FIRST UNITED CORP/MD/
Form 10-Q
May 12, 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 quarterly period ended March 31, 2014

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _______________ to ________________

Commission file number 0-14237

First United Corporation

(Exact name of registrant as specified in its charter)

Maryland	52-1380770
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

19 South Second Street, Oakland, Maryland 21550-0009

(Address of principal executive offices) (Zip Code)

(800) 470-4356

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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 definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act).Yes ¨ No R

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 6,210,587 shares of common stock, par value $.01 per share, as of April 30, 2014.

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FIRST UNITED CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST UNITED CORPORATION

Consolidated Statement of Financial Condition

(In thousands, except per share and percentage data)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$34,521	$ 32,895
Interest bearing deposits in banks	9,287	10,168
Cash and cash equivalents	43,808	43,063
Investment securities – available-for-sale (at fair value)	361,465	336,589
Investment securities – held to maturity (fair value $2,444 at March 31, 2014 and $3,590 at December 31, 2013, respectively)	2,860	3,900
Restricted investment in bank stock, at cost	7,529	7,913
Loans	814,037	810,240
Allowance for loan losses	(12,572)	(13,594)
Net loans	801,465	796,646
Premises and equipment, net	26,628	26,905
Goodwill and other intangible assets, net	11,004	11,004
Bank owned life insurance	32,656	32,413
Deferred tax assets	25,478	29,209
Other real estate owned	15,613	17,031
Accrued interest receivable and other assets	26,978	28,830
Total Assets	$1,355,484	$ 1,333,503
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	$212,187	$ 189,500
Interest bearing deposits	788,842	787,903
Total deposits	1,001,029	977,403
Short-term borrowings	43,617	43,676
Long-term borrowings	182,656	182,672
Accrued interest payable and other liabilities	20,303	28,412
Total Liabilities	1,247,605	1,232,163
Shareholders' Equity:		

Preferred stock – no par value;		
Authorized 2,000 shares of which 30 shares of Series A, $1,000 per share liquidation preference, 5% cumulative increasing to 9% cumulative on February 15, 2014, were issued and outstanding on March 31, 2014 and December 31, 2013 (discount of $0 and $6, respectively)	30,000	29,994
Common Stock – par value $.01 per share;		
Authorized 25,000 shares; issued and outstanding 6,211 shares at March 31, 2014 and December 31, 2013	62	62
Surplus	21,684	21,661
Retained earnings	74,747	73,836
Accumulated other comprehensive loss	(18,614)	(24,213)
Total Shareholders' Equity	107,879	101,340
Total Liabilities and Shareholders' Equity	$1,355,484	$ 1,333,503

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Income

(In thousands, except per share data)

	Three Months Ended March 31, 2014	2013
	(Unaudited)	
Interest income		
Interest and fees on loans	$ 9,338	$ 10,685
Interest on investment securities		
Taxable	1,988	1,142
Exempt from federal income tax	411	428
Total investment income	2,399	1,570
Other	17	33
Total interest income	11,754	12,288
Interest expense		
Interest on deposits	1,167	1,327
Interest on short-term borrowings	14	14
Interest on long-term borrowings	1,654	1,614
Total interest expense	2,835	2,955
Net interest income	8,919	9,333
Provision for loan losses	364	865
Net interest income after provision for loan losses	8,555	8,468
Other operating income		
Changes in fair value on impaired securities	4,389	1,663
Portion of gain recognized in other comprehensive income (before taxes)	(4,389)	(1,663)
Net securities impairment losses recognized in operations	0	0
Net (losses)/gains – other	(63)	329
Total net (losses)/gains	(63)	329
Service charges	709	886
Trust department	1,252	1,199
Debit card income	457	476
Bank owned life insurance	243	249
Brokerage commissions	205	162
Other	174	257
Total other income	3,040	3,229
Total other operating income	2,977	3,558
Other operating expenses		
Salaries and employee benefits	4,685	4,844
FDIC premiums	391	451
Equipment	655	642
Occupancy	655	704
Data processing	782	729

Other Real Estate Owned	457	18
Other	2,135	2,148
Total other operating expenses	9,760	9,536
Income before income tax expense	1,772	2,490
Applicable income tax expense	414	568
Net Income	1,358	1,922
Accumulated preferred stock dividends and discount accretion	(447)	(437)
Net Income Available to Common Shareholders	$ 911	$ 1,485
Basic and diluted net income per common share	$ 0.15	$ 0.24
Weighted average number of basic and diluted shares outstanding	6,211	6,199

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Comprehensive Income

(In thousands)

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Net Income	$ 1,358	$ 1,922
Other comprehensive income/(loss), net of tax and reclassification adjustments:		
Net unrealized gains on investments with OTTI	2,634	995
Net unrealized gains/(losses) on all other AFS securities	3,036	(265)
Net unrealized gains on cash flow hedges	55	60
Net unrealized (losses)/gains on Pension	(127)	715
Net unrealized gains on SERP	1	4
Other comprehensive income, net of tax	5,599	1,509
Comprehensive income	$ 6,957	$ 3,431

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Changes in Shareholders' Equity

(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	(unaudited)					
Balance at January 1, 2013	$29,925	$ 62	$21,573	$69,168	$ (21,823)	$ 98,905
Net income				6,446		6,446
Other comprehensive loss					(2,390)	(2,390)
Stock based compensation			88			88
Preferred stock discount accretion	69			(69)		0
Preferred stock dividends deferred				(1,709)		(1,709)
Balance at December 31, 2013	29,994	62	21,661	73,836	(24,213)	101,340
Net income				1,358		1,358
Other comprehensive income					5,599	5,599
Stock based compensation			23			23
Preferred stock discount accretion	6			(6)		0
Preferred stock dividends deferred				(441)		(441)
Balance at March 31, 2014	$30,000	$ 62	$21,684	$74,747	$ (18,614)	$ 107,879

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

Consolidated Statement of Cash Flows

(In thousands)

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Operating activities		
Net income	$ 1,358	$ 1,922
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Provision for loan losses	364	865
Depreciation	505	509
Stock compensation	23	19
Gain on sales of other real estate owned	(25)	(7)
Write-downs of other real estate owned	371	20
Gain on loan sales	(8)	(79)
Loss on disposal of fixed assets	3	0
Net amortization of investment securities discounts and premiums	34	395
Loss/(gain) on sales of investment securities – available-for-sale	68	(250)
Amortization of deferred loan fees	(75)	(191)
Decrease/(increase) in accrued interest receivable and other assets	1,810	(810)
(Increase)/decrease in deferred tax benefit	(168)	1
(Decrease)/increase in accrued interest payable and other liabilities	(8,457)	364
Earnings on bank owned life insurance	(243)	(249)
Net cash (used in)/provided by operating activities	(4,440)	2,509
Investing activities		
Proceeds from maturities/calls of investment securities available-for-sale	14,283	13,381
Proceeds from maturities/calls of investment securities held-to-maturity	1,040	0
Proceeds from sales of investment securities available-for-sale	8,585	35,136
Purchases of investment securities available-for-sale	(38,399)	(63,611)
Proceeds from sales of other real estate owned	1,583	1,765
Proceeds from loan sales	849	11,313
Net decrease in FHLB stock	384	496
Net (increase)/decrease in loans	(6,460)	2,777
Purchases of premises and equipment	(231)	(283)
Net cash (used in)/provided by investing activities	(18,366)	974
Financing activities		
Net increase/(decrease) in deposits	23,626	(1,084)
Net decrease in short-term borrowings	(59)	(624)
Payments on long-term borrowings	(16)	(15)
Net cash provided by/(used in) financing activities	23,551	(1,723)

Increase in cash and cash equivalents	745	1,760
Cash and cash equivalents at beginning of the year	43,063	83,068
Cash and cash equivalents at end of period	$43,808	$84,828
Supplemental information		
Interest paid	$9,582	$2,489
Non-cash investing activities:		
Transfers from loans to other real estate owned	$511	$453

See accompanying notes to the consolidated financial statements

FIRST UNITED CORPORATION

NoteS to Consolidated Financial Statements (UNAUDITED)

for the quarter ended MARCH 31, 2014

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements of First United Corporation and its consolidated subsidiaries, including First United Bank & Trust (the “Bank”), have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, as required by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 270, *Interim Reporting*, and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring items, have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the full year or for any future interim period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in First United Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013. For purposes of comparability, certain prior period amounts have been reclassified to conform to the 2014 presentation. Such reclassifications had no impact on net income or equity.

First United Corporation has evaluated events and transactions occurring subsequent to the statement of financial condition date of March 31, 2014 for items that should potentially be recognized or disclosed in these financial statements as prescribed by ASC Topic 855, *Subsequent Events*.

As used in these notes to consolidated financial statements, First United Corporation and its consolidated subsidiaries are sometimes collectively referred to as the “Corporation”.

Note 2 – Earnings Per Common Share

Basic earnings per common share is derived by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period and does not include the effect of any potentially dilutive common stock equivalents. Diluted earnings per share is derived by dividing net income available to common shareholders by the weighted-average number of shares outstanding, adjusted for the dilutive effect of outstanding common stock equivalents. No common stock equivalents were outstanding during the three months ended March 31, 2014 and 2013.

The following table sets forth the calculation of basic and diluted earnings per common share for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,					
	2014			2013		
(in thousands, except for per share amount)	Income	Average Shares	Per Share Amount	Income	Average Shares	Per Share Amount
Basic and Diluted Earnings Per Share:						
Net income	$1,358			$1,922		
Preferred stock dividends deferred	(441)			(420)		
Discount accretion on preferred stock	(6)			(17)		
Net income available to common shareholders	$911	6,211	$ 0.15	$1,485	6,199	$ 0.24

Note 3 – Net (Losses)/Gains

The following table summarizes the (loss)/gain activity for the three months ended March 31, 2014 and 2013:

	Three months ended March 31,	
(in thousands)	2014	2013
Net (losses)/gains – other:		
Available-for-sale securities:		
Realized gains	$ 95	$ 412
Realized losses	(163)	(162)
Gain on sale of consumer loans	8	79
Loss on disposal of fixed assets	(3)	0
Net (losses)/gains – other	$ (63)	$ 329

Note 4 – Cash and Cash Equivalents

Cash and due from banks, which represents vault cash in the retail offices and invested cash balances at the Federal Reserve, is carried at fair value.

(in thousands)	March 31, 2014	December 31, 2013
Cash and due from banks, weighted average interest rate of 0.15% (at March 31, 2014)	$ 34,521	$ 32,895

Interest bearing deposits in banks, which represent funds invested at a correspondent bank, are carried at fair value and, as of March 31, 2014 and December 31, 2013, consisted of daily funds invested at the Federal Home Loan Bank ("FHLB") of Atlanta, First Tennessee Bank ("FTN"), Merchants and Traders ("M&T") and Community Bankers Bank ("CBB").

(in thousands)	March 31, 2014	December 31, 2013
FHLB daily investments, interest rate of 0.005% (at March 31, 2014)	$ 1,293	$ 1,677
FTN daily investments, interest rate of 0.06% (at March 31, 2014)	850	1,350
M&T daily investments, interest rate of 0.22% (at March 31, 2014)	5,045	5,043
M&T daily investments, interest rate of 0.20% (at March 31, 2014)	1,009	1,008
CBB Fed Funds sold, interest rate of 0.22% (at March 31, 2014)	1,090	1,090

	$ 9,287	$ 10,168

Note 5 – Investments

The investment portfolio is classified and accounted for based on the guidance of ASC Topic 320, *Investments – Debt and Equity Securities*.

The amortized cost of debt securities classified as available-for-sale is adjusted for the amortization of premiums to the first call date, if applicable, or to maturity, and for the accretion of discounts to maturity, or, in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion is included in interest income from investments. Interest and dividends are included in interest income from investments. Gains and losses on the sale of securities are recorded using the specific identification method.

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The following table shows a comparison of amortized cost and fair values of investment securities at March 31, 2014 and December 31, 2013:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	OTTI in AOCI
March 31, 2014						
Available for Sale:						
U.S. Treasuries	$ 23,500	$ 0	$ 0	*	$ 23,500	$ 0
U.S. government agencies	89,761	84	3,880		85,965	0
Residential mortgage-backed agencies	113,815	347	3,710		110,452	0
Commercial mortgage-backed agencies	39,296	63	1,021		38,338	0
Collateralized mortgage obligations	29,498	75	573		29,000	0
Obligations of states and political subdivisions	50,629	1,177	689		51,117	0
Collateralized debt obligations	37,249	975	15,131		23,093	8,314
Total available for sale	$ 383,748	$ 2,721	$ 25,004		$ 361,465	$ 8,314
* DeMinimus						
Held to Maturity:						
Obligations of states and political subdivisions	$ 2,860	$ 0	$ 416		$ 2,444	$ 0
December 31, 2013						
Available for Sale:						
U.S. government agencies	$ 97,242	$ 14	$ 5,221		$ 92,035	$ 0
Residential mortgage-backed agencies	116,933	334	4,823		112,444	0
Commercial mortgage-backed agencies	31,025	14	1,134		29,905	0
Collateralized mortgage obligations	30,468	84	1,162		29,390	0
Obligations of states and political subdivisions	55,505	895	1,123		55,277	0
Collateralized debt obligations	37,146	778	20,386		17,538	12,703
Total available for sale	$ 368,319	$ 2,119	$ 33,849		$ 336,589	$ 12,703
Held to Maturity:						
Obligations of states and political subdivisions	$ 3,900	$ 249	$ 559		$ 3,590	$ 0

Proceeds from sales of securities and the realized gains and losses are as follows:

	Three Months Ended March 31,	
(in thousands)	2014	2013
Proceeds	$ 8,585	$ 35,136
Realized gains	95	412
Realized losses	163	162

The following table shows the Corporation’s securities with gross unrealized losses and fair values at March 31, 2014 and December 31, 2013, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 months			12 months or more	
(in thousands)	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
March 31, 2014					
Available for Sale:					
U.S. Treasuries	$ 12,000	$ 0	*	$ 0	$ 0
U.S. government agencies	34,814	1,223		21,417	2,657
Residential mortgage-backed agencies	22,928	937		52,347	2,773
Commercial mortgage-backed agencies	25,570	634		4,732	387
Collateralized mortgage obligations	20,448	573		0	0
Obligations of states and political subdivisions	10,877	447		1,761	242
Collateralized debt obligations	0	0		18,029	15,131
Total available for sale	$ 126,637	$ 3,814		$ 98,286	$ 21,190
* DeMinimus					
Held to Maturity:					
Obligations of states and political subdivisions	$ 0	$ 0		$ 2,444	$ 416
December 31, 2013					
Available for Sale:					
U.S. government agencies	$ 62,962	$ 3,154		$ 13,996	$ 2,067
Residential mortgage-backed agencies	60,781	1,801		46,570	3,022
Commercial mortgage-backed agencies	21,889	1,134		0	0
Collateralized mortgage obligations	21,201	1,149		3,051	13
Obligations of states and political subdivisions	15,422	1,123		0	0
Collateralized debt obligations	0	0		16,434	20,386
Total available for sale	$ 182,255	$ 8,361		$ 80,051	$ 25,488
Held to Maturity:					
Obligations of states and political subdivisions	$ 0	$ 0		$ 2,301	$ 559

Management systematically evaluates securities for impairment on a quarterly basis. Management assesses whether (a) the Corporation has the intent to sell a security being evaluated and (b) it is more likely than not that the Corporation will be required to sell the security prior to its anticipated recovery. If neither applies, then declines in the fair values of securities below their cost that are considered other-than-temporary declines are split into two components. The first component is the loss attributable to declining credit quality. Credit losses are recognized in earnings as realized losses in the period in which the impairment determination is made. The second component consists of all other losses, which are recognized in other comprehensive loss. In estimating other-than-temporary impairment (“OTTI”) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) adverse conditions specifically related to the security, an industry, or a geographic area, (3) the historic and implied volatility of the fair value of the security, (4) changes in the rating of the security by a rating agency, (5) recoveries or additional declines in fair value subsequent to the balance sheet date, (6) failure of the issuer of the security to make scheduled interest or principal payments, and (7) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future. Management also monitors cash flow projections for securities that are considered beneficial interests under the guidance of ASC Subtopic 325-40, *Investments – Other – Beneficial Interests in Securitized Financial Assets*, (ASC Section 325-40-35). Further discussion about the evaluation of securities for impairment can be found in Item 2 of Part I of this report under the heading “*Investment Securities*”.

Management believes that the valuation of certain securities is a critical accounting policy that requires significant estimates in preparation of its consolidated financial statements. Management utilizes an independent third party to prepare both the impairment valuations and fair value determinations for its collateralized debt obligation (“CDO”) portfolio consisting of pooled trust preferred securities. Based on management’s review of the assumptions and results of the third-party review, it does not believe that there were any material differences in the valuations between December 31, 2013 and March 31, 2014.

U.S. Government Treasuries - One U.S. government treasury has been in an unrealized loss position for less than 12 months as of March 31, 2014. There were no U.S. government treasuries in an unrealized loss position for 12 months or more.

U.S. Government Agencies - Six U.S. government agencies have been in an unrealized loss position for less than 12 months as of March 31, 2014. There were three U.S. government agencies in an unrealized loss position for 12 months or more. The securities are of the highest investment grade and the Corporation does not intend to sell them, and it is not more likely than not that the Corporation will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Accordingly, management does not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Residential Mortgage-Backed Agencies - Ten residential mortgage-backed agencies have been in an unrealized loss position for less than 12 months as of March 31, 2014. There were eight residential mortgage-backed agency securities in an unrealized loss position for 12 months or more. The securities are of the highest investment grade and the Corporation does not intend to sell them, and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis, which may be at maturity. Accordingly, management does not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Commercial Mortgage-Backed Agencies - Eleven commercial mortgage-backed agencies have been in an unrealized loss position for less than 12 months as of March 31, 2014. There was one commercial mortgage-backed agency security in an unrealized loss position for 12 months or more. The securities are of the highest investment grade and the Corporation does not intend to sell them, and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis, which may be at maturity. Accordingly, management does not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Collateralized Mortgage Obligations - Three collateralized mortgage obligation securities at March 31, 2014 were in an unrealized loss position for 12 months or less. The securities are of the highest investment grade and the Corporation does not intend to sell them, and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis. Accordingly, management does not consider these investments to be other-than-temporarily impaired at March 31, 2014. There were no collateralized mortgage obligation securities in an unrealized loss position for 12 months or more.

Obligations of State and Political Subdivisions - Five securities have been in an unrealized loss position for less than 12 months at March 31, 2014. There were two securities that have been in an unrealized loss position for 12 months or more. These investments are of investment grade as determined by the major rating agencies and management reviews the ratings of the underlying issuers. The bonds continue to perform according to their contractual terms. The Corporation does not intend to sell these investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity. Accordingly, management does not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Collateralized Debt Obligations - The $15.1 million in unrealized losses greater than 12 months at March 31, 2014 relates to 14 pooled trust preferred securities that are included in the CDO portfolio. See Note 9 for a discussion of the methodology used by management to determine the fair values of these securities. Based upon a review of credit quality and the cash flow tests performed by the independent third party, management determined that there were no securities that had credit-related non-cash OTTI charges during the first three months of 2014. The unrealized losses on the remaining securities in the portfolio are primarily attributable to continued depression in market interest rates, marketability, liquidity and the current economic environment.

The following table presents a cumulative roll-forward of the amount of non-cash OTTI charges related to credit losses which have been recognized in earnings for the trust preferred securities in the CDO portfolio held and not intended to be sold for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
(in thousands)	2014	2013
Balance of credit-related OTTI at January 1	$ 13,422	$ 13,959
Reduction for increases in cash flows expected to be collected	(160)	(125)
Balance of credit-related OTTI at March 31	$ 13,262	$ 13,834

The amortized cost and estimated fair value of securities by contractual maturity at March 31, 2014 are shown in the following table. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2014	
(in thousands)	Amortized Cost	Fair Value
Contractual Maturity		
Available for sale:		
Due in one year or less	$23,500	$23,500
Due after one year through five years	30,407	30,188
Due after five years through ten years	67,845	67,107
Due after ten years	79,387	62,880
	201,139	183,675
Residential mortgage-backed agencies	113,815	110,452
Commercial mortgage-backed agencies	39,296	38,338
Collateralized mortgage obligations	29,498	29,000
	$383,748	$361,465
Held to Maturity:		
Due after ten years	$2,860	$2,444

Note 6 - Restricted Investment in Bank Stock

Restricted stock, which represents required investments in the common stock of the FHLB of Atlanta, Atlantic Community Bankers Bank ("ACBB") and CBB, is carried at cost and is considered a long-term investment.

Management evaluates the restricted stock for impairment in accordance with ASC Industry Topic 942, *Financial Services – Depository and Lending*, (ASC Section 942-325-35). Management's evaluation of potential impairment is based on management's assessment of the ultimate recoverability of the cost of the restricted stock rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (a) the significance of the decline in net assets of the issuing bank as compared to the capital stock amount for that bank and the length of time this situation has persisted, (b) commitments by the issuing bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of that bank, and (c) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the issuing bank. Management has evaluated the restricted stock for impairment and believes that no impairment charge is necessary as of March 31, 2014.

The Corporation recognizes dividends received on its restricted stock investments on a cash basis. For the three months ended March 31, 2014, dividends of $72,998 were recognized in earnings. For the comparable period of 2013, dividends of $50,517 were recognized in earnings.

Note 7 – Loans and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio as of March 31, 2014 and December 31, 2013:

(in thousands)	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Total
March 31, 2014						
Total loans	$ 259,837	$ 101,985	$ 78,724	$ 349,698	$ 23,793	$ 814,037
Individually evaluated for impairment	$ 11,616	$ 10,379	$ 2,152	$ 7,578	$ 0	$ 31,725
Collectively evaluated for impairment	$ 248,221	$ 91,606	$ 76,572	$ 342,120	$ 23,793	$ 782,312
December 31, 2013						

Total loans	$ 267,978	$ 107,250	$ 59,788	$ 350,906	$ 24,318	$ 810,240
Individually evaluated for impairment	$ 11,740	$ 11,703	$ 2,299	$ 7,546	$ 21	$ 33,309
Collectively evaluated for impairment	$ 256,238	$ 95,547	$ 57,489	$ 343,360	$ 24,297	$ 776,931

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The commercial real estate ("CRE") loan segment is then segregated into two classes. Non-owner occupied CRE loans, which include loans secured by non-owner occupied, nonfarm, and nonresidential properties, generally have a greater risk profile than all other CRE loans, which include loans secured by farmland, multifamily structures and owner-occupied commercial structures. The acquisition and development ("A&D") loan segment is segregated into two classes. One-to-four family residential construction loans are generally made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. All other A&D loans are generally made to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures. A&D loans have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the loan is made. The commercial and industrial ("C&I") loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment is segregated into two classes. Amortizing term loans are primarily first lien loans. Home equity lines of credit are generally second lien loans. The consumer loan segment consists primarily of installment loans (direct and indirect) and overdraft lines of credit connected with customer deposit accounts.

Management uses a 10-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of a specific allocation of the allowance for loan losses that management believes is associated with a pending event that could trigger loss in the short-term will be classified in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in the commercial segments at origination and on an ongoing basis. The Bank’s experienced Credit Quality and Loan Review Department performs an annual review of all commercial relationships of $500,000 or greater. Confirmation of the appropriate risk grade is included as part of the review process on an ongoing basis. The Credit Quality and Loan Review Department continually reviews and assesses loans within the portfolio. In addition, the Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews commercial relationships greater than $750,000 and/or criticized relationships greater than $500,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention and Substandard within the internal risk rating system as of March 31, 2014 and December 31, 2013:

(in thousands)	Pass	Special Mention	Substandard	Total
March 31, 2014				
Commercial real estate				
Non owner-occupied	$103,862	$ 9,171	$ 25,782	$138,815
All other CRE	90,646	8,392	21,984	121,022
Acquisition and development				
1-4 family residential construction	10,095	0	2,070	12,165
All other A&D	70,008	1,744	18,068	89,820
Commercial and industrial	74,879	418	3,427	78,724
Residential mortgage				
Residential mortgage - term	262,992	839	11,104	274,935

Residential mortgage - home equity	72,387	469	1,907	74,763