type, net of fees, for the three months and nine months ended September 30, 2017, and the related allowance on TDRs.

For the Three Months Ended September 30, 2017

	Construction & Land Development		Commercial Real Estate		Residential Real Estate							
Dollars in thousands	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 July 1, 2017	$ 2,639	$ —	$ 438	$ 7,315	$ 5,245	$ 6,200	$ 4,456	$ 523	$ —	$ 34	$ —	$ 26,850
Additions	438	—	—	2,302	148	—	—	—	—	—	—	2,888
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—
Net (paydowns) advances	(15)	—	(12)	(31)	(45)	(621)	(33)	—	—	(5)	—	(762)

Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—	—
Balance, September 30, 2017	$ 3,062	$ —	$ 426	$ 9,586	$ 5,348	$ 5,579	$ 4,423	$ 523	$ —	$ 29	$ —	$ 28,976
Allowance related to troubled debt restructurings	$ 461	$ —	$ 259	$ 127	$ —	$ 217	$ 15	$ —	$ —	$ —	$ —	$ 1,079

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For the Nine Months Ended September 30, 2017

	Construction & Land Development			Commercial Real Estate		Residential Real Estate						
Dollars in thousands	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, 2017	$ 3,337	$ —	$ 711	$ 7,383	$ 6,714	$ 5,417	$ 4,493	$ 523	$ —	$ 44	$ —	$ 28,622
Additions	438	—	—	2,302	148	1,086	—	—	—	—	—	3,974
Charge-offs	—	—	—	—	(65)	—	—	—	—	—	—	(65)
Net (paydowns) advances	(713)	—	(285)	(99)	(1,449)	(924)	(70)	—	—	(15)	—	(3,555)
Transfer into foreclosed properties	—	—	—	—	—	—	—	—	—	—	—	—
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—	—
Balance, September 30, 2017	$ 3,062	$ —	$ 426	$ 9,586	$ 5,348	$ 5,579	$ 4,423	$ 523	$ —	$ 29	$ —	$ 28,976
Allowance related to troubled debt restructurings	$ 461	$ —	$ 259	$ 127	$ —	$ 217	$ 15	$ —	$ —	$ —	$ —	$ 1,079

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	9/30/2017	12/31/2016	9/30/2017	12/31/2016	9/30/2017	12/31/2016	9/30/2017	12/31/2016	9/30/2017	12/31/2016	9/30/2017	12/3
Pass	$ 64,744	$ 64,144	$ 28,756	$ 16,584	$ 183,966	$ 117,214	$ 232,329	$ 201,113	$ 454,433	$ 375,181	$ 33,525	$ 85
OLEM (Special Mention)	1,593	2,097	—	—	2,468	1,471	3,578	567	1,722	1,381	—	—
Substandard	5,075	5,801	—	—	759	403	3,933	1,367	8,388	5,359	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—
Total	$ 71,412	$ 72,042	$ 28,756	$ 16,584	$ 187,193	$ 119,088	$ 239,840	$ 203,047	$ 464,543	$ 381,921	$ 33,525	$ 85

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	9/30/2017	12/31/2016	9/30/2016	9/30/2017	12/31/2016	9/30/2016
Residential real estate						
Non-jumbo	$ 348,333	$ 261,020	$ 225,097	$ 7,309	$ 4,621	$ 3,680

Jumbo	61,253	65,628	57,276	—	—	—
Home Equity	81,947	74,402	74,667	773	194	494
Consumer	36,349	25,368	19,574	566	166	182
Other	9,994	9,489	9,649	—	—	—
Total	$537,876	$435,907	$386,263	$8,648	$ 4,981	$ 4,356

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NOTE 7. ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the nine month periods ended September 30, 2017 and 2016, and for the year ended December 31, 2016 is as follows:

	Nine Months Ended September 30,		Year Ended December 31,
Dollars in thousands	2017	2016	2016
Balance, beginning of year	$11,674	$11,472	$ 11,472
Charge-offs:			
Commercial	23	379	489
Commercial real estate			
Owner occupied	3	179	179
Non-owner occupied	65	122	124
Construction and development			
Land and land development	3	50	127
Construction	21	—	9
Residential real estate			
Non-jumbo	200	119	169
Jumbo	2	—	—
Home equity	95	117	175
Mortgage warehouse lines	—	—	—
Consumer	147	61	98
Other	179	128	185
Total	738	1,155	1,555
Recoveries:			
Commercial	13	69	73
Commercial real estate			
Owner occupied	82	25	31
Non-owner occupied	92	13	17
Construction and development			
Land and land development	246	514	840
Construction	—	—	—
Real estate - mortgage			
Non-jumbo	50	58	136
Jumbo	—	6	6
Home equity	29	3	3
Mortgage warehouse lines	—	—	—
Consumer	64	55	76
Other	78	59	75
Total	654	802	1,257
Net charge-offs	84	353	298
Provision for loan losses	875	500	500
Balance, end of period	$12,465	$11,619	$ 11,674

Activity in the allowance for loan losses by loan class during the first nine months of 2017 is as follows:

	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	$ 934	$ (23)	$ 13	$ 293	$ 1,217	$ 259	$ 958	$ —	$ 1,217	$ 513	$ 186,669	$ 11	$ 187,193
Commercial real estate													
Owner occupied	2,109	(3)	82	121	2,309	127	2,178	4	2,309	9,586	229,559	695	239,840
Non-owner occupied	3,438	(65)	92	1,709	5,174	501	4,670	3	5,174	10,898	451,799	1,846	464,543
Construction and development													
Land and land development	2,263	(3)	246	(1,858)	648	525	123	—	648	6,499	64,913	—	71,412
Construction	24	(21)	—	13	16	—	16	—	16	—	28,756	—	28,756
Residential real estate													
Non-jumbo	2,174	(200)	50	24	2,048	217	1,829	2	2,048	5,928	347,853	1,861	355,642
Jumbo	95	(2)	—	(15)	78	15	63	—	78	4,422	55,826	1,005	61,253
Home equity	413	(95)	29	261	608	—	608	—	608	524	82,196	—	82,720
Mortgage warehouse lines	—	—	—	—	—	—	—	—	—	—	33,525	—	33,525