LANDMARK BANCORP INC
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number 0-33203

LANDMARK BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**43-1930755**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

701 Poyntz Avenue, Manhattan, Kansas 66502

(Address of principal executive offices) (Zip code)

(785) 565-2000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: as of August 6, 2015, the issuer had outstanding 3,337,424 shares of its common stock, $.01 par value per share.

LANDMARK BANCORP, INC.

Form 10-Q Quarterly Report

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Cash and cash equivalents	$ 15,135	$ 12,760
Investment securities available-for-sale, at fair value	358,273	348,931
Bank Stocks, at cost	5,189	4,007
Loans, net of allowance for loans losses of $6,018 and $5,320	421,050	416,190
Loans held for sale, net	18,127	10,671
Premises and equipment, net	21,127	20,954
Bank owned life insurance	17,895	17,650
Goodwill	17,532	17,532
Other intangible assets, net	4,399	4,370
Real estate owned, net	46	255
Accrued interest and other assets	10,941	10,150
Total assets	$ 889,714	$ 863,470
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	$ 147,753	$ 130,492
Money market and checking	314,294	330,580
Savings	78,338	74,424
Time	159,157	169,059
Total deposits	699,542	704,555
Federal Home Loan Bank borrowings	70,559	43,253
Subordinated debentures	20,984	20,884
Other borrowings	11,122	12,410
Accrued interest, taxes, and other liabilities	12,311	10,723
Total liabilities	814,518	791,825
Commitments and contingencies		

Stockholders' equity:		
Preferred stock, $0.01 par value per share, 200,000 shares authorized; none issued	-	-
Common stock, $0.01 par value per share, 7,500,000 shares authorized; 3,337,424 and 3,333,243 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	33	33
Additional paid-in capital	40,568	40,473
Retained earnings	33,446	29,321
Accumulated other comprehensive income	1,149	1,818
Total stockholders' equity	75,196	71,645
Total liabilities and stockholders' equity	$ 889,714	$ 863,470

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(Dollars in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans:				
Taxable	$ 5,436	$ 5,171	$ 10,556	$ 10,325
Tax-exempt	75	77	143	144
Investment securities:				
Taxable	1,146	1,006	2,343	1,969
Tax-exempt	736	619	1,414	1,240
Total interest income	7,393	6,873	14,456	13,678
Interest expense:				
Deposits	272	314	550	640
Borrowings	497	483	988	962
Total interest expense	769	797	1,538	1,602
Net interest income	6,624	6,076	12,918	12,076
Provision for loan losses	200	300	(800)	450
Net interest income after provision for loan losses	6,424	5,776	13,718	11,626
Non-interest income:				
Fees and service charges	1,813	1,922	3,495	3,592
Gains on sales of loans, net	2,251	1,846	4,194	2,962
Bank owned life insurance	123	128	245	255
Gains (losses) on sales of investment securities, net	-	39	(254)	39
Other	495	251	765	574
Total non-interest income	4,682	4,186	8,445	7,422
Non-interest expense:				
Compensation and benefits	3,845	3,494	7,566	6,978
Occupancy and equipment	1,059	1,094	2,130	2,207
Data processing	342	344	689	713
Amortization of intangibles	346	331	681	635
Professional fees	259	329	493	615
Advertising	125	108	249	220
Federal deposit insurance premiums	105	133	224	265
Foreclosure and real estate owned expense	20	18	45	31
Other	1,342	1,242	2,477	2,240
Total non-interest expense	7,443	7,093	14,554	13,904
Earnings before income taxes	3,663	2,869	7,609	5,144
Income tax expense	1,047	792	2,216	1,368
Net earnings	$ 2,616	$ 2,077	$ 5,393	$ 3,776

Earnings per share:				
Basic (1)	$ 0.78	$ 0.62	$1.62	$1.14
Diluted (1)	$ 0.76	$ 0.62	$1.57	$1.12
Dividends per share (1)	$ 0.19	$ 0.18	$0.38	$0.36

(1) Per share amounts for the period ended June 30, 2014 have been adjusted to give effect to the 5% stock dividend paid during December 2014.

See accompanying notes to consolidated financial statements.

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LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Net earnings	$ 2,616	$ 2,077	$ 5,393	$ 3,776
Net unrealized holding gains (losses) on available-for-sale securities	(3,235)	2,708	(1,322)	4,648
Reclassification adjustment for net (gains) losses included in earnings	-	(39)	254	(39)
Net unrealized gains (losses)	(3,235)	2,669	(1,068)	4,609
Income tax effect on net gains (losses) included in earnings	-	14	(94)	14
Income tax effect on net unrealized holding gains (losses)	1,201	(997)	493	(1,715)
Other comprehensive income (loss)	(2,034)	1,686	(669)	2,908
Total comprehensive income	$ 582	$ 3,763	$ 4,724	$ 6,684

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share amounts)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2014	$ 31	$ 36,400	$ 27,187	$ (926)	$ 62,692
Net earnings	-	-	3,776	-	3,776
Other comprehensive income	-	-	-	2,908	2,908
Dividends paid ($0.36 per share)	-	-	(1,203)	-	(1,203)
Stock-based compensation	-	29	-	-	29
Exercise of stock options, 34,063 shares, including excess tax benefit of $14	1	507	-	-	508
Balance at June 30, 2014	$ 32	$ 36,936	$ 29,760	$ 1,982	$ 68,710
Balance at January 1, 2015	$ 33	$ 40,473	$ 29,321	$ 1,818	$ 71,645
Net earnings	-	-	5,393	-	5,393
Other comprehensive loss	-	-	-	(669)	(669)
Dividends paid ($0.38 per share)	-	-	(1,268)	-	(1,268)
Stock-based compensation	-	16	-	-	16
Exercise of stock options, 4,181 shares, including excess tax benefit of $5	-	79	-	-	79
Balance at June 30, 2015	$ 33	$ 40,568	$ 33,446	$ 1,149	$ 75,196

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net earnings	$5,393	$3,776
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	(800)	450
Amortization of investment security premiums, net	767	852
Amortization of purchase accounting adjustment on loans	(362)	(332)
Amortization of purchase accounting adjustment on subordinated debentures	100	100
Amortization of intangibles	681	635
Depreciation	577	564
Increase in cash surrender value of bank owned life insurance	(245)	(255)
Stock-based compensation	16	29
Deferred income taxes	215	(13)
Net losses (gains) on sales of investment securities	254	(39)
Impairment of affordable housing investment	163	-
Net gain on sales of premises, equipment and real estate owned	(236)	(28)
Net gains on sales of loans	(4,194)	(2,962)
Proceeds from sales of loans	148,064	96,094
Origination of loans held for sale	(151,326)	(96,274)
Changes in assets and liabilities:		
Accrued interest and other assets	(1,534)	(2,458)
Accrued expenses, taxes, and other liabilities	(1,237)	(1,187)
Net cash used in operating activities	(3,704)	(1,048)
Cash flows from investing activities:		
Net (increase) decrease in loans	(3,659)	1,220
Maturities and prepayments of investment securities	34,411	19,846
Purchases of investment securities	(62,094)	(29,874)
Proceeds from sales of investment securities	19,069	1,137
Redemption of bank stocks	4,769	2,399
Purchase of bank stocks	(5,951)	(1,024)
Proceeds from sales of premises and equipment and foreclosed assets	219	319
Purchases of premises and equipment, net	(509)	(789)
Net cash used in investing activities	(13,745)	(6,766)
Cash flows from financing activities:		
Net decrease in deposits	(5,005)	(2,936)
Federal Home Loan Bank advance borrowings	131,251	16,269
Federal Home Loan Bank advance repayments	(103,945)	(16,287)
Proceeds from other borrowings	1,400	295

Repayments on other borrowings	(2,688)	(564)
Proceeds from exercise of stock options, including excess tax benefit	79	508
Payment of dividends	(1,268)	(1,203)
Net cash provided by (used in) financing activities	19,824	(3,918)
Net increase (decrease) in cash and cash equivalents	2,375	(11,732)
Cash and cash equivalents at beginning of period	12,760	29,735
Cash and cash equivalents at end of period	$15,135	$18,003

(Continued)

LANDMARK BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

(Unaudited)

(Dollars in thousands)	Six months ended June 30, 2015	2014
Supplemental disclosure of cash flow information:		
Cash payments for income taxes	$1,890	$615
Cash paid for interest	1,543	1,627
Supplemental schedule of noncash investing and financing activities:		
Transfer of loans to real estate owned	24	101
Investment securities purchases not yet settled	(2,817)	(5,581)

See accompanying notes to consolidated financial statements.

LANDMARK BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Financial Statements

The consolidated financial statements of Landmark Bancorp, Inc. (the "Company") and subsidiary have been prepared in accordance with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of financial statements have been reflected herein. The results of the interim period ended June 30, 2015 are not necessarily indicative of the results expected for the year ending December 31, 2015. The Company has evaluated subsequent events for recognition and disclosure up to the date the financial statements were issued.

2. Investments

A summary of investment securities available-for-sale is as follows:

	As of June 30, 2015			
(Dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U. S. treasury securities	$6,524	$ 39	$ -	$6,563
U. S. federal agency obligations	30,162	91	(134)	30,119
Municipal obligations, tax exempt	134,040	1,437	(957)	134,520
Municipal obligations, taxable	71,785	596	(483)	71,898
Agency mortgage-backed securities	103,698	699	(305)	104,092
Common stocks	580	802	-	1,382
Certificates of deposit	9,699	-	-	9,699
Total	$356,488	$ 3,664	$ (1,879)	$358,273

	As of December 31, 2014			
(Dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U. S. treasury securities	$6,530	$ 1	$ (1)	$6,530
U. S. federal agency obligations	25,983	34	(274)	25,743

Municipal obligations, tax exempt	108,752	1,937	(180)	110,509
Municipal obligations, taxable	63,728	544	(350)	63,922
Agency mortgage-backed securities	135,072	1,152	(705)	135,519
Common stocks	588	695	-	1,283
Certificates of deposit	5,425	-	-	5,425
Total	$346,078	$ 4,363	$ (1,510)	$348,931

The tables above show that some of the securities in the available-for-sale investment portfolio had unrealized losses, or were temporarily impaired, as of June 30, 2015 and December 31, 2014. This temporary impairment represents the estimated amount of loss that would be realized if the securities were sold on the valuation date. Securities which were temporarily impaired are shown below, along with the length of time in a continuous unrealized loss position.

		As of June 30, 2015					
(Dollars in thousands)		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. federal agency obligations	10	$8,717	$ (52)	$ 8,612	$ (82)	$17,329	$ (134)
Municipal obligations, tax exempt	167	51,057	(913)	3,084	(44)	54,141	(957)
Municipal obligations, taxable	75	23,204	(375)	8,698	(108)	31,902	(483)
Agency mortgage-backed securities	33	24,973	(177)	6,451	(128)	31,424	(305)
Total	285	$107,951	$ (1,517)	$ 26,845	$ (362)	$134,796	$ (1,879)

		As of December 31, 2014					
(Dollars in thousands)		Less than 12 months		12 months or longer		Total	
	No. of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. treasury securities	1	$2,960	$ (1)	$ -	$ -	$2,960	$ (1)
U. S. federal agency obligations	14	7,361	(14)	11,958	(260)	19,319	(274)
Municipal obligations, tax exempt	71	13,927	(66)	7,329	(114)	21,256	(180)
Municipal obligations, taxable	74	14,797	(92)	14,827	(258)	29,624	(350)
Agency mortgage-backed securities	29	17,535	(76)	25,759	(629)	43,294	(705)
Total	189	$56,580	$ (249)	$ 59,873	$ (1,261)	$116,453	$ (1,510)

The Company’s U.S. federal agency portfolio consists of securities issued by the government-sponsored agencies of Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”) and Federal Home Loan Bank (“FHLB”). The receipt of principal and interest on U.S. federal agency obligations is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its U.S. federal agency obligations do not expose the Company to credit-related losses. Based on these factors, along with the Company’s intent to not sell the securities and its belief that it was more likely than not that the Company will not be required to sell the securities before recovery of their cost basis, the Company believed that the U.S. federal agency obligations identified in the tables above were temporarily impaired as of the date of the respective table.

The Company’s portfolio of municipal obligations consists of both tax-exempt and taxable general obligations securities issued by various municipalities. As of June 30, 2015, the Company did not intend to sell and it was more likely than not that the Company will not be required to sell its municipal obligations in an unrealized loss position until the recovery of their costs. Due to the issuers’ continued satisfaction of the securities’ obligations in accordance with their contractual terms and the expectation that they will continue to do so, the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believed that the municipal obligations identified in the tables above were temporarily impaired as of the date of the respective table.

The Company's agency mortgage-backed securities portfolio consists of securities underwritten to the standards of and guaranteed by the government-sponsored agencies of FHLMC, FNMA and the Government National Mortgage Association ("GNMA"). The receipt of principal, at par, and interest on agency mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believed that its agency mortgage-backed securities did not expose the Company to credit-related losses. Based on these factors, along with the Company's intent to not sell the securities and the Company's belief that it was more likely than not that the Company will not be required to sell the securities before recovery of their cost basis, the Company believed that the agency mortgage-backed securities identified in the tables above were temporarily impaired as of the date of the respective table.

The table below includes scheduled principal payments and estimated prepayments, based on observable market inputs, for agency mortgage-backed securities. Actual maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties. The amortized cost and fair value of investment securities at June 30, 2015 are as follows:

(Dollars in thousands)	Amortized cost	Estimated fair value
Due in less than one year	$ 13,765	$ 13,821
Due after one year but within five years	190,021	190,774
Due after five years but within ten years	98,451	99,223
Due after ten years	53,671	53,073
Common stocks	580	1,382
Total	$ 356,488	$ 358,273

Sales proceeds and gross realized gains and losses on sales of available-for-sale securities are as follows:

(Dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Sales proceeds	$ -	$ 1,137	$ 19,069	$ 1,137
Realized gains	$ -	$ 39	$ 24	$ 39
Realized losses	-	-	(278)	-
Net realized losses	$ -	$ 39	$ (254)	$ 39

Securities with carrying values of $196.8 million and $212.9 million were pledged to secure public funds on deposit, repurchase agreements and as collateral for borrowings at June 30, 2015 and December 31, 2014, respectively. Except for U.S. federal agency obligations, no investment in a single issuer exceeded 10% of consolidated stockholders' equity.

3. Loans and Allowance for Loan Losses

Loans consisted of the following as of the dates indicated below:

(Dollars in thousands)	June 30, 2015	December 31, 2014

One-to-four family residential real estate	$131,149	$ 127,555
Construction and land	17,251	21,950
Commercial real estate	118,645	118,411
Commercial loans	64,873	59,971
Agriculture loans	67,746	64,316
Municipal loans	7,927	8,982
Consumer loans	19,347	20,044
Total gross loans	426,938	421,229
Net deferred loan costs and loans in process	130	281
Allowance for loan losses	(6,018)	(5,320)
Loans, net	$421,050	$ 416,190

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In the first quarter of 2015, the Company adjusted the historical loss analysis within the evaluation of the allowance for loan losses. The Company previously used a twelve quarter historical loss rate calculated by loan class. The updated historical loss analysis uses a migration analysis to track historical losses by loan class and risk categories over a longer period of time. In the opinion of management, the adjusted historical loss analysis more accurately allocates estimated losses. The adjustments resulted in reclassifications of the allocated allowance among various loan classes compared to December 31, 2014. The adjustments to the historical loss analysis did not have a significant impact on the total allowance for loan losses balance as of December 31, 2014. The following tables provide information on the Company's allowance for loan losses by loan class and allowance methodology:

	Three and six months ended June 30, 2015							
(Dollars in thousands)	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial loans	Agriculture loans	Municipal loans	Consumer loans	Total
Allowance for loan losses:								
Balance at April 1, 2015	$1,386	$ 103	$ 1,600	$ 1,515	$ 1,104	$ 25	$ 172	$5,905
Charge-offs	(9)	-	-	(10)	-	-	(88)	(107)
Recoveries	3	4	2	2	-	-	8	19
Provision for loan losses	(55)	(9)	(63)	249	(2)	(4)	84	200
Balance at June 30, 2015	1,325	99	1,539	1,756	1,102	21	176	6,018
Balance at January 1, 2015	$755	$ 762	$ 1,832	$ 836	$ 915	$ 51	$ 169	$5,320
Charge-offs	(9)	-	-	(10)	-	(88)	(142)	(249)
Recoveries	5	1,719	2	3	-	-	18	1,747
Provision for loan losses	574	(2,382)	(295)	927	187	58	131	(800)
Balance at June 30, 2015	1,325	99	1,539	1,756	1,102	21	176	6,018

	Three and six months ended June 30, 2014							
(Dollars in thousands)	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial loans	Agriculture loans	Municipal loans	Consumer loans	Total
Allowance for loan losses:								
Balance at April 1, 2014	$747	$ 936	$ 1,806	$ 1,515	$ 435	$ 53	$ 148	$5,640
Charge-offs	-	-	-	(765)	-	-	(47)	(812)
Recoveries	3	4	5	-	-	-	9	21
Provision for loan losses	(154)	(128)	65	284	162	5	66	300
Balance at June 30, 2014	596	812	1,806	1,515	597	58	176	5,560
Balance at January 1, 2014	$732	$ 1,343	$ 1,970	$ 769	$ 545	$ 47	$ 134	$5,540

Charge-offs	(20)	-	-	(771)	-	-	(89)	(880)
Recoveries	6	7	5	1	-		20	39
Provision for loan losses	(122)	(538)	(99)	1,035	52	11	111	450
Balance at June 30, 2014	596	812	1,806	1,515	597	58	176	5,560

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	As of June 30, 2015							
(Dollars in thousands)	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial loans	Agriculture loans	Municipal loans	Consumer loans	Total
Allowance for loan losses:								
Individually evaluated for loss	282	-	-	246	-	-	11	539
Collectively evaluated for loss	1,043	99	1,539	1,510	1,102	21	165	5,479
Total	1,325	99	1,539	1,756	1,102	21	176	6,018
Loan balances:								
Individually evaluated for loss	1,701	4,613	2,414	1,105	324	630	48	10,835
Collectively evaluated for loss	129,448	12,638	116,231	63,768	67,422	7,297	19,299	416,103
Total	$ 131,149	$ 17,251	$ 118,645	$ 64,873	$ 67,746	$ 7,927	$ 19,347	$ 426,938

	As of December 31, 2014							
(Dollars in thousands)	One-to-four family residential real estate	Construction and land	Commercial real estate	Commercial loans	Agriculture loans	Municipal loans	Consumer loans	Total
Allowance for loan losses:								
Individually evaluated for loss	287	-	17	28	5	-	12	349
Collectively evaluated for loss	468	762	1,815	808	910	51	157	4,971
Total	755	762	1,832	836	915	51	169	5,320
Loan balances:								
Individually evaluated for loss	1,589	4,805	2,880	371	285	706	67	10,703
Collectively evaluated for loss	125,966	17,145	115,531	59,600	64,031	8,276	19,977	410,526
Total	$ 127,555	$ 21,950	$ 118,411	$ 59,971	$ 64,316	$ 8,982	$ 20,044	$ 421,229

The Company recorded net loan recoveries of $1.5 million during the first six months of 2015 compared to net loan charge-offs of $841,000 during the first six months of 2014. The net loan recoveries during 2015 were primarily associated with the recovery of $1.7 million on a $4.3 million construction loan which was fully charged-off during 2010 and 2011. As of June 30, 2015, the Company has recovered approximately $2.4 million of the loan and continues to pursue collection of the remaining amount.

The Company's impaired loans increased from $10.7 million at December 31, 2014 to $10.8 million at June 30, 2015. The difference between the unpaid contractual principal and the impaired loan balance is a result of charge-offs recorded against impaired loans. The difference in the Company's non-accrual loan balances and impaired loan balances at June 30, 2015 and December 31, 2014, was related to troubled debt restructurings ("TDR") that are current and accruing interest, but still classified as impaired. Interest income recognized on a cash basis was immaterial during the six months ended June 30, 2015 and 2014. The following tables present information on impaired loans:

(Dollars in thousands)	As of June 30, 2015						
	Unpaid contractual principal	Impaired loan balance	Impaired loans without an allowance	Impaired loans with an allowance	Related allowance recorded	Year-to-date average loan balance	Year-to-date interest income recognized
One-to-four family residential real estate	$1,701	$ 1,701	$ 440	$ 1,261	$ 282	$ 1,907	$ -
Construction and land	6,348	4,613	4,613	-	-	4,730	85
Commercial real estate	2,414	2,414	2,414	-	-	2,552	11
Commercial loans	1,105	1,105	127	978	246	1,181	2
Agriculture loans	324	324	324	-	-	348	2
Municipal loans	630	630	630	-	-	635	10
Consumer loans	48	48	12	36	11	51	-
Total impaired loans	$12,570	$ 10,835	$ 8,560	$ 2,275	$ 539	$ 11,404	$ 110

(Dollars in thousands)	As of December 31, 2014						
	Unpaid contractual principal	Impaired loan balance	Impaired loans without an allowance	Impaired loans with an allowance	Related allowance recorded	Year-to-date average loan balance	Year-to-date interest income recognized
One-to-four family residential real estate	$1,589	$ 1,589	$ 167	$ 1,422	$ 287	$ 1,611	$ -
Construction and land	6,540	4,805	4,805	-	-	6,366	235
Commercial real estate	2,880	2,880	2,833	47	17	3,009	24
Commercial loans	371	371	137	234	28	393	10
Agriculture loans	285	285	146	139	5	294	-
Municipal loans	772	706	706	-	-	772	19
Consumer loans	67	67	25	42	12	75	-
Total impaired loans	$12,504	$ 10,703	$ 8,819	$ 1,884	$ 349	$ 12,520	$ 288

The Company's key credit quality indicator is a loan's performance status, defined as accruing or non-accruing. Performing loans are considered to have a lower risk of loss. Non-accrual loans are those which the Company believes have a higher risk of loss. The accrual of interest on non-performing loans is discontinued at the time the loan is ninety days delinquent, unless the credit is well secured and in process of collection. Loans are placed on non-accrual or are charged off at an earlier date if collection of principal or interest is considered doubtful. There were no loans ninety days delinquent and accruing interest at June 30, 2015 or December 31, 2014. The following tables present information on the Company's past due and non-accrual loans by loan class:

(Dollars in thousands)	As of June 30, 2015						
	30-59 days delinquent and accruing	60-89 days delinquent and accruing	90 days or more delinquent and accruing	Total past due loans accruing	Non-accrual loans	Total past due and non-accrual loans	Total loans not past due
One-to-four family residential real estate	$ 191	$ 387	$ -	$ 578	$ 1,697	$ 2,275	$ 128,874
Construction and land	12	-	-	12	1,288	1,300	15,951
Commercial real estate	-	854	-	854	2,038	2,892	115,753
Commercial loans	104	13	-	117	1,054	1,171	63,702
Agriculture loans	35	-	-	35	273	308	67,438
Municipal loans	-	-	-	-	-	-	7,927
Consumer loans	56	36	-	92	48	140	19,207
Total	$ 398	$ 1,290	$ -	$ 1,688	$ 6,398	$ 8,086	$ 418,852
Percent of gross loans	0.09 %	0.30 %	0.00 %	0.40 %	1.50 %	1.89 %	98.11 %

(Dollars in thousands)	As of December 31, 2014						
	30-59 days delinquent and accruing	60-89 days delinquent and accruing	90 days or more delinquent and accruing	Total past due loans accruing	Non-accrual loans	Total past due and non-accrual loans	Total loans not past due
One-to-four family residential real estate	$ 127	$ 50	$ -	$ 177	$ 1,585	$ 1,762	$ 125,793
Construction and land	163	-	-	163	1,322	1,485	20,465
Commercial real estate	-	-	-	-	2,488	2,488	115,923
Commercial loans	34	-	-	34	234	268	59,703
Agriculture loans	510	1	-	511	285	796	63,520
Municipal loans	-	-	-	-	65	65	8,917
Consumer loans	128	65	-	193	67	260	19,784
Total	$ 962	$ 116	$ -	$ 1,078	$ 6,046	$ 7,124	$ 414,105

Percent of gross loans	0.23 %	0.03 %	0.00 %	0.26 %	1.44 %	1.69 %	98.31 %

Under the original terms of the Company's non-accrual loans, interest earned on such loans for the six months ended June 30, 2015 and 2014, would have increased interest income by $237,000 and $280,000, respectively. No interest income related to non-accrual loans was included in interest income for the six months ended June 30, 2015 and 2014.

The Company also categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. Non-classified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those that are assigned a special mention, substandard or doubtful risk rating using the following definitions:

Special Mention: Loans are currently protected by the current net worth and paying capacity of the obligor or of the collateral pledged but potentially weak. These loans constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. The credit risk may be relatively minor, yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard: Loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The following table provides information on the Company's risk categories by loan class:

	As of June 30, 2015		As of December 31, 2014	
(Dollars in thousands)	Nonclassified	Classified	Nonclassified	Classified
One-to-four family residential real estate	$ 126,252	$ 4,897	$ 123,823	$ 3,732
Construction and land	14,397	2,854	18,815	3,135
Commercial real estate	107,408	11,237	111,428	6,983
Commercial loans	60,468	4,405	57,122	2,849
Agriculture loans	64,462	3,284	63,101	1,215
Municipal loans	7,927	-	8,894	88
Consumer loans	19,299	48	19,977	67
Total	400,213	26,725	403,160	18,069

At June 30, 2015, the Company had eleven loan relationships consisting of twenty one outstanding loans that were classified as TDRs. During the second quarter of 2015, the Company classified a commercial loan relationship consisting of $2.7 million in real estate and land loans as a TDR after agreeing to a bankruptcy plan with the borrower. The bankruptcy plan restarted the amortization period of the loans which extended the maturities. During the first quarter of 2015, the Company also classified a $44,000 agriculture loan relationship consisting of two loans as a TDR after extending the maturity of the loans. Since all of the loans were adequately secured, no charge-offs or impairments were recorded against the principal as of June 30, 2015. During the first quarter of 2015, a $78,000 commercial loan, which was classified as a TDR during 2014, paid off. No loan modifications were classified as TDRs during the three or six month periods ended June 30, 2014.

The Company evaluates each TDR individually and returns the loan to accrual status when a payment history is established after the restructuring and future payments are reasonably assured. There were no loans modified as TDRs for which there was a payment default within 12 months of modification as of June 30, 2015 and 2014. At June 30, 2015, there was a commitment of $84,000 to lend additional funds on one construction and land loan classified as a TDR. The Company had no allowance recorded against loans classified as TDRs at June 30, 2015 or December 31, 2014.

The following table presents information on loans that are classified as TDRs:

	As of June 30, 2015			As of December 31, 2014		
	Number of loans	Non-accrual balance	Accruing balance	Number of loans	Non-accrual balance	Accruing balance
One-to-four family residential real estate	1	$ -	$ 4	1	$ -	$ 4
Construction and land	8	1,272	3,325	7	613	3,483
Commercial real estate	6	1,991	376	2	-	392
Commercial loans	1	-	51	2	-	137
Agriculture	3	84	51	1	146	-
Municipal loans	2	-	630	2	-	641
Total troubled debt restructurings	21	$ 3,347	$ 4,437	15	$ 759	$ 4,657

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4. Goodwill and Other Intangible Assets

The Company tests goodwill for impairment annually or more frequently if circumstances warrant. The Company's annual step one impairment test as of December 31, 2014 concluded that its goodwill was not impaired. The Company concluded there were no triggering events during the first six months of 2015 that required an interim goodwill impairment test.

Lease intangible assets are amortized over the life of the lease. Core deposit intangible assets are amortized over the estimated useful life of ten years on an accelerated basis. A summary of the other intangible assets that continue to be subject to amortization is as follows:

(Dollars in thousands)	As of June 30, 2015
	Gross carrying amount