FIRST COMMUNITY CORP /SC/
Form 10-Q
May 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2015

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____ to _____

Commission File No. 000-28344

FIRST COMMUNITY CORPORATION
(Exact name of registrant as specified in its charter)

South Carolina	57-1010751
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of principal executive offices) (Zip Code)

(803) 951-2265

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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.

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

Indicate by check mark whether the registrant is 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: On May 13, 2015, 6,652,189 shares of the issuer’s common stock, par value $1.00 per share, were issued and outstanding.

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FIRST COMMUNITY CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$ 11,537	$ 12,480
Interest-bearing bank balances	31,796	9,454
Federal funds sold and securities purchased under agreements to resell	878	598
Investment securities held-to-maturity	12,756	10,647
Investment securities available-for-sale	259,369	270,164
Other investments, at cost	1,969	2,003
Loans held for sale	5,446	4,124
Loans	454,301	443,844
Less, allowance for loan losses	4,252	4,132
Net loans	450,049	439,712
Property, furniture and equipment - net	29,383	28,510
Land held for sale	1,200	1,200
Bank owned life insurance	14,744	14,642
Other real estate owned	2,748	2,943
Intangible assets	1,704	1,806
Goodwill	5,078	5,078
Other assets	7,162	9,002
Total assets	$ 835,819	$ 812,363
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 140,689	$ 133,004
NOW and money market accounts	305,851	287,982
Savings	56,467	53,583
Time deposits less than $100,000	105,262	108,048
Time deposits $100,000 and over	86,304	86,966
Total deposits	694,573	669,583
Securities sold under agreements to repurchase	16,684	17,383
Federal Home Loan Bank advances	27,552	28,807
Junior subordinated debt	15,464	15,464
Other liabilities	4,998	6,598
Total liabilities	759,271	737,835
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1.00 per share, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, par value $1.00 per share; 10,000,000 shares authorized; issued and outstanding 6,683,960 at March 31, 2015 6,664,391 at December 31, 2014	6,684	6,664
Common stock warrants issued	46	48
Nonvested restricted stock	(694)	(673)
Additional paid in capital	75,687	75,504

Accumulated deficit	(7,339)	(8,286)
Accumulated other comprehensive income	2,164	1,271
Total shareholders’ equity	76,548	74,528
Total liabilities and shareholders’ equity	$ 835,819	$ 812,363

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)	Three Months ended March 31,	
	2015	2014
	(Unaudited)	(Unaudited)
Interest and dividend income:		
Loans, including fees	$5,874	$5,080
Taxable securities	1,002	983
Non-taxable securities	380	317
Federal funds sold and securities purchased under resale agreements	6	10
Other	21	13
Total interest income	7,283	6,403
Interest expense:		
Deposits	426	429
Federal funds sold and securities sold under agreement to repurchase	8	10
Other borrowed money	401	468
Total interest expense	835	907
Net interest income	6,448	5,496
Provision for loan losses	406	150
Net interest income after provision for loan losses	6,042	5,346
Non-interest income:		
Deposit service charges	347	366
Mortgage banking income	735	619
Investment advisory and non-deposit commissions	296	257
Gain on sale of securities	104	8
Gain on sale of other assets	4	12
Loss on early extinguishment of debt	(103)	—
Other	598	613
Total non-interest income	1,981	1,875
Non-interest expense:		
Salaries and employee benefits	3,565	3,424
Occupancy	485	413
Equipment	402	339
Marketing and public relations	226	161
FDIC Assessment	138	124
Other real estate expense	154	138
Amortization of intangibles	103	42
Merger expenses	—	420
Other	1,027	965
Total non-interest expense	6,100	6,026
Net income before tax	1,923	1,195
Income tax expense	519	333
Net income	$1,404	$862
Basic earnings per common share	$0.22	$0.14

Diluted earnings per common share	$0.21	$0.14

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three months ended March 31,	
	2015	2014
Net income	$ 1,404	$ 862
Other comprehensive income:		
Unrealized gain during the period on available-for-sale securities, net of tax of $495 and $876, respectively	962	1,696
Less: Reclassification adjustment for gain on available-for-sale securities included in net income, net of tax expense of $35 and $2, respectively	(69)	(6)
Other comprehensive income	893	1,690
Comprehensive income	$ 2,297	$ 2,552

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

Three Months ended March 31, 2015 and March 31, 2014

(Unaudited)

(Dollars in thousands)	Common Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2013	5,303	$ 5,303	$ 48	$ 62,214	$ (444)	$ (11,923)	$ (2,527)	$ 52,671
Net income						862		862
Other comprehensive loss net of tax of $873							1,690	1,690
Issuance of restricted stock	71	71		697	(768)			—
Amortization of compensation on restricted stock					100			100
Issuance of common stock	1,274	1,274		12,436				13,710
Dividends: Common ($0.06 per share)						(313)		(313)
Dividend reinvestment plan	4	4		41				45
Balance March 31, 2014	6,652	$ 6,652	$ 48	$ 75,388	$ (1,112)	$ (11,374)	$ (837)	$ 68,765
Balance December 31, 2014	6,664	$ 6,664	$ 48	$ 75,504	$ (673)	$ (8,286)	$ 1,271	$ 74,528
Net income						1,404		1,404
Other comprehensive income net of tax of $460							893	893
Issuance of restricted stock	13	13		137	(150)			—
Amortization of compensation on restricted stock					129			129
Exercise of stock warrants	2	2	(2)					—
Dividends: Common ($0.07 per share)						(457)		(457)
Dividend reinvestment plan	5	5		46				51
Balance March 31, 2015	6,684	$ 6,684	$ 46	$ 75,687	$ (694)	$ (7,339)	$ 2,164	$ 76,548

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
(Dollars in thousands)	2015	2014
Cash flows from operating activities:		
Net income	$1,404	$862
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	297	248
Premium amortization	936	774
Provision for loan losses	406	150
Write-down of other real estate owned	90	82
Gain on sale of other real estate owned	(4)	(12)
Origination of loans held-for-sale	(23,701)	(18,191)
Sale of loans held-for-sale	22,379	18,144
Amortization of intangibles	103	42
Accretion on acquired loans	(509)	(114)
Gain on sale of securities	(104)	(8)
Loss on extinguishment of debt	103	—
Decrease in other assets	1,461	1,088
Decrease in other liabilities	(1,711)	(1,094)
Net cash provided from operating activities	1,150	1,971
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(5,436)	(34,235)
Purchase of investment securities held-to-maturity	(2,142)	—
Maturity/call of investment securities available-for-sale	9,643	9,875
Proceeds from sale of securities available-for-sale	6,955	20,916
Proceeds from sale of other securities	304	—
(Increase) decrease in loans	(10,382)	9,571
Net cash disbursed in business combination	—	(11,353)
Proceeds from sale of other real estate owned	185	712
Purchase of property and equipment	(1,170)	(607)
Net cash used in investing activities	(2,043)	(5,121)
Cash flows from financing activities:		
Increase in deposit accounts	25,035	43,232
Increase (decrease) in securities sold under agreements to repurchase	(699)	858
Advances from the Federal Home Loan Bank	8,500	20,000
Repayment of advances from FHLB	(9,858)	(37,710)
Dividends paid: Common Stock	(457)	(313)
Dividend reinvestment plan	51	45
Net cash provided from financing activities	22,572	26,112
Net increase in cash and cash equivalents	21,679	22,962
Cash and cash equivalents at beginning of period	22,532	14,166
Cash and cash equivalents at end of period	$44,211	$37,128

Supplemental disclosure:		
Cash paid during the period for:		
Interest	$865	$791
Income taxes	$935	$—
Non-cash investing and financing activities:		
Unrealized gain on securities	$893	$1,690
Transfer of loans to foreclosed property	$75	$559
Schedule of Noncash Investing Transactions:		
Acquisitions:		
Fair value of tangible assets acquired	$—	$151,024
Other intangible assets acquired	$—	$1,182
Liabilities assumed	$—	$123,198
Net identifiable assets acquired over liabilities assumed	$—	$29,008
Common stock issued in acquisition	$—	$13,710

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

Note 1 – Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and the cash flows of First Community Corporation (the "Company"), present fairly in all material respects the Company's financial position at March 31, 2015 and December 31, 2014, and the Company's results of operations and cash flows for the three months ended March 31, 2015 and 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company's 2014 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

Note 2 – Earnings Per Common Share

The following reconciles the numerator and denominator of the basic and diluted earnings per common share computation:

(In thousands except average market price)

	Three months ended March 31,	
	2015	2014
Numerator (Net income available to common shareholders)	$1,404	$862
Denominator		
Weighted average common shares outstanding for:		
Basic earnings per share	6,522	6,169
Dilutive securities:		
Deferred compensation	20	17
Warrants/Restricted stock -Treasury stock method	123	43
Diluted earnings per share	6,665	6,229
The average market price used in calculating assumed number of shares	$11.42	$10.86

At March 31, 2015, there were 8,903 outstanding options at an average exercise price of $14.21. None of these options has an exercise price below the average market price of $11.42 for the three-month period ended March 31, 2015, and, therefore they are not deemed to be dilutive. At March 31, 2014, there were 70,903 outstanding options at an average exercise price of $19.48. None of these options had an exercise price below the average market price of $10.86 for the three-month period ended March 31, 2014, and, therefore they were not deemed to be dilutive. In the fourth quarter of 2011, we issued $2.5 million in 8.75% subordinated notes maturing December 16, 2019. On November 15, 2012, the subordinated notes were redeemed in full at par. Warrants for 107,500 shares of common stock at $5.90 per share were issued in connection with the issuance of the subordinated debt. At March 31, 2015 there were 97,180 warrants outstanding. These warrants expire December 16, 2019 and are included in dilutive securities in the table above. The Company has issued a total of 157 thousand restricted shares under the terms of its compensation plans and employment agreements. These shares cliff vest over a three year period. The unrecognized compensation cost at March 31, 2015 for non-vested shares amounts to $694 thousand.

Note 3 – Investment Securities

The amortized cost and estimated fair values of investment securities are summarized below:

AVAILABLE-FOR-SALE:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2015:				
Government sponsored enterprises	$3,406	$ 97	$ —	$3,503
Mortgage-backed securities	147,054	1,846	347	148,553
Small Business Administration pools	59,452	447	344	59,555
State and local government	44,948	1,590	91	46,447
Corporate and other securities	1,349	—	38	1,311
	$256,209	$ 3,980	$ 820	$259,369
December 31, 2014:				
Government sponsored enterprises	$3,403	$ 45	$ 14	$3,434
Mortgage-backed securities	159,861	1,211	719	160,353
Small Business Administration pools	58,643	385	483	58,545
State and local government	45,102	1,523	109	46,516
Corporate and other securities	1,349	—	33	1,316
	$268,358	$ 3,164	$ 1,358	$270,164

HELD-TO-MATURITY:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2015:				
State and local government	$ 12,756	$ 72	$ 81	$12,747
	$ 12,756	$ 72	$ 81	$12,747
December 31, 2014:				
State and local government	$ 10,647	$ 6	$ 68	$10,585
	$ 10,647	$ 6	$ 68	$10,585

During the three months ended March 31, 2015 and March 31, 2014, the Company received proceeds of $7.0 million and $20.9 million, respectively, from the sale of investment securities available-for-sale, amounting to gross gains of $104.1 thousand and $8.3 thousand in earnings for each respective period. There were no gross losses from the sale of investments for the three months ended March 31, 2015. There were no gross losses from the sale of investment securities for the three months ended March 31, 2014.

At March 31, 2015, corporate and other securities available-for-sale included the following at fair value: mutual funds at $834.1 thousand, foreign debt of $60.3 thousand, and corporate preferred stock in the amount of $416.8 thousand.

At December 31, 2014, corporate and other securities available-for-sale included the following at fair value: mutual funds at $839.2 thousand, foreign debt of $60.3 thousand, and corporate preferred stock in the amount of $416.8 thousand.

Other investments, at cost, include Federal Home Loan Bank ("FHLB") stock in the amount of $2.0 million and $2.0 million at March 31, 2015 and December 31, 2014 respectively.

Note 3 – Investment Securities (continued)

The following tables show gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at March 31, 2015 and December 31, 2014.

	Less than 12 months		12 months or more		Total	
March 31, 2015 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
Government Sponsored Enterprises	$—	$ —	$—	$ —	$—	$ —
Government Sponsored Enterprise mortgage-backed securities	15,585	116	19,334	224	34,919	340
Small Business Administration pools	10,929	77	22,815	267	33,744	344
Non-agency mortgage-backed securities	348	7	—	—	348	7
State and local government	—	—	3,306	91	3,306	91
Corporate bonds and other	—	—	884	38	884	38
Total	$26,862	$ 200	$46,339	$ 620	$73,201	$ 820

	Less than 12 months		12 months or more		Total	
December 31, 2014 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
Government Sponsored Enterprises	$—	$ —	$1,486	$ 14	$1,486	$ 14
Government Sponsored Enterprise mortgage-backed securities	38,341	283	26,232	429	64,573	712
Small Business Administration pools	12,313	89	20,896	394	33,209	483
Non-agency mortgage-backed securities	576	6	18	1	594	7
State and local government	—	—	5,270	109	5,270	109
Corporate bonds and other	—	—	889	33	889	33
Total	$51,230	$ 378	$54,791	$ 980	$106,021	$ 1,358

	Less than 12 months		12 months or more		Total	
March 31, 2015 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities:						
State and local government	$7,727	$ 81	$ —	$ —	$7,727	$ 81
Total	$7,727	$ 81	$ —	$ —	$7,727	$ 81

	Less than 12 months		12 months or more		Total	

December 31, 2014 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities:						
State and local government	$8,655	$ 68	$ —	$ —	$8,655	$ 68
Total	$8,655	$ 68	$ —	$ —	$8,655	$ 68

Note 3 – Investment Securities (continued)

Government Sponsored Enterprise, Mortgage-Backed Securities: At March 31, 2015, the Company owned mortgage-backed securities ("MBSs"), including collateralized mortgage obligations ("CMOs"), with an amortized cost of $146.4 million and approximate fair value of $147.9 million issued by government sponsored enterprises ("GSEs"). At December 31, 2014, the Company owned MBSs, including CMOs with an amortized cost of $159.1 million and approximate fair value of $159.7 million issued by GSEs. As of March 31, 2015 and December 31, 2014, all of the MBSs issued by GSEs were classified as "Available for Sale." Unrealized losses on certain of these investments are not considered to be "other than temporary," and we have the intent and ability to hold these until they mature or recover the current book value. The contractual cash flows of the investments are guaranteed by the GSE. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the Company does not intend to sell these securities and it is more likely than not that the Company will not be required sell these securities before a recovery of its amortized cost, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at March 31, 2015.

Non-agency Mortgage-Backed Securities: The Company also held private label mortgage-backed securities ("PLMBSs"), including CMOs, at March 31, 2015 with an amortized cost of $696.6 thousand and approximate fair value of $696.2 thousand. The Company held PLMBSs, including CMOs, at December 31, 2014 with an amortized cost of $736.6 thousand and approximate fair value of $734.4 thousand. Management monitors each of these securities on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments. There were no PLMBSs rated below investment grade as of March 31, 2015.

Corporate Bonds: Corporate bonds held by the Company are reviewed on a quarterly basis to identify downgrades by rating agencies as well as deterioration of the underlying collateral or the issuer's ability to service the debt obligation. As of March 31, 2015 and December 31, 2014 the Company did not own any corporate bonds.

State and Local Governments and Other: Management monitors these securities on a quarterly basis to identify any deterioration in the credit quality. Included in the monitoring is a review of the credit rating, a financial analysis and certain demographic data on the underlying issuer. The Company does not consider these securities to be OTTI at March 31, 2015.

The following sets forth the amortized cost and fair value of investment securities at March 31, 2015 by contractual maturity. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties. MBSs are based on average life at estimated prepayment speeds.

	Available-for-sale	**Held-to-maturity**
(Dollars in thousands)		

	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$6,668	$6,727	$—	$—
Due after one year through five years	126,652	127,963	494	497
Due after five years through ten years	108,647	110,567	11,715	11,720
Due after ten years	14,242	14,112	547	530
	$256,209	$259,369	$12,756	$12,747

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Note 4 – Loans

Loans summarized by category as of March 31, 2015, December 31, 2014 and March 31, 2014 are as follows:

(Dollars in thousands)	March 31, **2015**	December 31, **2014**	March 31, **2014**
Commercial, financial and agricultural	$32,569	$ 33,403	$34,860
Real estate:			
Construction	36,080	27,545	29,112
Mortgage-residential	49,838	48,510	46,810
Mortgage-commercial	294,108	293,186	292,995
Consumer:			
Home equity	33,511	33,000	31,378
Other	8,195	8,200	8,713
Total	$454,301	$ 443,844	$443,868

Note 4 – Loans (continued)

The detailed activity in the allowance for loan losses and the recorded investment in loans receivable as of and for the three months ended March 31, 2015 and March 31, 2014 and for the year ended December 31, 2014 is as follows:

(Dollars in thousands)

	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
March 31, 2015								
Allowance for loan losses:								
Beginning balance December 31, 2014	$ 67	$ 45	$ 179	$ 1,572	$ 134	$ 44	$ 2,091	$ 4,132
Charge-offs	(56)	—	—	(291)	—	(11)	—	(358)
Recoveries	2	—	1	4	1	64	—	72
Provisions	197	89	63	295	(14)	(39)	(185)	406
Ending balance March 31, 2015	$ 210	$ 134	$ 243	$ 1,580	$ 121	$ 58	$ 1,906	$ 4,252
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 4	$ 3	$ —	$ —	$ —	$ 7
Collectively evaluated for impairment	210	134	239	1,577	121	58	1,906	4,245
Loans receivable:								
Ending balance-total	$ 32,569	$ 36,080	$ 49,838	$ 294,108	$ 33,511	$ 8,195	$ —	$ 454,301
Ending balances:								
Individually evaluated for impairment	—	—	1,066	6,740	91	—	—	7,897
Collectively evaluated for impairment	$ 32,569	$ 36,080	$ 48,772	$ 287,368	$ 33,420	$ 8,195	$ —	$ 446,404

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Note 4 – Loans (continued)

(Dollars in thousands)

	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
March 31, 2014								
Allowance for loan losses:								
Beginning balance December 31, 2013	$ 233	$ 26	$ 291	$ 1,117	$ 112	$ 80	$ 2,360	$ 4,219
Charge-offs	—	—	(35)	(187)	—	(8)	—	(230)
Recoveries	17	—	1	—	—	4	—	22
Provisions	(7)	137	(1)	94	2	(13)	(62)	150
Ending balance March 31, 2014	$ 243	$ 163	$ 256	$ 1,024	$ 114	$ 63	$ 2,298	$ 4,161
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 4	$ —	$ —	$ —	$ —	$ 4
Collectively evaluated for impairment	243	163	252	1,024	114	63	2,298	4,157
Loans receivable:								
Ending balance-total	$ 34,860	$ 29,112	$ 46,810	$ 292,995	$ 31,378	$ 8,713	$ —	$ 443,868
Ending balances:								
Individually evaluated for impairment	65	—	956	7,332	71	9	—	8,433
Collectively evaluated for impairment	$ 34,795	$ 29,112	$ 45,854	$ 285,663	$ 31,307	$ 8,704	$ —	$ 435,435

Note 4 – Loans (continued)

(Dollars in thousands)

	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
December 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 233	$ 26	$ 291	$ 1,117	$ 112	$ 80	$ 2,360	$ 4,219
Charge-offs	(54)	—	(52)	(879)	(17)	(109)	—	(1,111)
Recoveries	110	—	10	—	6	17	—	143
Provisions	(222)	19	(70)	1,334	33	56	(269)	881
Ending balance	$ 67	$ 45	$ 179	$ 1,572	$ 134	$ 44	$ 2,091	$ 4,132
Ending balances: Individually evaluated for impairment	$ —	$ —	$ 4	$ 57	$ —	$ —	$ —	$ 61
Collectively evaluated for impairment	67	45	175	1,515	134	44	2,091	4,071
Loans receivable: Ending balance-total	$ 33,403	$ 27,545	$ 48,510	$ 293,186	$ 33,000	$ 8,200	$ —	$ 443,844
Ending balances: Individually evaluated for impairment	55	—	1,078	7,334	92	—	—	8,559
Collectively evaluated for impairment	$ 33,348	$ 27,545	$ 47,432	$ 285,852	$ 32,908	$ 8,200	$ —	$ 435,285

Loans outstanding and available lines of credit to bank directors, executive officers and their related business interests amounted to $9.5 million and $11.1 million at March 31, 2015 and March 31, 2014, respectively. Repayments on these loans during the three months ended March 31, 2015 were $961.5 thousand and loans made amounted to $871.7 thousand. Repayments on these loans during the three months ended March 31, 2014 were $517.3 thousand and loans made amounted to $977.0 thousand. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and generally do not involve more than the normal risk of collectability.

Note 4 – Loans (continued)

The following table presents at March 31, 2015 and December 31, 2014 loans individually evaluated and considered impaired under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310 "Accounting by Creditors for Impairment of a Loan." Impairment includes performing troubled debt restructurings ("TDRs").

(Dollars in thousands)	March 31, **2015**	December 31, **2014**
Total loans considered impaired	$7,897	$ 8,559
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	300	1,959
Related allowance	7	61
Loans considered impaired and previously written down to fair value	7,597	6,600
Average impaired loans	10,249	10,900

The following tables are by loan category and present at March 31, 2015, December 31, 2014 and March 31, 2014 loans individually evaluated and considered impaired under FASB ASC 310 "Accounting by Creditors for Impairment of a Loan." Impairment includes performing TDRs.

(Dollars in thousands)				Three months ended	
March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ —	$ —	$ —	$ —	$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,014	1,157	—	1,266	1
Mortgage-commercial	6,492	7,995	3	8,584	30
Consumer:					
Home Equity	91	97	—	97	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	52	52	4	52	—
Mortgage-commercial	248	248	3	250	—
Consumer:					
Home Equity	—	—	—	—	—

Other	—	—	—	—	—
Total:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,066	1,209	4	1,318	1
Mortgage-commercial	6,740	8,243	3	8,834	30
Consumer:					
Home Equity	91	97	—	97	—
Other	—	—	—	—	—
	$ 7,897	$ 9,549	$ 7	$ 10,249	$ 31

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Note 4 – Loans (continued)

(Dollars in thousands)				Three months ended	
March 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 65	$ 69	$ —	$ 135	$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	901	1,002	—	1,112	1
Mortgage-commercial	7,332	7,948	—	9,468	9
Consumer:					
Home Equity	71	71	—	75	—
Other	9	11	—	21	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	55	55	4	55	—
Mortgage-commercial	—	—	—	—	—
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	65	69	—	135	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	956	1,057	4	1,167	1
Mortgage-commercial	7,332	7,948	—	9,468	9
Consumer:					
Home Equity	71	71	—	75	—
Other	9	11	—	21	—
	$ 8,433	$ 9,156	$ 4	$ 10,866	$ 10

Note 4 – Loans (continued)

(Dollars in thousands) December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 55	$ 112	$ —	$ 132	$ 3
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,025	1,167	—	1,071	8
Mortgage-commercial	5,428	6,469	—	7,634	64
Consumer:					
Home Equity	92	97	—	83	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	53	53	4	54	3
Mortgage-commercial	1,906	2,134	57	1,926	85
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	55	112	—	132	3
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,078	1,220	4	1,125	11
Mortgage-commercial	7,334	8,603	57	9,560	149
Consumer:					
Home Equity	92	97	—	83	—
Other	—	—	—	—	—
	$ 8,559	$ 10,032	$ 61	$ 10,900	$ 163

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: 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 monthly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered as pass rated loans. As of March 31, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is shown in the table below. As of March 31, 2015 and December 31, 2014, no loans were classified as doubtful.

Note 4 – Loans (continued)

(Dollars in thousands) March 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$32,189	$366	$ 14	$ —	$32,569
Real estate:					
Construction	35,359	721	—	—	36,080
Mortgage – residential	47,241	1,361	1,236	—	49,838
Mortgage – commercial	273,674	9,594	10,840	—	294,108
Consumer:					
Home Equity	33,003	269	239	—	33,511
Other	8,166	2	27	—	8,195
Total	$429,632	$12,313	$ 12,356	$ —	$454,301

(Dollars in thousands) December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$32,579	$754	$ 70	$ —	$33,403
Real estate:					
Construction	26,824	721	—	—	27,545
Mortgage – residential	46,090	1,054	1,366	—	48,510
Mortgage – commercial	270,986	10,437	11,763	—	293,186
Consumer:					
Home Equity	32,008	751	241	—	33,000
Other	8,041	100	59	—	8,200
Total	$416,528	$13,817	$ 13,499	$ —	$443,844

At March 31, 2015 and December 31, 2014, non-accrual loans totaled $5.9 million and $6.6 million, respectively.

TDRs that are still accruing and included in impaired loans at March 31, 2015 and December 31, 2014 amounted to $2.0 million and $2.2 million, respectively. TDRs in non-accrual status at March 31, 2015 and December 31, 2014 amounted to $2.3 million and $2.6 million, respectively.

There were no loans greater than 90 days delinquent and still accruing interest as of March 31, 2015 and December 31, 2014.

Note 4 – Loans (continued)

We account for acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality,* and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. Certain acquired loans, including performing loans and revolving lines of credit (consumer and commercial), are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

Purchase credit impaired ("PCI") loans acquired totaled $4.2 million at estimated fair value, and acquired performing loans totaling $102.3 million at estimated fair value were not credit impaired. The gross contractual amount receivable for PCI loans and acquired performing loans was approximately $5.7 million and $116.0 million, respectively, as of the acquisition date. For the acquired performing loans, the best estimate at acquisition date of contractual cash flows not expected to be collected is $825 thousand. Determining the fair value of PCI loans at acquisition required the Company to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

In conjunction with the acquisition of Savannah River (as defined below) on February 1, 2014, the acquired PCI loan portfolio was accounted for at fair value as follows:

(Dollars in thousands)	February 1, 2014
Contractual principal and interest at acquisition	$ 5,717
Nonaccretable difference	(1,205)
Expected cash flows at acquisition	4,512
Accretable yield	(272)
Basis in PCI loans at acquisition – estimated fair value	$ 4,240

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Note 4 – Loans (continued)

A summary of changes in the accretable yield for PCI loans for the three months ended March 31, 2015 and March 31, 2014 follows (in thousands):

(Dollars in thousands)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Accretable yield, beginning of period	$ 75	$ —
Additions	—	272
Accretion	(437)	(33)
Reclassification of nonaccretable difference due to improvement in expected cash flows	390	—
Other changes, net	—	—
Accretable yield, end of period	$ 28	$ 239

The following tables are by loan category and present loans past due and on non-accrual status as of March 31, 2015 and December 31, 2014:

(Dollars in thousands) March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$ 19	$ 18	$ —	$ —	$ 37	$32,532	$32,569
Real estate:							
Construction	—	—	—	—	—	36,080	36,080
Mortgage-residential	77	—	—	1,014	1,091	48,747	49,838
Mortgage-commercial	2,130	290	—	4,838	7,258	286,850	294,108
Consumer:							
Home equity	44	46	—	91	181	33,330	33,511
Other	4	2	—	—	6	8,189	8,195
Total	$ 2,274	$ 356	$ —	$ 5,943	$ 8,573	$445,728	$454,301

(Dollars in thousands) December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$ —	$ —	$ —	$ 55	$ 147	$33,256	$33,403

Real estate:							
Construction	—	2	—	—	2	27,543	27,545
Mortgage-residential	131	5	—	1,025	1,161	47,349	48,510
Mortgage-commercial	1,443	4	—	5,413	6,860	286,326	293,186
Consumer:							
Home equity	19	—	—	92	111	32,899	33,000
Other	63	6	—	—	69	8,131	8,200
Total	$ 1,748	$ 17	$ —	$ 6,585	$ 8,350	$435,494	$443,844

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Note 4 – Loans (continued)

As a result of adopting the amendments in Accounting Standards Update (“ASU”) 2011-02 (Receivables-Topic 310), the Company reassessed all restructurings that occurred on or after the beginning of the fiscal year of adoption (January 1, 2011) to determine whether they are considered TDRs under the amended guidance. The Company identified as TDRs certain loans for which the allowance for loan losses had previously been measured under a general allowance methodology. Upon identifying those loans as TDRs, the Company identified them as impaired under the guidance in ASC 310-10-35. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those loans newly identified as impaired.

There were no loans determined to be TDRs that were restructured during the three-month periods ended March 31, 2015 and March 31, 2014.

The following table, by loan category, presents loans determined to be TDRs in the twelve month period preceding March 31, 2015 that subsequently defaulted during the three month period ended March 31, 2015. During the three month period ended March 31, 2014, there were no loans determined to be TDRs in the previous twelve months that had payment defaults. Defaulted loans are those loans that are greater than 89 days past due.

Troubled Debt Restructurings that subsequently defaulted this period (Dollars in thousands)	For the three months ended March 31, 2015	
	Number of Contracts	Recorded Investment
Mortgage-Commercial	1	$ 1,391
Mortgage-Consumer	1	180
Total TDRs	2	$ 1,571

In the determination of the allowance for loan losses, all TDRs are reviewed to ensure that one of the three proper valuation methods (fair market value of the collateral, present value of cash flows, or observable market price) is adhered to. All non-accrual loans are written down to their corresponding collateral value. All troubled TDR accruing loans that have a loan balance that exceeds the present value of cash flows will have a specific allocation. All nonaccrual loans are considered impaired. Under ASC 310-10, a loan is impaired when it is probable that the Company will be unable to collect all amounts due including both principal and interest according to the contractual terms of the loan agreement.

Note 5 – Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements:

In January 2014, the FASB amended the Equity Method and Joint Ventures topic of the Accounting Standards Codification. The amendments provide criteria that must be met in order to apply a proportional amortization method to Low-Income Housing Tax Credit investments and provide guidance on the method used to amortize the investment, the impairment approach, and the eligibility criteria for entities that have other arrangements (e.g., loans) with the limited liability entity. The amendments are effective for the Company for any new investments in qualified affordable housing projects for interim and annual periods beginning after December 15, 2014. The Company intends to continue using the effective yield method for existing investments in qualified affordable housing projects. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned (OREO). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments are effective for the Company for annual periods, and interim periods beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company will apply the amendments *prospectively*. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to all stock awards granted or modified after the amendments are effective. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2014, the FASB issued guidance for determining whether embedded features need to be accounted for separately from their host shares. The new guidance requires companies to consider all terms and features, including the embedded feature(s) being evaluated for separate recognition, when determining whether a host contract is more akin to debt or equity; no single term or feature should be considered determinative regarding the nature of the host contract. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption, including adoption in an interim period, permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively to all prior periods presented in the financial statements. The Company does not expect these amendments to have a material effect on its financial statements.

Note 5 – Recently Issued Accounting Pronouncements (continued)

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Note 6 – Fair Value of Financial Instruments

The Company adopted FASB ASC Fair Value Measurement Topic 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level l	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

FASB ASC 825-10-50 "Disclosure about Fair Value of Financial Instruments", requires the Company to disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below.

Cash and Short Term Investments - The carrying amount of these financial instruments (cash and due from banks, interest-bearing bank balances, federal funds sold and securities purchased under agreements to resell) approximates fair value. All mature within 90 days and do not present unanticipated credit concerns and are classified as Level 1.

Investment Securities - Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or by dealers or brokers in active over-the-counter markets. Level 2 securities include MBSs issued both by government sponsored enterprises and PLMBSs. Generally these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset–backed securities that are less liquid or for which there is an inactive market.

Loans Held for Sale - The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked in price with the investors on the same day that the loan was locked in with the company's customers. Therefore, these loans present very little market risk for the Company and are classified as Level 2. The carrying amount of these loans approximates fair value.

Loans - The fair value of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities and are classified as Level 2. As discount rates are based on current loan rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such

fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs.

Note 6 – Fair Value of Financial Instruments (continued)

Other Real Estate Owned (OREO) - OREO is carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management's estimation of the collateral and is considered a Level 3 measurement.

Accrued Interest Receivable - The fair value approximates the carrying value and is classified as Level 1.

Interest Rate Swap -The fair value approximates the carrying value and is classified as Level 3.

Deposits - The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities. Deposits are classified as Level 2.

Federal Home Loan Bank Advances - Fair value is estimated based on discounted cash flows using current market rates for borrowings with similar terms and are classified as Level 2.

Short Term Borrowings - The carrying value of short term borrowings (securities sold under agreements to repurchase and demand notes to the Treasury) approximates fair value. These are classified as Level 2.

Junior Subordinated Debentures - The fair values of junior subordinated debentures is estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments. These are classified as Level 2.

Accrued Interest Payable -The fair value approximates the carrying value and is classified as Level 1.

Commitments to Extend Credit - The fair value of these commitments is immaterial because their underlying interest rates approximate market.

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Note 6 – Fair Value of Financial Instruments (continued)

The carrying amount and estimated fair value by classification level of the Company’s financial instruments as of March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015				
		Fair Value			
(Dollars in thousands)	**Carrying Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and short term investments	$44,211	$44,211	$44,211	$—	$—
Held-to-maturity securities	12,756	12,747	—	12,747	—
Available-for-sale securities	259,369	259,369	834	258,118	417
Other investments, at cost	1,969	1,969	—	—	1,969
Loans held for sale	5,446	5,446	—	5,446	—
Net loans receivable	450,049	451,219	—	443,329	7,890
Accrued interest	2,485	2,485	2,485	—	—
Financial liabilities:					
Non-interest bearing demand	$140,689	$140,689	$—	$140,689	$—
NOW and money market accounts	305,851	305,851	—	305,851	—
Savings	56,467	56,467	—	56,467	—
Time deposits	191,566	192,161	—	192,161	—
Total deposits	694,573	695,168	—	695,168	—
Federal Home Loan Bank Advances	27,552	29,373	—	29,373	—
Short term borrowings	16,684	16,684	—	16,684	—
Junior subordinated debentures	15,464	15,464	—	15,464	—
Accrued interest payable	695	695	695	—	—

	December 31, 2014				
		Fair Value			
(Dollars in thousands)	**Carrying Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and short term investments	$22,532	$22,532	$22,532	$—	$—
Held-to-maturity securities	10,647	10,585	—	10,585	—
Available-for-sale securities	270,164	270,164	839	268,908	417
Other investments, at cost	2,003	2,003	—	—	2,003
Loans held for sale	4,124	4,124	—	4,124	—
Net loans receivable	439,712	441,944	—	433,446	8,498
Accrued interest	2,712	2,712	2,712	—	—
Financial liabilities:					
Non-interest bearing demand	$133,004	$133,004	$—	$133,004	$—
NOW and money market accounts	287,982	287,982	—	287,982	—
Savings	53,583	53,583	—	53,583	—
Time deposits	195,014	195,721	—	195,721	—

Total deposits	669,583	670,290	—	670,290	—
Federal Home Loan Bank Advances	28,807	30,745	—	30,745	—
Short term borrowings	17,383	17,383	—	17,383	—
Junior subordinated debentures	15,464	15,464	—	15,464	—
Accrued interest payable	725	725	725	—	—

Note 6 – Fair Value of Financial Instruments (continued)

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2015 and December 31, 2014 that are measured on a recurring basis. There were no liabilities carried at fair value as of March 31, 2015 or December 31, 2014 that are measured on a recurring basis.

(Dollars in thousands)

Description	March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Government sponsored enterprises	$3,503	$ —	$ 3,503	$ —
Mortgage-backed securities	148,553	—	148,553	—
Small Business Administration securities	59.555	—	59,555	—
State and local government	46,447	—	46,447	—
Corporate and other securities	1,311	834	60	417
Total	$259,369	$ 834	$ 258,118	$ 417

(Dollars in thousands)

Description	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Inputs
Available for sale securities					
Government sponsored enterprises	$3,434	$ —	$ 3,434	$ —	
Mortgage-backed securities	160,353	—	160,353	—	
Small Business Administration securities	58,545	—	58,545	—	
State and local government	46,516	—	46,516	—	
Corporate and other securities	1,316	839	60	417	
Total	$270,164	$ 839	$ 268,908	$ 417	

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Note 6 – Fair Value of Financial Instruments (continued)

The following table reconciles the changes in Level 3 financial instruments for the three months ended March 31, 2015 and March 31, 2014 that are measured on a recurring basis.

(Dollars in thousands)	**March 31, 2015 Corporate Preferred Stock**	**March 31, 2014 Corporate Preferred Stock**
Beginning Balance	$417	$ 417
Total gains or losses (realized/unrealized) Included in earnings	—	—
Included in other comprehensive income	—	—
Purchases, issuances, and settlements	—	—
Transfers in and/or out of Level 3	—	—
Ending Balance	$417	$ 417

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2015 and December 31, 2014 that are measured on a non-recurring basis.

(Dollars in thousands)

Description	March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial & Industrial	$—	$ —	$ —	$ —
Real estate:				
Mortgage-residential	1,062	—	—	1,062
Mortgage-commercial	6,737	—	—	6,737
Consumer:				
Home equity	91	—	—	91