EAGLE FINANCIAL SERVICES INC
Form 10-Q
November 12, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 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: 0-20146

EAGLE FINANCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Virginia	54-1601306
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 East Main Street P.O. Box 391 Berryville, Virginia	22611
(Address of principal executive offices)	(Zip Code)

(540) 955-2510
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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 ý 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. (Check one):

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

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

The number of shares of the registrant's Common Stock ($2.50 par value) outstanding as of October 31, 2014 was 3,454,336.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EAGLE FINANCIAL SERVICES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(dollars in thousands, except share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$7,885	$9,295
Interest-bearing deposits with other institutions	7,453	4,948
Total cash and cash equivalents	15,338	14,243
Securities available for sale, at fair value	99,022	102,598
Restricted investments	2,358	2,192
Loans	465,068	444,273
Allowance for loan losses	(5,587)	(5,488)
Net Loans	459,481	438,785
Bank premises and equipment, net	18,529	17,214
Other real estate owned, net of allowance	1,644	1,646
Other assets	9,844	9,766
Total assets	$606,216	$586,444
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing demand deposits	$151,961	$147,698
Savings and interest bearing demand deposits	248,736	240,749
Time deposits	94,439	99,140
Total deposits	$495,136	$487,587
Federal Home Loan Bank advances	30,000	22,250
Trust preferred capital notes	7,217	7,217
Other liabilities	2,602	2,984
Total liabilities	$534,955	$520,038
Shareholders' Equity		
Preferred stock, $10 par value; 500,000 shares authorized and unissued	$—	$—
Common stock, $2.50 par value; authorized 10,000,000 shares; issued and outstanding 2014, 3,454,336 including 19,151 unvested restricted stock; issued and outstanding 2013, 3,409,831 including 21,050 unvested restricted stock	8,588	8,482
Surplus	12,312	11,537
Retained earnings	48,834	46,082
Accumulated other comprehensive income	1,527	305
Total shareholders' equity	$71,261	$66,406
Total liabilities and shareholders' equity	$606,216	$586,444

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC.
Consolidated Statements of Income (Unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest and Dividend Income				
Interest and fees on loans	$5,397	$5,446	$16,317	$16,120
Interest and dividends on securities available for sale:				
Taxable interest income	458	500	1,447	1,565
Interest income exempt from federal income taxes	270	307	834	945
Dividends	126	38	197	147
Interest on deposits in banks	2	3	4	18
Total interest and dividend income	$6,253	$6,294	$18,799	$18,795
Interest Expense				
Interest on deposits	241	269	730	883
Interest on federal funds purchased and securities sold under agreements to repurchase	—	2	20	31
Interest on Federal Home Loan Bank advances	159	276	476	819
Interest on trust preferred capital notes	33	34	98	101
Interest on interest rate swap	47	46	139	136
Total interest expense	$480	$627	$1,463	$1,970
Net interest income	$5,773	$5,667	$17,336	$16,825
Provision For Loan Losses	—	—	—	767
Net interest income after provision for loan losses	$5,773	$5,667	$17,336	$16,058
Noninterest Income				
Income from fiduciary activities	$212	$296	$873	$929
Service charges on deposit accounts	332	377	984	1,086
Other service charges and fees	827	874	2,307	3,117
Gain on sale of securities	87	—	93	400
Other operating income	15	34	127	450
Total noninterest income	$1,473	$1,581	$4,384	$5,982
Noninterest Expenses				
Salaries and employee benefits	$3,017	$2,926	$8,768	$8,477
Occupancy expenses	319	336	963	936
Equipment expenses	197	151	546	497
Advertising and marketing expenses	159	150	417	421
Stationery and supplies	74	57	238	203
ATM network fees	174	157	532	457
Other real estate owned expense	4	2	14	30
Loss (gain) on the sale of other real estate owned	14	111	(3)	58
FDIC assessment	94	92	261	285
Computer software expense	252	185	664	504
Bank franchise tax	123	103	342	305
Professional fees	290	265	761	790
Other operating expenses	616	637	1,639	1,744
Total noninterest expenses	$5,333	$5,172	$15,142	$14,707
Income before income taxes	$1,913	$2,076	$6,578	$7,333

Income Tax Expense	528	571	1,872	2,024
Net income	$1,385	$1,505	$4,706	$5,309
Earnings Per Share				
Net income per common share, basic	$0.40	$0.44	$1.37	$1.57
Net income per common share, diluted	$0.40	$0.44	$1.37	$1.56

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC.
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$1,385	$1,505	$4,706	$5,309
Other comprehensive (loss) income:				
Unrealized (loss) gain on available for sale securities, net of deferred income taxes (benefit) of $(39) and ($120) for the three months ended September 30, 2014 and 2013, respectively and $588 and ($1,412) for the nine months ended September 30, 2014 and 2013, respectively	(76)	(235)	1,143	(2,743)
Change in fair value of interest rate swap, net of deferred income taxes of $22 and $0 for the three months ended September 30, 2014 and 2013, respectively and $41 and $56 for the nine months ended September 30, 2014 and 2013, respectively	41	1	79	109
Total other comprehensive (loss) income	(35)	(234)	1,222	(2,634)
Total comprehensive income	$1,350	$1,271	$5,928	$2,675

See Notes to Consolidated Financial Statements

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EAGLE FINANCIAL SERVICES, INC.
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2012	$8,340	$10,424	$41,494	$ 3,448	$63,706
Net income			5,309		5,309
Other comprehensive (loss)				(2,634)	(2,634)
Restricted stock awards, stock incentive plan (9,699 shares)	24	(24)			—
Income tax benefit on vesting of restricted stock		18			18
Stock options exercised (3,872 shares)	10	59			69
Stock-based compensation expense		218			218
Issuance of common stock, dividend investment plan (22,346 shares)	56	438			494
Issuance of common stock, employee benefit plan (7,721 shares)	19	142			161
Dividends declared ($0.57 per share)			(1,924)		(1,924)
Balance, September 30, 2013	$8,449	$11,275	$44,879	$ 814	$65,417
Balance, December 31, 2013	$8,482	$11,537	$46,082	$ 305	66,406
Net income			4,706		4,706
Other comprehensive income				1,222	1,222
Restricted stock awards, stock incentive plan (10,009 shares)	25	(25)			—
Income tax benefit on vesting of restricted stock		11			11
Stock options exercised (927 shares)	2	(2)			—
Stock-based compensation expense		173			173
Issuance of common stock, dividend investment plan (23,473 shares)	59	456			515
Issuance of common stock, employee benefit plan (7,995 shares)	20	162			182
Dividends declared ($0.57 per share)			(1,954)		(1,954)
Balance, September 30, 2014	$8,588	$12,312	$48,834	$ 1,527	$71,261

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC.
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Nine Months Ended September 30, 2014	2013
Cash Flows from Operating Activities		
Net income	$4,706	$5,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	587	593
Amortization of intangible and other assets	117	113
Provision for loan losses	—	767
(Gain) loss on the sale of other real estate owned	(3)	58
Loss on the sale and disposal of assets	5	2
(Gain) on the sale of securities	(93)	(400)
Accrual of restricted stock awards	173	218
Premium amortization on securities, net	88	108
Deferred tax benefit	—	876
Changes in assets and liabilities:		
(Increase) in other assets	(812)	(1,900)
(Decrease) increase in other liabilities	(262)	1,256
Net cash provided by operating activities	$4,506	$7,000
Cash Flows from Investing Activities		
Proceeds from maturities and principal payments of securities available for sale	$9,264	$16,751
Proceeds from the sale of securities available for sale	1,129	2,756
Purchases of securities available for sale	(5,081)	(22,727)
Proceeds from the sale of restricted investments	284	136
Purchases of restricted investments	(450)	—
Purchases of bank premises and equipment	(2,272)	(1,290)
Proceeds from the sale of other real estate owned	685	726
Proceeds from the sale of repossessed assets	26	11
Net (increase) in loans	(21,039)	(20,593)
Net cash (used in) investing activities	$(17,454)	$(24,230)
Cash Flows from Financing Activities		
Net increase in demand deposits, money market and savings accounts	$12,250	$7,617
Net (decrease) in certificates of deposit	(4,700)	(10,191)
Net (decrease) in federal funds purchased and securities sold under agreements to repurchase	—	(10,000)
Net increase in Federal Home Loan Bank advances	7,750	—
Issuance of common stock, employee benefit plan	182	161
Stock options exercised	—	69
Cash dividends paid	(1,439)	(1,430)
Net cash provided by (used in) financing activities	$14,043	$(13,774)

EAGLE FINANCIAL SERVICES, INC.
Consolidated Statements of Cash Flows (Unaudited)
(continued)

	Nine Months Ended September 30,	
	2014	2013
Increase (decrease) in cash and cash equivalents	$1,095	$(31,004)
Cash and Cash Equivalents		
Beginning	14,243	48,690
Ending	$15,338	$17,686
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$1,474	$2,055
Income taxes	$1,985	$2,097
Supplemental Schedule of Noncash Investing and Financing Activities:		
Unrealized gain (loss) on securities available for sale	$1,731	$(4,155)
Change in fair value of interest rate swap	$120	$165
Other real estate acquired in settlement of loans	$680	$—
Issuance of common stock, dividend investment plan	$515	$494

EAGLE FINANCIAL SERVICES, INC.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2014
NOTE 1. General

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America.

In the opinion of management, the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position at September 30, 2014 and December 31, 2013, the results of operations for the three and nine months ended September 30, 2014 and 2013, and cash flows for the nine months ended September 30, 2014 and 2013. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Form 10-K”).

The Company owns 100% of Bank of Clarke County (the “Bank”) and Eagle Financial Statutory Trust II. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions between the Company and the Bank have been eliminated. The subordinated debt of Eagle Financial Statutory Trust II is reflected as a liability of the Company.

Certain amounts in the consolidated financial statements have been reclassified to conform to current year presentations.

NOTE 2. Stock-Based Compensation Plan

During 2014, the Company’s shareholders approved a stock incentive plan which allows key employees and directors to increase their personal financial interest in the Company. This plan permits the issuance of incentive stock options and non-qualified stock options and the award of stock appreciation rights, common stock, restricted stock, and phantom stock. The plan authorizes the issuance of up to 500,000 shares of common stock.

The Company periodically grants Restricted Stock to its directors and executive officers. Restricted Stock provides grantees with rights to shares of common stock upon completion of a service period or achievement of Company performance measures. During the restriction period, all shares are considered outstanding and dividends are paid to the grantee. In general, outside directors are periodically granted restricted shares which vest over a period of less than 9 months. Beginning during 2006, executive officers were granted restricted shares which vest over a 3 year service period and restricted shares which vest based on meeting annual performance measures. The Company recognizes compensation expense over the restricted period.

The following table presents Restricted Stock activity for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,			
	2014		2013	
	Shares	Weighted Average Grant Date	Shares	Weighted Average Grant Date

			Fair Value			Fair Value
Nonvested, beginning of period	17,050		$19.92	16,500		$16.53
Granted	14,900		23.50	14,900		22.06
Vested	(10,009	)	19.65	(9,699	)	16.47
Forfeited	(2,790	)	22.11	(651	)	16.75
Nonvested, end of period	19,151		$22.53	21,050		$20.46

NOTE 3. Earnings Per Common Share

Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The number of potential common shares is determined using the treasury method and relates to outstanding stock options and unvested restricted stock grants.

The following table shows the weighted average number of shares used in computing earnings per share for the three and nine months ended September 30, 2014 and 2013 and the effect on the weighted average number of shares of dilutive potential common stock. Potential dilutive common stock had no effect on income available to common shareholders.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Average number of common shares outstanding	3,451,041	3,393,519	3,431,356	3,380,149
Effect of dilutive common stock	9,145	12,685	8,121	11,158
Average number of common shares outstanding used to calculate diluted earnings per share	3,460,186	3,406,204	3,439,477	3,391,307

NOTE 4. Securities

Amortized costs and fair values of securities available for sale at September 30, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	September 30, 2014 (in thousands)			
Obligations of U.S. government corporations and agencies	$36,912	$517	$(657)	$36,772
Mortgage-backed securities	12,802	480	(22)	13,260
Obligations of states and political subdivisions	39,465	1,435	(90)	40,810
Corporate securities	6,237	782	—	7,019
Equity securities	1,044	117	—	1,161
	$96,460	$3,331	$(769)	$99,022
	December 31, 2013 (in thousands)			
Obligations of U.S. government corporations and agencies	$35,890	$439	$(1,585)	$34,744
Mortgage-backed securities	14,896	422	(121)	15,197
Obligations of states and political subdivisions	42,442	969	(295)	43,116
Corporate securities	7,495	928	—	8,423
Equity securities	1,044	74	—	1,118
	$101,767	$2,832	$(2,001)	$102,598

During the nine months ended September 30, 2014, the Company sold $1.1 million in available for sale securities for a net gain of $93 thousand. During the nine months ended September 30, 2013, the Company sold $2.8 million in available for sale securities for a net gain of $400 thousand.

The fair value and gross unrealized losses for securities available for sale, totaled by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2014 and December 31, 2013 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	September 30, 2014 (in thousands)					
Obligations of U.S. government corporations and agencies	$3,982	$22	$22,253	$635	$26,235	$657
Mortgage-backed securities	—	—	1,521	22	1,521	22
Obligations of states and political subdivisions	249	1	3,438	89	3,687	90
Corporate securities	—	—	—	—	—	—
Equity securities	—	—	—	—	—	—
	$4,231	$23	$27,212	$746	$31,443	$769
	December 31, 2013 (in thousands)					
Obligations of U.S. government corporations and agencies	$23,235	$1,551	$1,967	$34	$25,202	$1,585
Mortgage-backed securities	2,828	121	—	—	2,828	121
Obligations of states and political subdivisions	8,439	252	466	43	8,905	295
Corporate securities	—	—	—	—	—	—
Equity securities	—	—	—	—	—	—
	$34,502	$1,924	$2,433	$77	$36,935	$2,001

Gross unrealized losses on available for sale securities included thirty-seven (37) and fifty-one (51) debt securities at September 30, 2014 and December 31, 2013, respectively. The Company evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company's mortgage-backed securities are issued by U.S. government agencies, which guarantee payments to investors regardless of the status of the underlying mortgages. Consideration is given to the length of time and the amount of an unrealized loss, the financial condition of the issuer, and the intent and ability of the Company to retain its investment in the issuer long enough to allow for an anticipated recovery in fair value. The fair value of a security reflects its liquidity as compared to similar instruments, current market rates on similar instruments, and the creditworthiness of the issuer. Absent any change in the liquidity of a security or the creditworthiness of the issuer, prices will decline as market rates rise and vice-versa. The primary cause of the unrealized losses at September 30, 2014 and December 31, 2013 was changes in market interest rates. Since the losses can be primarily attributed to changes in market interest rates and not expected cash flows or an issuer's financial condition, the unrealized losses are deemed to be temporary. The continuing economic downturn involving housing, liquidity and credit were also a contributing factor to the unrealized losses on these securities at September 30, 2014 and December 31, 2013. The Company monitors the financial condition of these issuers continuously and will record other-than-temporary impairment if the recovery of value is unlikely.

The Company's securities are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain securities and the level of uncertainty related to changes in the value of securities, it is at least reasonably possible that changes in risks in the near term would materially affect securities reported in the financial statements. In addition, recent economic uncertainty and market events have led to unprecedented volatility in currency, commodity, credit and equity markets culminating in failures of some banking and financial services firms and government intervention to solidify others. These events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the Company’s securities.

Securities having a carrying value of $3.6 million at September 30, 2014 were pledged to secure securities sold under agreements to repurchase and other purposes required by law.

The composition of restricted investments at September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Federal Reserve Bank Stock	$344	$344
Federal Home Loan Bank Stock	1,874	1,708
Community Bankers' Bank Stock	140	140
	$2,358	$2,192

NOTE 5. Allowance for Loan Losses

Changes in the allowance for loan losses for the nine months ended September 30, 2014 and 2013 and the year ended December 31, 2013 were as follows:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Nine Months Ended September 30, 2013
		(in thousands)	
Balance, beginning	$5,488	$6,577	$6,577
Provision charged to operating expense	—	—	767
Recoveries added to the allowance	614	233	204
Loan losses charged to the allowance	(515)	(1,322)	(830)
Balance, ending	$5,587	$5,488	$6,718

Nonaccrual and past due loans by class at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014 (in thousands)							
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Loans	90 or More Days Past Due Still Accruing	Nonaccrual Loans
Commercial - Non Real Estate:								
Commercial & Industrial	$43	$1,053	$100	$1,196	$28,512	$29,708	$—	$1,736
Commercial Real Estate:								
Owner Occupied	3,276	739	608	4,623	95,127	99,750	—	2,485
Non-owner occupied	631	—	813	1,444	57,290	58,734	—	1,243
Construction and Farmland:								
Residential	—	—	—	—	5,837	5,837	—	—
Commercial	424	16	80	520	32,256	32,776	16	462
Consumer:								
Installment	60	2	—	62	13,234	13,296	—	—
Residential:								

Equity Lines	63	121	179	363	30,570	30,933	—	329
Single family	1,526	348	345	2,219	186,463	188,682		2,373
Multifamily	—	—	—	—	3,050	3,050	—	—
All Other Loans	—	—	—	—	2,302	2,302	—	—
Total	$6,023	$2,279	$2,125	$10,427	$454,641	$465,068	$16	$8,628

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December 31, 2013
(in thousands)

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Loans	90 or More Past Due Still Accruing	Nonaccrual Loans
Commercial - Non Real Estate:								
Commercial & Industrial	$143	$—	$1,162	$1,305	$19,560	$20,865	$—	$1,288
Commercial Real Estate:								
Owner Occupied	364	—	1,270	1,634	90,811	92,445	—	1,269
Non-owner occupied	99	185	—	284	55,437	55,721	—	185
Construction and Farmland:								
Residential	—	—	—	—	7,860	7,860	—	—
Commercial	—	—	—	—	29,073	29,073	—	157
Consumer:								
Installment	95	9	11	115	13,670	13,785	11	6
Residential:								
Equity Lines	202	25	—	227	31,997	32,224	—	179
Single family	1,995	180	693	2,868	183,541	186,409	—	1,328
Multifamily	—	—	—	—	2,850	2,850	—	—
All Other Loans	—	—	—	—	3,041	3,041	—	—
Total	$2,898	$399	$3,136	$6,433	$437,840	$444,273	$11	$4,412

Allowance for loan losses by segment at September 30, 2014 and December 31, 2013 were as follows:

As of and for the Nine Months Ended September 30, 2014
(in thousands)

	Construction and Farmland	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	All Other Loans	Unallocated	Total
Allowance for credit losses:								
Beginning Balance	$1,032	$2,225	$1,337	$555	$102	$82	$155	$5,488
Charge-Offs	—	(435)	—	—	(65)	(15)	—	(515)
Recoveries	4	9	379	148	71	3	—	614
Provision	(143)	76	(312)	200	(2)	(27)	208	—
Ending balance	$893	$1,875	$1,404	$903	$106	$43	$363	$5,587
Ending balance:								
Individually evaluated for impairment	$63	$243	$280	$414	$—	$—	$—	$1,000
Ending balance: collectively evaluated for impairment	$830	$1,632	$1,124	$489	$106	$43	$363	$4,587

Financing receivables:								
Ending balance	$38,613	$222,665	$ 158,484	$ 29,708	$13,296	$2,302	$ —	$465,068
Ending balance individually evaluated for impairment	$2,828	$3,648	$ 4,417	$ 1,736	$—	$—	$ —	$12,629
Ending balance collectively evaluated for impairment	$35,785	$219,017	$ 154,067	$ 27,972	$13,296	$2,302	$ —	$452,439

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	As of and for the Twelve Months Ended December 31, 2013 (in thousands)							
	Construction and Farmland	Residential Real Estate	Commercial Real Estate	Commercial	Consumer	All Other Loans	Unallocated	Total
Allowance for credit losses:								
Beginning Balance	$1,280	$2,820	$1,182	$880	$107	$122	$186	$6,577
Charge-Offs	(20)	(507)	(289)	(403)	(85)	(18)	—	(1,322)
Recoveries	5	109	7	47	54	11	—	233
Provision	(233)	(197)	437	31	26	(33)	(31)	—
Ending balance	$1,032	$2,225	$1,337	$555	$102	$82	$155	$5,488
Ending balance: Individually evaluated for impairment	$218	$627	$299	$334	$—	$—	$—	$1,478
Ending balance: collectively evaluated for impairment	$814	$1,598	$1,038	$221	$102	$82	$155	$4,010
Financing receivables:								
Ending balance	$36,933	$221,483	$148,166	$20,865	$13,785	$3,041	$—	$444,273
Ending balance individually evaluated for impairment	$2,674	$4,922	$4,750	$1,347	$—	$6	$—	$13,699
Ending balance collectively evaluated for impairment	$34,259	$216,561	$143,416	$19,518	$13,785	$3,035	$—	$430,574

Impaired loans by class at September 30, 2014 and December 31, 2013 were as follows:

	As of September 30, 2014 (in thousands)				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial - Non Real Estate:					
Commercial & Industrial	$480	$481	$—	$520	$6
Commercial Real Estate:					
Owner Occupied	2,237	2,237	—	2,558	31
Non-owner occupied	858	859	—	1,083	31
Construction and Farmland:					
Residential	—	—	—	—	—
Commercial	2,472	2,483	—	2,505	74
Residential:					
Equity lines	140	140	—	312	1
Single family	2,701	2,702	—	4,320	82
Multifamily	—	—	—	—	—
Other Loans	—	—	—	—	—
	$8,888	$8,902	$—	$11,298	$225
With an allowance recorded:					
Commercial - Non Real Estate:					
Commercial & Industrial	$1,256	$1,256	$414	$1,550	$3
Commercial Real Estate:					
Owner Occupied	461	461	34	462	11
Non-owner occupied	861	861	246	880	9
Construction and Farmland:					
Residential	—	—	—	—	—
Commercial	356	356	63	395	3
Residential:					
Equity lines	189	189	113	338	2
Single family	618	620	130	630	18
Multifamily	—	—	—	—	—
Other Loans	—	—	—	—	—
	$3,741	$3,743	$1,000	$4,255	$46
Total:					
Commercial	$1,736	$1,737	$414	$2,070	$9
Commercial Real Estate	4,417	4,418	280	4,983	82
Construction and Farmland	2,828	2,839	63	2,900	77
Residential	3,648	3,651	243	5,600	103
Other	—	—	—	—	—
Total	$12,629	$12,645	$1,000	$15,553	$271

The average recorded investment of impaired loans for the three months ended September 30, 2014 was $15.3 million. The interest income recognized on impaired loans for the three months ended September 30, 2014 was $83 thousand.

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	As of December 31, 2013 (in thousands)				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial - Non Real Estate:					
Commercial & Industrial	$126	$145	$—	$329	$8
Commercial Real Estate:					
Owner Occupied	2,246	2,273	—	2,512	118
Non-owner occupied	1,396	1,398	—	1,498	91
Construction and Farmland:					
Residential	—	—	—	—	—
Commercial	2,392	2,401	—	2,420	97
Residential:					
Equity lines	289	290	—	460	16
Single family	3,060	3,100	—	3,531	146
Multifamily	—	—	—	—	—
Other Loans	6	6	—	7	1
	$9,515	$9,613	$—	$10,757	$477
With an allowance recorded:					
Commercial - Non Real Estate:					
Commercial & Industrial	$1,221	$1,221	$334	$1,271	$59
Commercial Real Estate:					
Owner Occupied	—	—	—	—	—
Non-owner occupied	1,108	1,111	299	1,126	49
Construction and Farmland:					
Residential	—	—	—	—	—
Commercial	282	283	218	308	18
Residential:					
Equity lines	74	74	74	217	7
Single family	1,499	1,508	553	1,530	71
Multifamily	—	—	—	—	—
Other Loans	—	—	—	—	—
	$4,184	$4,197	$1,478	$4,452	$204
Total:					
Commercial	$1,347	$1,366	$334	$1,600	$67
Commercial Real Estate	4,750	4,782	299	5,136	258
Construction and Farmland	2,674	2,684	218	2,728	115
Residential	4,922	4,972	627	5,738	240
Other	6	6	—	7	1
Total	$13,699	$13,810	$1,478	$15,209	$681

The Company uses a rating system for evaluating the risks associated with non-consumer loans. Consumer loans are not evaluated for risk unless the characteristics of the loan fall within classified categories. Descriptions of these ratings are as follows:

Pass	Pass loans exhibit acceptable operating trends, balance sheet trends, and liquidity. Sufficient cash flow exists to service the loan. All obligations have been paid by the borrower in an as agreed manner.
Watch	Watch loans exhibit income volatility, negative operating trends, and a highly leveraged balance sheet. A higher level of supervision is required for these loans as the potential for a negative event could impact the borrower’s ability to repay the loan.
Special mention	Special mention loans exhibit a potential weakness, which if left uncorrected, may negatively affect the borrower’s ability to repay its debt obligation. The risk of default is not imminent and the borrower still demonstrates sufficient cash flow to support the loan.
Substandard	Substandard loans exhibit well defined weaknesses and have a potential of default. The borrowers exhibit adverse financial trends but still have the ability to service debt obligations.