SHORE BANCSHARES INC
Form 10-Q
August 14, 2014

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, 2014

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 0-22345

SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland	52-1974638
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

28969 Information Lane, Easton, Maryland	21601
(Address of Principal Executive Offices)	(Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R 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	R

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,614,943 shares of common stock outstanding as of July 31, 2014.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$ 22,997	$ 21,238
Interest-bearing deposits with other banks	69,717	109,384
Federal funds sold	1,656	468
Investment securities:		
Available for sale, at fair value	202,826	147,101
Held to maturity, at amortized cost – fair value of $5,076 (2014) and $5,062 (2013)	5,071	5,185
Loans held for sale	-	3,521
Loans	709,659	711,919
Less: allowance for credit losses	(9,076)	(10,725)
Loans, net	700,583	701,194
Premises and equipment, net	14,954	15,198
Goodwill	11,931	12,454
Other intangible assets, net	1,397	3,520
Other real estate owned, net	4,201	3,779
Other assets	29,520	31,082
TOTAL ASSETS	$ 1,064,853	$ 1,054,124
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 173,837	$ 172,797
Interest-bearing	739,648	760,671
Total deposits	913,485	933,468
Short-term borrowings	7,801	10,140
Other liabilities	6,074	7,217

TOTAL LIABILITIES	927,360	950,825
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; shares authorized – 35,000,000; shares issued and outstanding – 12,614,943 (2014) and 8,471,289 (2013)	126	85
Additional paid in capital	63,497	32,207
Retained earnings	74,007	71,444
Accumulated other comprehensive loss	(137)	(437)
TOTAL STOCKHOLDERS' EQUITY	137,493	103,299
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,064,853	$ 1,054,124

See accompanying notes to Consolidated Financial Statements.

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SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	$ 8,812	$ 10,142	$ 17,687	$ 20,049
Interest and dividends on investment securities:				
Taxable	669	568	1,190	1,211
Tax-exempt	3	4	6	9
Interest on federal funds sold	-	1	-	3
Interest on deposits with other banks	39	40	95	90
Total interest income	9,523	10,755	18,978	21,362
INTEREST EXPENSE				
Interest on deposits	1,071	1,748	2,198	3,870
Interest on short-term borrowings	5	6	10	14
Total interest expense	1,076	1,754	2,208	3,884
NET INTEREST INCOME	8,447	9,001	16,770	17,478
Provision for credit losses	950	2,700	1,925	4,850
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	7,497	6,301	14,845	12,628
NONINTEREST INCOME				
Service charges on deposit accounts	602	600	1,160	1,172
Trust and investment fee income	455	393	886	783
Gains on sales of investment securities	-	913	-	913
Insurance agency commissions	2,536	2,633	5,613	5,446
Gain on sale of wholesale insurance subsidiary	114	-	114	-
Loss on termination of cash flow hedge	-	(1,306)	-	(1,306)
Other noninterest income	821	729	1,543	1,444
Total noninterest income	4,528	3,962	9,316	8,452
NONINTEREST EXPENSE				
Salaries and wages	4,292	4,307	8,606	8,590
Employee benefits	1,020	1,006	2,202	2,140
Occupancy expense	577	612	1,204	1,209
Furniture and equipment expense	243	243	516	493

Data processing	739	706	1,499	1,409
Directors’ fees	132	55	244	176
Amortization of other intangible assets	60	74	134	148
Insurance agency commissions expense	394	458	906	919
FDIC insurance premium expense	377	367	835	733
Write-downs of other real estate owned	101	56	176	728
Other noninterest expenses	1,982	1,875	3,710	3,705
Total noninterest expense	9,917	9,759	20,032	20,250
INCOME BEFORE INCOME TAXES	2,108	504	4,129	830
Income tax expense	803	143	1,566	247
NET INCOME	$ 1,305	$ 361	$ 2,563	$ 583
Basic net income per common share	$ 0.13	$ 0.04	$ 0.28	$ 0.07
Diluted net income per common share	$ 0.13	$ 0.04	$ 0.28	$ 0.07
Dividends paid per common share	$ -	$ -	$ -	$ -

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(Dollars in thousands)

	For the Three Months Ended June 30, 2014	2013	For the Six Months Ended June 30, 2014	2013
Net income	$ 1,305	$ 361	$ 2,563	$ 583
Other comprehensive income				
Securities available for sale:				
Unrealized holding gains (losses) on available-for-sale securities	414	(2,560)	503	(2,800)
Tax effect	(167)	1,034	(203)	1,130
Reclassification of gains recognized in net income	-	(913)	-	(913)
Tax effect	-	368	-	368
Net of tax amount	247	(2,071)	300	(2,215)
Cash flow hedging activities:				
Unrealized holding gains on cash flow hedging activities	-	265	-	681
Tax effect	-	(106)	-	(274)
Reclassification of losses recognized in net income	-	1,306	-	1,306
Tax effect	-	(527)	-	(527)
Net of tax amount	-	938	-	1,186
Total other comprehensive income (loss)	247	(1,133)	300	(1,029)
Comprehensive income (loss)	$ 1,552	$ (772)	$ 2,863	$ (446)

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

For the Six Months Ended June 30, 2014 and 2013

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2014	$ 85	$ 32,207	$ 71,444	$ (437)	$ 103,299
Net income	-	-	2,563	-	2,563
Unrealized gains on available-for-sale securities, net of taxes	-	-	-	300	300
Issuance of common stock through public offering, net	41	31,241	-	-	31,282
Stock-based compensation	-	49	-	-	49
Balances, June 30, 2014	$ 126	$ 63,497	$ 74,007	$ (137)	$ 137,493
Balances, January 1, 2013	$ 85	$ 32,155	$ 81,078	$ 708	$ 114,026
Net income	-	-	583	-	583
Unrealized losses on available-for-sale securities, net of taxes	-	-	-	(2,215)	(2,215)
Unrealized gains on cash flow hedging activities, net of taxes	-	-	-	1,186	1,186
Stock-based compensation	-	14	-	-	14
Balances, June 30, 2013	$ 85	$ 32,169	$ 81,661	$ (321)	$ 113,594

See accompanying notes to Consolidated Financial Statements.

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SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	For the Six Months Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,563	$ 583
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,925	4,850
Depreciation and amortization	1,126	1,246
Discount accretion on debt securities	(25)	(21)
Stock-based compensation expense	49	40
Excess tax benefit from stock-based arrangements	-	(26)
Deferred income tax expense (benefit)	1,241	(1,006)
Gains on sales of investment securities	-	(913)
(Gains) losses on sales of other real estate owned	(5)	183
Write-downs of other real estate owned	176	728
Gain on sale of wholesale insurance subsidiary	(114)	-
Loss on termination of cash flow hedge	-	1,306
Net changes in:		
Accrued interest receivable	(56)	(55)
Other assets	(182)	3,493
Accrued interest payable	(27)	(53)
Other liabilities	(1,116)	(256)
Net cash provided by operating activities	5,555	10,099
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of investment securities available for sale	26,815	18,612
Proceeds from sales of investment securities available for sale	-	40,351
Purchases of investment securities available for sale	(82,395)	(12,048)
Proceeds from maturities and principal payments of investment securities held to maturity	108	61
Net change in loans	1,157	(4,680)
Purchases of premises and equipment	(255)	(203)
Proceeds from sales of premises and equipment	-	4
Proceeds from sales of other real estate owned	456	2,838
Proceeds from sale of wholesale insurance subsidiary	2,878	-
Return of investment in unconsolidated subsidiary	-	85
Net cash (used in) provided by investing activities	(51,236)	45,020
CASH FLOWS FROM FINANCING ACTIVITIES:		

Net changes in:		
Noninterest-bearing deposits	1,041	4,570
Interest-bearing deposits	(21,023)	(131,736)
Short-term borrowings	(2,339)	(3,666)
Proceeds from issuance of common stock through public offering, net	31,282	-
Excess tax benefit from stock-based arrangements	-	26
Net cash provided by (used in) financing activities	8,961	(130,806)
Net decrease in cash and cash equivalents	(36,720)	(75,687)
Cash and cash equivalents at beginning of period	131,090	200,193
Cash and cash equivalents at end of period	$ 94,370	$ 124,506
Supplemental cash flows information:		
Interest paid	$ 2,235	$ 3,937
Income taxes paid	$ 85	$ 157
Transfers from loans to other real estate owned	$ 1,049	$ 2,456
Transfers from loans held for sale to loans	$ 3,521	$ -

See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2014 and 2013

(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at June 30, 2014, the consolidated results of operations and comprehensive income (loss) for the three and six months ended June 30, 2014 and 2013, and changes in stockholders' equity and cash flows for the six months ended June 30, 2014 and 2013, have been included. All such adjustments are of a normal recurring nature. The amounts as of December 31, 2013 were derived from the 2013 audited financial statements. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2013. For purposes of comparability, certain reclassifications have been made to amounts previously reported to conform with the current period presentation.

When used in these notes, the term "the Company" refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiaries.

Recent Accounting Standards

Accounting Standards Update ("ASU") 2013-04, "Liabilities (Accounting Standards Codification ("ASC") Topic 405) - Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This guidance requires an entity to measure the obligation as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. ASU 2013-04 became effective for the Company on January 1, 2014, and did not have a significant impact on the Company's financial statements.

ASU 2014-04, "Receivables (ASC Topic 310) – Troubled Debt Restructurings by Creditors, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs which is defined as when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU requires that the real property be recognized upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 is effective for the Company for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on the Company's financial statements.

Note 2 – Earnings Per Share

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents (stock-based awards). The following table provides information relating to the calculation of earnings per common share:

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(In thousands, except per share data)	For the Three Months Ended June 30, 2014	2013	For the Six Months Ended June 30, 2014	2013
Net income	$ 1,305	$ 361	$ 2,563	$ 583
Weighted average shares outstanding - Basic	10,013	8,461	9,246	8,460
Dilutive effect of common stock equivalents	11	4	12	-
Weighted average shares outstanding - Diluted	10,024	8,465	9,258	8,460
Earnings per common share - Basic	$ 0.13	$ 0.04	$ 0.28	$ 0.07
Earnings per common share - Diluted	$ 0.13	$ 0.04	$ 0.28	$ 0.07

The increase in the weighted average shares outstanding for the three and six months ended June 30, 2014 when compared to the three and six months ended June 30, 2013 was due to the Company's public offer and sale of its common stock (the "stock sale") during the second quarter of 2014. As a result of the stock sale, the Company sold 4,140,000 shares of its common stock for a price of $8.25 per share, which produced net proceeds of $31.2 million.

There were no weighted average common stock equivalents excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2014, and for the three months ended June 30, 2013. There were 54 thousand weighted average common stock equivalents excluded from the calculation of diluted earnings per share for the six months ended June 30, 2013 because the effect of including them would have been antidilutive.

Note 3 – Investment Securities

The following table provides information on the amortized cost and estimated fair values of investment securities.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
June 30, 2014				
U.S. Treasury	$ 5,276	$ 8	$ -	$ 5,284
U.S. Government agencies	57,289	85	243	57,131
Mortgage-backed	139,872	640	720	139,792
Equity	617	2	-	619
Total	$ 203,054	$ 735	$ 963	$ 202,826
December 31, 2013				
U.S. Treasury	$ 5,342	$ 1	$ -	$ 5,343
U.S. Government agencies	60,754	62	372	60,444
Mortgage-backed	81,130	520	937	80,713

Equity	609	-	8	601
Total	$ 147,835	$ 583	$ 1,317	$ 147,101
Held-to-maturity securities:				
June 30, 2014				
U.S. Government agencies	$ 2,889	$ -	$ 151	$ 2,738
States and political subdivisions	2,182	156	-	2,338
Total	$ 5,071	$ 156	$ 151	$ 5,076
December 31, 2013				
U.S. Government agencies	$ 2,975	$ -	$ 222	$ 2,753
States and political subdivisions	2,210	99	-	2,309
Total	$ 5,185	$ 99	$ 222	$ 5,062

The following tables provide information about gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013.

	Less than 12 Months		More than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2014						
Available-for-sale securities:						
U.S. Government agencies	$19,606	$ 30	$9,963	$ 213	$29,569	$ 243
Mortgage-backed	45,133	166	24,006	554	69,139	720
Total	$64,739	$ 196	$33,969	$ 767	$98,708	$ 963
Held-to-maturity securities:						
U.S. Government agencies	$-	$ -	$2,738	$ 151	$2,738	$ 151

	Less than 12 Months		More than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
Available-for-sale securities:						
U.S. Government agencies	$33,004	$ 372	$-	$ -	$33,004	$ 372
Mortgage-backed	28,694	416	19,121	521	47,815	937
Equity	601	8	-	-	601	8
Total	$62,299	$ 796	$19,121	$ 521	$81,420	$ 1,317
Held-to-maturity securities:						
U.S. Government agencies	$2,753	$ 222	$-	$ -	$2,753	$ 222

All of the securities with unrealized losses in the portfolio have modest duration risk, low credit risk, and minimal losses when compared to total amortized cost. The unrealized losses on debt securities that exist are the result of market changes in interest rates since original purchase. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be at maturity for debt securities, the Company considers the unrealized losses to be temporary.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at June 30, 2014.

	Available for sale		Held to maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$2,011	$2,014	$240	$ 241
Due after one year through five years	60,204	60,211	432	448
Due after five years through ten years	9,402	9,458	1,006	1,119
Due after ten years	130,820	130,524	3,393	3,268
	202,437	202,207	5,071	5,076
Equity securities	617	619	-	-
Total	$203,054	$202,826	$5,071	$ 5,076

The maturity dates for debt securities are determined using contractual maturity dates.

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Note 4 – Loans and Allowance for Credit Losses

The Company makes residential mortgage, commercial and consumer loans to customers primarily in Talbot County, Queen Anne's County, Kent County, Caroline County and Dorchester County in Maryland and in Kent County, Delaware. The following table provides information about the principal classes of the loan portfolio at June 30, 2014 and December 31, 2013. At December 31, 2013, $3.5 million of nonaccrual construction loans were classified as held for sale. During the first quarter of 2014, these loans held for sale were reclassified to loans.

(Dollars in thousands)	June 30, 2014	December 31, 2013
Construction	$68,348	$ 64,591
Residential real estate	277,184	274,857
Commercial real estate	297,762	304,605
Commercial	56,492	57,195
Consumer	9,873	10,671
Total loans	709,659	711,919
Allowance for credit losses	(9,076)	(10,725)
Total loans, net	$700,583	$ 701,194

Loans are stated at their principal amount outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate based on the principal amount outstanding. Fees charged and costs capitalized for originating loans are being amortized substantially on the interest method over the term of the loan. A loan is placed on nonaccrual (i.e., interest income is no longer accrued) when it is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more, unless the loan is well secured and in the process of collection. Any unpaid interest previously accrued on those loans is reversed from income. Interest payments received on nonaccrual loans are applied as a reduction of the loan principal balance unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired if it is probable that the Company will not collect all principal and interest payments according to the loan's contractual terms. An impaired loan may show deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market value of collateral. The impairment of a loan is measured at the present value of expected future cash flows using the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Generally, the Company measures impairment on such loans by reference to the fair value of the collateral. Once the amount of impairment has been determined, the uncollectible portion is charged off. Income on impaired loans is recognized on a cash basis, and payments are first applied against the principal balance outstanding (i.e., placing impaired loans on nonaccrual status). Generally, interest income is not recognized on impaired loans unless the likelihood of further loss is remote. The allowance for credit losses may include specific reserves related to impaired loans. Specific reserves remain until charge offs are made. Impaired loans do not include groups of smaller balance homogenous loans such as residential mortgage and consumer installment loans that are evaluated collectively for impairment. Reserves for probable credit losses related to these loans are based on historical loss ratios and are included in the formula portion of the allowance for credit losses. See additional discussion under the caption "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

A loan is considered a troubled debt restructuring if a borrower is experiencing financial difficulties and a creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. All loans designated as troubled debt restructurings ("TDRs") are considered impaired loans and may be on either accrual or nonaccrual status.

The following tables include impairment information relating to loans and the allowance for credit losses as of June 30, 2014 and December 31, 2013.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
June 30, 2014							
Loans individually evaluated for impairment	$ 11,878	$ 19,232	$ 9,126	$ 317	$ 25	$ -	$ 40,578
Loans collectively evaluated for impairment	56,470	257,952	288,636	56,175	9,848	-	669,081
Total loans	$ 68,348	$ 277,184	$ 297,762	$ 56,492	$ 9,873	$ -	$ 709,659
Allowance for credit losses allocated to:							
Loans individually evaluated for impairment	$ 201	$ 310	$ 24	$ 65	$ 25	$ -	$ 625
Loans collectively evaluated for impairment	2,047	2,044	2,628	793	281	658	8,451
Total allowance for credit losses	$ 2,248	$ 2,354	$ 2,652	$ 858	$ 306	$ 658	$ 9,076

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
December 31, 2013							
Loans individually evaluated for impairment	$ 5,569	$ 19,748	$ 14,462	$ 887	$ 48	$ -	$ 40,714
Loans collectively evaluated for impairment	59,022	255,109	290,143	56,308	10,623	-	671,205
Total loans	$ 64,591	$ 274,857	$ 304,605	$ 57,195	$ 10,671	$ -	$ 711,919
Allowance for credit losses allocated to:							
Loans individually evaluated for impairment	$ 204	$ 285	$ 44	$ 245	$ 5	$ -	$ 783
Loans collectively evaluated for impairment	1,756	3,569	2,985	1,021	238	373	9,942
Total allowance for credit losses	$ 1,960	$ 3,854	$ 3,029	$ 1,266	$ 243	$ 373	$ 10,725

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The following tables provide information on impaired loans and any related allowance by loan class as of June 30, 2014 and December 31, 2013. The difference between the unpaid principal balance and the recorded investment is the amount of partial charge-offs that have been taken.

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Quarter-to-date average recorded investment	Year-to-date average recorded investment
June 30, 2014						
Impaired nonaccrual loans:						
Construction	$ 12,263	$ 7,780	$ 200	$ 200	$ 8,040	$ 8,131
Residential real estate	3,915	2,780	257	125	3,299	4,719
Commercial real estate	5,801	2,927	946	18	5,034	5,098
Commercial	472	196	65	65	598	642
Consumer	30	-	25	25	28	21
Total	22,481	13,683	1,493	433	16,999	18,611
Impaired accruing TDRs:						
Construction	3,898	3,809	89	1	2,157	1,749
Residential real estate	16,195	12,761	3,434	185	16,080	16,102
Commercial real estate	5,253	4,480	773	6	7,023	7,509
Commercial	56	56	-	-	59	66
Consumer	-	-	-	-	-	-
Total	25,402	21,106	4,296	192	25,319	25,426
Total impaired loans:						
Construction	16,161	11,589	289	201	10,197	9,880
Residential real estate	20,110	15,541	3,691	310	19,379	20,821
Commercial real estate	11,054	7,407	1,719	24	12,057	12,607
Commercial	528	252	65	65	657	708
Consumer	30	-	25	25	28	21
Total	$ 47,883	$ 34,789	$ 5,789	$ 625	$ 42,318	$ 44,037

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Quarter-to-date average recorded investment	Year-to-date average recorded investment
December 31, 2013						
Impaired nonaccrual loans:						
Construction	$ 6,787	$ 3,709	$ 240	$ 203	$ 5,563	$ 7,270
Residential real estate	7,692	3,862	1,304	225	5,094	10,240
Commercial real estate	5,218	4,261	410	38	3,917	7,829
Commercial	1,801	547	245	245	740	619
Consumer	56	43	5	5	49	48
Total	21,554	12,422	2,204	716	15,363	26,006
Impaired accruing TDRs:						
Construction	1,620	1,527	93	1	1,759	14,405
Residential real estate	14,582	13,177	1,405	60	15,387	11,101
Commercial real estate	9,791	9,006	785	6	10,201	13,308
Commercial	95	95	-	-	98	105
Consumer	-	-	-	-	-	-
Total	26,088	23,805	2,283	67	27,445	38,919
Total impaired loans:						
Construction	8,407	5,236	333	204	7,322	21,675
Residential real estate	22,274	17,039	2,709	285	20,481	21,341
Commercial real estate	15,009	13,267	1,195	44	14,118	21,137
Commercial	1,896	642	245	245	838	724
Consumer	56	43	5	5	49	48
Total	$ 47,642	$ 36,227	$ 4,487	$ 783	$ 42,808	$ 64,925

The following tables provide information on loans that were modified and considered TDRs during the six months ended June 30, 2014 and June 30, 2013.

(Dollars in thousands)	Number of contracts	Premodification outstanding recorded investment	Postmodification outstanding recorded investment	Related allowance
TDRs:				
For the six months ended June 30, 2014				
Construction	-	$ -	$ -	$ -
Residential real estate	-	-	-	-
Commercial real estate	-	-	-	-
Commercial	-	-	-	-
Consumer	-	-	-	-
Total	-	$ -	$ -	$ -
For the six months ended June 30, 2013				
Construction	2	$ 123	$ 123	$ -
Residential real estate	3	783	798	37
Commercial real estate	1	474	474	-
Commercial	-	-	-	-
Consumer	-	-	-	-
Total	6	$ 1,380	$ 1,395	$ 37

The following tables provide information on TDRs that defaulted during the six months ended June 30, 2014 and June 30, 2013. Generally, a loan is considered in default when principal or interest is past due 90 days or more.

(Dollars in thousands)	Number of contracts	Recorded investment	Related allowance
TDRs that subsequently defaulted (1):			
For the six months ended June 30, 2014			
Construction	-	$ -	$ -
Residential real estate	-	-	-
Commercial real estate	-	-	-
Commercial	-	-	-
Consumer	-	-	-
Total	-	$ -	$ -
TDRs that subsequently defaulted (2):			
For the six months ended June 30, 2013			
Construction	-	$ -	$ -
Residential real estate	4	1,563	-
Commercial real estate	1	1,741	74
Commercial	-	-	-
Consumer	-	-	-

Total	5	$ 3,304	$ 74

(1) These loans were classified as TDRs during 2013.

(2) These loans were classified as TDRs during 2012.

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Management uses risk ratings as part of its monitoring of the credit quality in the Company's loan portfolio. Loans that are identified as special mention, substandard or doubtful are adversely rated. They are assigned higher risk ratings than favorably rated loans in the calculation of the formula portion of the allowance for credit losses.

The following tables provide information on loan risk ratings as of June 30, 2014 and December 31, 2013.

(Dollars in thousands)	Pass/Performing	Special mention	Substandard	Doubtful	Total
June 30, 2014					
Construction	$ 37,020	$ 17,573	$ 13,755	$ -	$ 68,348
Residential real estate	242,869	23,320	10,995	-	277,184
Commercial real estate	255,486	29,555	12,721	-	297,762
Commercial	52,063	2,768	1,571	90	56,492
Consumer	9,687	161	25	-	9,873
Total	$ 597,125	$ 73,377	$ 39,067	$ 90	$ 709,659

(Dollars in thousands)	Pass/Performing	Special mention	Substandard	Doubtful	Total
December 31, 2013					
Construction	$ 39,268	$ 15,884	$ 9,439	$ -	$ 64,591
Residential real estate	235,054	22,638	17,114	51	274,857
Commercial real estate	255,280	30,105	19,210	10	304,605
Commercial	52,032	3,691	972	500	57,195
Consumer	10,451	48	172	-	10,671
Total	$ 592,085	$ 72,366	$ 46,907	$ 561	$ 711,919

The following tables provide information on the aging of the loan portfolio as of June 30, 2014 and December 31, 2013.

	Accruing						
(Dollars in thousands)	Current	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Nonaccrual	Total
June 30, 2014							
Construction	$ 60,108	$ 106	$ 154	$ -	$ 260	$ 7,980	$ 68,348
Residential real estate	271,171	1,526	1,450	-	2,976	3,037	277,184
Commercial real estate	290,697	1,885	1,307	-	3,192	3,873	297,762
Commercial	55,071	1,146	9	5	1,160	261	56,492
Consumer	9,709	40	99	-	139	25	9,873
Total	$ 686,756	$ 4,703	$ 3,019	$ 5	$ 7,727	$ 15,176	$ 709,659
Percent of total loans	96.8 %	0.7 %	0.4 %	- %	1.1 %	2.1 %	

(Dollars in thousands)	Accruing Current	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Nonaccrual	Total
December 31, 2013							
Construction	$60,642	$ -	$ -	$ -	$ -	$ 3,949	$64,591
Residential real estate	265,182	2,765	1,724	20	4,509	5,166	274,857
Commercial real estate	299,295	639	-	-	639	4,671	304,605
Commercial	55,576	330	247	250	827	792	57,195
Consumer	10,469	23	131	-	154	48	10,671
Total	$691,164	$ 3,757	$ 2,102	$ 270	$ 6,129	$ 14,626	$711,919
Percent of total loans	97.1 %	0.5 %	0.3 %	- %	0.8 %	2.1 %	

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Management evaluates the adequacy of the allowance for credit losses at least quarterly and adjusts the provision for credit losses based on this analysis. The following tables provide a summary of the activity in the allowance for credit losses allocated by loan class for the three months ended June 30, 2014 and 2013. Allocation of a portion of the allowance to one loan class does not preclude its availability to absorb losses in other loan classes.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the three months ended June 30, 2014							
Allowance for credit losses:							
Beginning balance	$ 1,997	$ 2,086	$ 4,584	$ 677	$ 308	$ 417	$ 10,069
Charge-offs	(224)	(315)	(1,523)	(95)	(20)	-	(2,177)
Recoveries	1	63	7	157	6	-	234
Net charge-offs	(223)	(252)	(1,516)	62	(14)	-	(1,943)
Provision	474	520	(416)	119	12	241	950
Ending balance	$ 2,248	$ 2,354	$ 2,652	$ 858	$ 306	$ 658	$ 9,076

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the three months ended June 30, 2013							
Allowance for credit losses:							
Beginning balance	$ 4,116	$ 4,864	$ 4,374	$ 1,760	$ 330	$ 291	$ 15,735
Charge-offs	(802)	(1,096)	(872)	(136)	(13)	-	(2,919)
Recoveries	1	59	90	50	7	-	207
Net charge-offs	(801)	(1,037)	(782)	(86)	(6)	-	(2,712)
Provision	1,031	432	1,922	(458)	(23)	(204)	2,700
Ending balance	$ 4,346	$ 4,259	$ 5,514	$ 1,216	$ 301	$ 87	$ 15,723

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The following tables provide a summary of the activity in the allowance for credit losses allocated by loan class for the six months ended June 30, 2014 and 2013.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Unallocated	Total
For the six months ended June 30, 2014							
Allowance for credit losses:							
Beginning balance	$ 1,960	$ 3,854	$ 3,029	$ 1,266	$ 243	$ 373	$10,725
Charge-offs	(241)	(987)	(1,613)				