FIRST COMMUNITY CORP /SC/
Form 10-Q
November 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2016

o 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 o

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). x Yes o 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 o Accelerated filer o Non-accelerated filer o 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 o 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 November 10, 2016, 6,703,317 shares of the issuer's common stock, par value $1.00 per share, were issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 13,751	$ 10,973
Interest-bearing bank balances	24,345	11,375
Federal funds sold and securities purchased under agreements to resell	599	593
Investment securities - held to maturity	17,238	17,371
Investment securities - available for sale	269,255	264,687
Other investments, at cost	1,681	1,783
Loans held for sale	4,250	2,962
Loans	523,441	489,191
Less, allowance for loan losses	5,047	4,596
Net loans	518,394	484,595
Property, furniture and equipment - net	29,951	29,929
Land held for sale	1,055	1,080
Bank owned life insurance	20,755	20,301
Other real estate owned	1,198	2,458
Intangible assets	1,177	1,419
Goodwill	5,078	5,078
Other assets	6,525	8,130
Total assets	$ 915,252	$ 862,734
LIABILITIES		
Deposits:		
Non-interest bearing	$ 177,267	$ 156,247
Interest bearing	588,656	559,904
Total deposits	765,923	716,151
Securities sold under agreements to repurchase	22,232	21,033
Federal Home Loan Bank advances	21,022	24,788
Junior subordinated debt	14,964	14,964
Other liabilities	6,903	6,760
Total liabilities	831,044	783,696
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 6,703,317 at September 30, 2016 6,690,551 at December 31, 2015	6,703	6,690
Common stock warrants issued	46	46

Non-vested restricted stock	(313)	(297)
Additional paid in capital	75,921	75,761
Accumulated deficit	(688)	(3,992)
Accumulated other comprehensive income	2,539	830
Total shareholders’ equity	84,208	79,038
Total liabilities and shareholders’ equity	$ 915,252	$ 862,734

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2016 (Unaudited)	Nine Months Ended September 30, 2015 (Unaudited)
Interest income:		
Loans, including fees	$ 17,582	$ 17,373
Taxable securities	2,903	2,771
Non taxable securities	1,428	1,216
Federal funds sold and securities purchased under resale agreements	56	22
Other	27	64
Total interest income	21,996	21,446
Interest expense:		
Deposits	1,358	1,304
Federal funds sold and securities sold under agreement to repurchase	32	26
Other borrowed money	941	1,211
Total interest expense	2,331	2,541
Net interest income	19,665	18,905
Provision for loan losses	536	990
Net interest income after provision for loan losses	19,129	17,915
Non-interest income:		
Deposit service charges	1,064	1,083
Mortgage banking income	2,515	2,679
Investment advisory fees and non-deposit commissions	871	993
Gain on sale of securities	601	271
Gain (loss) on sale of other assets	(36)	24
Loss on early extinguishment of debt	(459)	(103)
Other	2,184	1,928
Total non-interest income	6,740	6,875
Non-interest expense:		
Salaries and employee benefits	11,472	10,818
Occupancy	1,601	1,498
Equipment	1,308	1,233
Marketing and public relations	529	683
FDIC assessments	336	389
Other real estate expense	187	434
Amortization of intangibles	243	299
Other	3,582	3,202
Total non-interest expense	19,258	18,556
Net income before tax	6,611	6,234
Income taxes	1,721	1,708
Net income	$ 4,890	$ 4,526
Basic earnings per common share	$ 0.74	$ 0.69
Diluted earnings per common share	$ 0.72	$ 0.68

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2016 (Unaudited)	Three Months Ended September 30, 2015 (Unaudited)
Interest income:		
Loans, including fees	$ 5,977	$ 5,795
Taxable securities	944	860
Non taxable securities	445	430
Federal funds sold and securities purchased under resale agreements	24	8
Other	10	21
Total interest income	7,400	7,114
Interest expense:		
Deposits	465	443
Federal funds sold and securities sold under agreement to repurchase	12	11
Other borrowed money	272	407
Total interest expense	749	861
Net interest income	6,651	6,253
Provision for loan losses	179	193
Net interest income after provision for loan losses	6,472	6,060
Non-interest income:		
Deposit service charges	377	390
Mortgage banking income	937	964
Investment advisory fees and non-deposit commissions	283	290
Gain on sale of securities	478	—
Gain on sale of other assets	45	17
Loss on early extinguishment of debt	(459)	—
Other	726	668
Total non-interest income	2,387	2,329
Non-interest expense:		
Salaries and employee benefits	3,888	3,595
Occupancy	531	513
Equipment	442	437
Marketing and public relations	240	129
FDIC assessment	60	113
Other real estate expense	115	126
Amortization of intangibles	80	98
Other	1,227	1,056
Total non-interest expense	6,583	6,067
Net income before tax	2,276	2,322
Income taxes	599	643
Net income	$ 1,677	$ 1,679
Basic earnings per common share	$ 0.26	$ 0.26
Diluted earnings per common share	$ 0.25	$ 0.25

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	Nine months ended September 30, 2016	2015
Net income	$ 4,890	$ 4,526
Other comprehensive income:		
Unrealized gain during the period on available-for-sale securities, net of taxes of $1,085 and $275, respectively	2,106	532
Less: Reclassification adjustment for gain included in net income, net of taxes of $204 and $92, respectively	(397)	(179)
Other comprehensive income	1,709	353
Comprehensive income	$ 6,599	$ 4,879

(Dollars in thousands)	Three months ended September 30, 2016	2015
Net income	$ 1,677	$ 1,679
Other comprehensive income:		
Unrealized gain (loss) during the period on available-for-sale securities, net of taxes of $509 and $357, respectively	(989)	672
Less: Reclassification adjustment for gain included in net income, net of taxes of $163 and $0, respectively	(315)	—
Other comprehensive income (loss)	(1,304)	672
Comprehensive income	$ 373	$ 2,351

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
Nine Months ended September 30, 2016 and September 30, 2015
(Unaudited)

(Dollars and shares in thousands)	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, 2014	6,664	$ 6,664	$ 48	$ 75,504	$ (673)	$ (8,286)	$ 1,271	$ 74,528
Net income						4,526		4,526
Other comprehensive income net of tax of $183							353	353
Issuance of restricted stock	13	13		137	(150)			—
Restricted shares surrendered	(8)	(8)		(90)				(98)
Amortization compensation restricted stock					397			397
Exercise of stock warrants	2	2	(2)					—
Dividends: Common ($0.21 per share)						(1,371)		(1,371)
Dividend reinvestment plan	14	14		139				153
Balance, September 30, 2015	6,685	$ 6,685	$ 46	$ 75,690	$ (426)	$ (5,131)	$ 1,624	$ 78,488
Balance, December 31, 2015	6,690	$ 6,690	$ 46	$ 75,761	$ (297)	$ (3,992)	$ 830	$ 79,038
Net income						4,890		4,890
Other comprehensive income net of tax of $881							1,709	1,709
Issuance of restricted stock	22	22		275	(297)			—
Restricted shares surrendered	(26)	(26)		(327)				(353)
Issuance of common stock	1	1		13				14
Amortization compensation restricted stock					281			281
Dividends: Common ($0.24 per share)						(1,586)		(1,586)
Dividend reinvestment plan	16	16		199				215
Balance, September 30, 2016	6,703	$ 6,703	$ 46	$ 75,921	$ (313)	$ (688)	$ 2,539	$ 84,208

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$4,890	$4,526
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	994	932
Premium amortization	3,044	3,093
Provision for loan losses	536	990
Writedowns of other real estate owned	76	201
Loss (gain) on sale of other real estate owned	36	(24)
Sale of loans held-for-sale	69,880	80,571
Originations of loans held-for-sale	(71,169)	(80,016)
Amortization of intangibles	243	299
Accretion on acquired loans	(804)	(709)
Gain on sale of securities	601	271
Writedown of land held for sale	25	120
Loss on early extinguishment of debt	459	103
Decrease in other assets	343	1,305
Decrease in other liabilities	144	(153)
Net cash provided from operating activities	8,096	10,967
Cash flows from investing activities:		
Purchase of investment securities available-for-sale and other investments	(64,059)	(33,441)
Purchase of investment securities held-to-maturity	—	(6,065)
Maturity of investment securities available-for-sale	26,553	28,470
Proceeds from sale of securities available-for-sale	33,215	17,061
Proceeds from sale of other investments	486	1,133
Increase in loans	(34,052)	(40,336)
Proceeds from sale of other real estate owned	1,597	479
Purchase of property and equipment	(1,016)	(2,502)
Net cash used in investing activities	(37,275)	(35,201)
Cash flows from financing activities:		
Increase in deposit accounts	49,711	34,871
Increase in securities sold under agreements to repurchase	1,199	2,525
Advances from the Federal Home Loan Bank	70,593	32,500
Repayment of advances from Federal Home Loan Bank	(74,860)	(33,867)
Restricted shares surrendered	(353)	(98)
Issuance of common stock	14	—
Dividends paid: Common Stock	(1,586)	(1,371)
Dividend reinvestment plan	215	153
Net cash provided from financing activities	44,933	34,713
Net increase in cash and cash equivalents	15,754	10,479
Cash and cash equivalents at beginning of period	22,941	22,532
Cash and cash equivalents at end of period	$38,695	$33,011
Supplemental disclosure:		

Cash paid during the period for:		
Interest	$2,395	$2,566
Income taxes	$1,345	$2,220
Non-cash investing and financing activities:		
Unrealized gain on securities	$1,709	$353
Transfer of loans to foreclosed property	$450	$193

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

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 September 30, 2016 and December 31, 2015, and the Company's results of operations and cash flows for the three and nine months ended September 30, 2016 and 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 2015 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)

	Nine months Ended September 30,		Three months Ended September 30,	
	2016	2015	2016	2015
Numerator (Net income)	$4,890	$4,526	$1,677	$1,679
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	6,583	6,554	6,573	6,584
Dilutive securities:				
Deferred compensation	39	38	42	38
Warrants/Restricted stock – Treasury stock method	152	141	147	147
Diluted earnings per share	6,774	6,733	6,762	6,769
The average market price used in calculating assumed number of shares	$14.29	$14.00	$14.99	$14.00

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 notes. At September 30, 2016 there were 97,180 warrants outstanding. These warrants expire on December 16, 2019 and are included in dilutive securities in the table above.

The Company has issued a total of 138,000 restricted shares to its employees and non-employee directors under the terms of its compensation plans and employment agreements. The employee shares cliff vest over a three-year period, and the non-employee director shares vest one year after issuance. The unrecognized compensation cost at September 30, 2016 for non-vested shares amounts to $313 thousand.

In 2006, the Company established a Non-Employee Director Deferred Compensation Plan, whereby a director may elect to defer all or any part of their annual retainer and monthly meeting fees payable with respect to service on the board of directors or a committee of the board. Units of common stock are credited to the director’s account at the time compensation is earned and are included in dilutive securities in the table above. At September 30, 2016 there were 99,638 units issued under the Plan. The accrued liability at September 30, 2016 amounted to $936.7 thousand and is included in “Other liabilities” on the balance sheet.

Note 3—Investment Securities

The amortized cost and estimated fair values of investment securities at September 30, 2016 and December 31, 2015 are summarized below:

AVAILABLE-FOR-SALE:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
US Treasury securities	$ 1,540	$ 23	$ —	$ 1,563
Government sponsored enterprises	956	70	—	1,026
Mortgage-backed securities	153,070	1,588	420	154,238
Small Business Administration pools	53,197	424	369	53,252
State and local government	54,881	2,628	161	57,348
Corporate and other securities	1,882	—	54	1,828
	$ 265,526	$ 4,733	$ 1,004	$ 269,255
December 31, 2015:				
US Treasury securities	$ 1,547	$ —	$ 25	$ 1,522
Government sponsored enterprises	950	42	—	992
Mortgage-backed securities	146,935	498	1,172	146,261
Small Business Administration pools	57,474	355	501	57,328
State and local government	55,294	2,037	36	57,295
Corporate and other securities	1,349	—	60	1,289
	$ 263,549	$ 2,932	$ 1,794	$ 264,687

HELD-TO-MATURITY:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
State and local government	$ 17,238	$ 627	$ —	$ 17,865
	$ 17,238	$ 627	$ —	$ 17,865
December 31, 2015:				
State and local government	$ 17,371	$ 211	$ 27	$ 17,555
	$ 17,371	$ 211	$ 27	$ 17,555

During the nine months ended September 30, 2016 and 2015, the Company received proceeds of $33.2 million and $17.1 million, respectively, from the sale of investment securities available-for-sale. For the nine months ended September 30, 2016, gross realized gains totaled $601 thousand and there were no gross realized losses. For the nine months ended September 30, 2015, gross realized gains totaled $271 thousand and there were no gross realized losses. During the three months ended September 30, 2016, the Company received proceeds of $19.1 million from the sale of investment securities available-for-sale, gross realized gains totaled $478 thousand and there were no gross realized losses. For the three months ended September 30, 2015, there were no sales of investment securities.

At September 30, 2016, corporate and other securities available-for-sale included the following at fair value: mutual funds at $818.1 thousand, foreign debt of $60.3 thousand, and corporate preferred stock in the amount of $950.0 thousand. At December 31, 2015, 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 $1.7 million and $1.8 million at September 30, 2016 and December 31, 2015, respectively.

Note 3—Investment Securities

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 September 30, 2016 and December 31, 2015. There were no held-to-maturity securities with gross unrealized losses at September 30, 2016.

	Less than 12 months		12 months or more		Total	
September 30, 2016	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(Dollars in thousands)	Value	Loss	Value	Loss	Value	Loss
Available-for-sale securities:						
Government Sponsored Enterprise mortgage-backed securities	$36,491	$ 185	$15,054	$ 230	$51,545	$ 415
Small Business Administration pools	6,377	34	23,978	335	30,355	369
Non-agency mortgage-backed securities	147	2	235	3	382	5
State and local government	9,875	161	—	—	9,875	161
Corporate bonds and other	—	—	818	54	818	54
Total	$52,890	$ 382	$40,085	$ 622	$92,975	$ 1,004

	Less than 12 months		12 months or more		Total	
December 31, 2015	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(Dollars in thousands)	Value	Loss	Value	Loss	Value	Loss
Available-for-sale securities:						
US Treasury	$1,522	$ 25	$—	$ —	$1,522	$ 25
Government Sponsored Enterprise mortgage-backed securities	69,112	731	17,593	439	86,705	1,170
Small Business Administration pools	13,386	153	25,709	348	39,095	501
Non-agency mortgage-backed securities	—	—	186	2	186	2
State and local government	1,461	8	1,362	28	2,823	36
Corporate bonds and other	—	—	812	60	812	60
Total	$85,481	$ 917	$45,662	$ 877	$131,143	$ 1,794

	Less than 12 months		12 months or more		Total	
December 31, 2015	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(Dollars in thousands)	Value	Loss	Value	Loss	Value	Loss
Held-to-maturity securities:						
State and local government	$3,473	$ 24	$444	$ 3	$3,917	$ 27
Total	$3,473	$ 24	$444	$ 3	$3,917	$ 27

Note 3—Investment Securities - continued

Government Sponsored Enterprise, Mortgage-Backed Securities: The Company owned mortgage-backed securities (“MBSs”), including collateralized mortgage obligations (“CMOs”), issued by government sponsored enterprises (“GSEs”) with an amortized cost of $152.6 million and $146.9 million and approximate fair value of $153.8 million and $146.3 million at September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016 and December 31, 2015, 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 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 September 30, 2016.

Non-agency Mortgage-Backed Securities: The Company held private label mortgage-backed securities (“PLMBSs”), including CMOs, at September 30, 2016 with an amortized cost of $445.4 thousand and approximate fair value of $441.3 thousand. The Company held PLMBSs, including CMOs, at December 31, 2015 with an amortized cost of $554.8 thousand and approximate fair value of $556.3 thousand.

State and Local Governments and Other: Management monitors these securities 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 other-than-temporarily impaired at September 30, 2016.

The following sets forth the amortized cost and fair value of investment securities at September 30, 2016 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.

(Dollars in thousands)	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$7,707	$7,740	$—	$—
Due after one year through five years	145,109	146,279	4,976	5,089
Due after five years through ten years	95,909	98,454	12,262	12,776
Due after ten years	16,801	16,782	—	—
	$265,526	$269,255	$17,238	$17,865

Note 4—Loans

Loans summarized by category as of September 30, 2016, December 31, 2015, and September 30, 2015 are as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Commercial, financial and agricultural	$ 38,790	$ 37,809	$ 38,020
Real estate:			
Construction	41,228	35,829	33,127
Mortgage-residential	49,330	49,077	49,135
Mortgage-commercial	354,095	326,978	323,513
Consumer:			
Home equity	31,743	30,906	31,154
Other	8,255	8,592	8,982
Total	$ 523,441	$ 489,191	$ 483,931

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 nine months ended September 30, 2016 and 2015 and for the year ended December 31, 2015 is as follows:

(Dollars in thousands)

		Real estate	Real estate Mortgage	Real estate Mortgage	Consumer	Consumer		
	Commercial	Construction	Residential	Commercial	Home equity	Other	Unallocated	Total
September 30, 2016								
Allowance for loan losses:								
Beginning balance December 31, 2015	$ 75	$ 51	$ 223	$ 2,036	$ 127	$ 37	$ 2,047	$ 4,596
Charge-offs	—	—	(2)	(94)	(8)	(52)	—	(156)
Recoveries	4	—	39	16	2	10	—	71
Provisions	51	43	252	778	2	28	(618)	536
Ending balance September 30, 2016	$ 130	$ 94	$ 512	$ 2,736	$ 123	$ 23	$ 1,429	$ 5,047
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 2	$ —	$ —	$ —	$ —	$ 2
Collectively evaluated for impairment	130	94	510	2,736	123	23	1,429	5,045
September 30, 2016								
Loans receivable:								
Ending balance-total	$ 38,790	$ 41,228	$ 49,330	$ 354,095	$ 31,743	$ 8,255	$ —	$ 523,441
Ending balances:								
Individually evaluated for impairment	—	—	421	5,243	56	—	—	5,720
Collectively evaluated for impairment	$ 38,790	$ 41,228	$ 48,909	$ 348,852	$ 31,687	$ 8,255	$ —	$ 517,721

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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
September 30, 2015								
Allowance for loan losses:								
Beginning balance December 31, 2014	$ 67	$ 45	$ 179	$ 1,572	$ 134	$ 44	$ 2,091	$4,132
Charge-offs	(56)	—	(39)	(625)	—	(44)	—	(764)
Recoveries	5	—	6	16	3	80	—	110
Provisions	154	130	53	861	(17)	(25)	(166)	990
Ending balance September 30, 2015	$ 170	$ 175	$ 199	$ 1,824	$ 120	$ 55	$ 1,925	$4,468
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 3	$ 1	$ —	$ —	$ —	$4
Collectively evaluated for impairment	170	175	196	1,823	120	55	1,925	4,464
September 30, 2015								
Loans receivable:								
Ending balance-total	$ 38,020	$ 33,127	$ 49,135	$ 323,513	$ 31,154	$ 8,982	$ —	$483,931
Ending balances:								
Individually evaluated for impairment	11	—	923	5,786	—	—	—	6,720
Collectively evaluated for impairment	$ 38,009	$ 33,127	$ 48,212	$ 317,727	$ 31,154	$ 8,982	$ —	$477,211

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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
December 31, 2015								
Allowance for loan losses:								
Beginning balance December 31, 2014	$ 67	$ 45	$ 179	$ 1,572	$ 134	$ 44	$ 2,091	$ 4,132
Charge-offs	(69)	—	(50)	(626)	—	(62)	—	(807)
Recoveries	6	—	7	33	3	84	—	133
Provisions	71	6	87	1,057	(10)	(29)	(44)	1,138
Ending balance December 31, 2015	$ 75	$ 51	$ 223	$ 2,036	$ 127	$ 37	$ 2,047	$ 4,596
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 3	$ —	$ —	$ —	$ —	$ 3
Collectively evaluated for impairment	75	51	220	2,036	127	37	2,047	4,593
December 31, 2015								
Loans receivable:								
Ending balance-total	$ 37,809	$ 35,829	$ 49,077	$ 326,978	$ 30,906	$ 8,592	$ —	$ 489,191
Ending balances:								
Individually evaluated for impairment	9	—	848	5,620	—	—	—	6,477
Collectively evaluated for impairment	$ 37,800	$ 35,829	$ 48,229	$ 321,358	$ 30,906	$ 8,592	$ —	$ 482,714

Loans outstanding to bank directors, executive officers and their related business interests amounted to $8.3 million and $6.9 million at September 30, 2016 and September 30, 2015, respectively. Repayments on these loans during the nine months ended September 30, 2016 were $716 thousand and loans made totaled $139 thousand. Repayments on these loans during the nine months ended September 30, 2015 were $1.3 million and loans made totaled $4.1 million. 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 detailed activity in the allowance for loan losses as of and for the three months ended September 30, 2016 and the three months ended September 30, 2015 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
2016								
Allowance for loan losses:								
Beginning balance June 30, 2016	$ 71	$ 59	$ 207	$ 2,349	$ 93	$ 23	$ 2,075	$4,877
Charge-offs	—	—	(1)	(36)	—	(19)	—	(56)
Recoveries	1	—	34	8	—	4	—	47
Provisions	58	35	272	415	30	15	(646)	179
Ending balance September 30, 2016	$ 130	$ 94	$ 512	$ 2,736	$ 123	$ 23	$ 1,429	$5,047

(Dollars in thousands)

	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
2015								
Allowance for loan losses:								
Beginning balance June 30, 2015	$ 221	$ 124	$ 179	$ 1,774	$ 119	$ 60	$ 1,804	$4,281
Charge-offs	—	—	(13)	—	—	(17)	—	(30)
Recoveries	2	—	4	11	1	6	—	24
Provisions	(53)	51	29	39	—	6	121	193
Ending balance September 30, 2015	$ 170	$ 175	$ 199	$ 1,824	$ 120	$ 55	$ 1,925	$4,468

The following table presents at September 30, 2016 and December 31, 2015 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)	September 30, 2016	December 31, 2015
Total loans considered impaired	$ 5,720	$ 6,477
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	47	49
Related allowance	2	3
Loans considered impaired and previously written down to fair value	5,673	6,428
Average impaired loans	9,207	9,518

Note 4—Loans-continued

The following tables are by loan category and present at September 30, 2016, December 31, 2015 and September 30, 2015 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)				Nine months ended		Three months ended	
September 30, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	374	374	—	419	—	411	—
Mortgage-commercial	5,243	7,821	—	8,683	88	8,609	31
Consumer:							
Home Equity	56	56	—	57	—	57	—
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	47	47	2	48	2	47	1
Mortgage-commercial	—	—	—	—	—	—	—
Consumer:							
Home Equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	421	421	2	467	2	458	1
Mortgage-commercial	5,243	7,821	—	8,683	88	8,609	31
Consumer:							
Home Equity	56	56	—	57	—	57	—
Other	—	—	—	—	—	—	—
	$ 5,720	$ 8,298	$ 2	$ 9,207	$ 90	$ 9,124	$ 32

Note 4—Loans-continued

(Dollars in thousands)				Nine months ended		Three months ended	
September 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial	$ 11	$ 11	$ —	$ 14	$ —	$ 13	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	873	952	—	1,140	71	1,133	1
Mortgage-commercial	5,753	8,149	—	8,388	—	8,293	—
Consumer:							
Home Equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	50	50	3	51	2	50	—
Mortgage-commercial	33	33	1	34	2	34	—
Consumer:							
Home Equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial	$ 11	$ 11	$ —	$ 14	$ —	$ 13	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	923	1,002	3	1,191	73	1,183	1
Mortgage-commercial	5,786	8,182	1	8,422	2	8,327	—
Consumer:							
Home Equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
	$ 6,720	$ 9,195	$ 4	$ 9,627	$ 75	$ 9,523	$ 1

Note 4—Loans-continued

(Dollars in thousands) December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 9	$ 9	$ —	$ 13	$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	799	874	—	1,082	1
Mortgage-commercial	5,620	7,548	—	8,372	60
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	49	49	3	51	3
Mortgage-commercial	—	—	—	—	—
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	9	9	—	13	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	848	923	3	1,133	4
Mortgage-commercial	5,620	7,548	—	8,372	60
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
	$ 6,477	$ 8,480	$ 3	$ 9,518	$ 64

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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, no loans were classified as doubtful.

Note 4—Loans-continued

(Dollars in thousands) September 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$38,563	$227	$ —	$ —	$38,790
Real estate:					
Construction	41,077	151	—	—	41,228
Mortgage – residential	47,804	597	929	—	49,330
Mortgage – commercial	343,073	3,966	7,056	—	354,095
Consumer:					
Home Equity	31,374	169	200	—	31,743
Other	8,255	—	—	—	8,255
Total	$510,146	$5,110	$ 8,185	$ —	$523,441

(Dollars in thousands) December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$37,501	$299	$ 9	$ —	$37,809
Real estate:					
Construction	35,374	455	—	—	35,829
Mortgage – residential	46,580	1,378	1,119	—	49,077
Mortgage – commercial	310,367	7,555	9,056	—	326,978
Consumer:					
Home Equity	30,587	180	139	—	30,906
Other	8,587	1	4	—	8,592
Total	$468,996	$9,868	$ 10,327	$ —	$489,191

At September 30, 2016 and December 31, 2015, non-accrual loans totaled $3.9 million and $4.8 million, respectively.

TDRs that are still accruing and included in impaired loans at September 30, 2016 and December 31, 2015 amounted to $1.8 million and $1.6 million, respectively. TDRs in non-accrual status at September 30, 2016 and December 31, 2015 amounted to $1.3 million and $1.8 million, respectively.

Loans greater than 90 days delinquent and still accruing interest were $98.7 thousand as of September 30, 2016. There were no loans greater than 90 days delinquent and still accruing interest as of December 31, 2015.

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 Financial Corporation of Augusta, Georgia, the bank holding company for Savannah River Banking Company (“Savannah River”), 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 and nine months ended September 30, 2016 and 2015 follows (in thousands):

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
Accretable yield, beginning of period	$	53		$	92	
Accretion		(17	)		(150	)
Reclassification of nonaccretable difference due to improvement in expected cash flows		18			112	
Accretable yield, end of period	$	54		$	54	

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
Accretable yield, beginning of period	$	135		$	75	
Accretion		(42	)		(513	)
Reclassification of nonaccretable difference due to improvement in expected cash flows		—			531	
Accretable yield, end of period	$	93		$	93	

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Note 4—Loans-continued

The following tables are by loan category and present loans past due and on non-accrual status as of September 30, 2016 and December 31, 2015:

(Dollars in thousands) September 30, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$—	$ 20	$ —	$ —	$20	$38,770	$38,790
Real estate:							
Construction	457	—	—	—	457	40,771	41,228
Mortgage-residential	595	211	99	374	1,279	48,051	49,330
Mortgage-commercial	457	471	—	3,475	4,403	349,692	354,095
Consumer:							
Home equity	292	144	—	56	492	31,251	31,743
Other	34	5	—	—	39	8,216	8,255
Total	$1,835	$851	$ 99	$ 3,905	$6,690	$516,751	$523,441

(Dollars in thousands) December 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	$5	$—	$ —	$ 9	$14	$37,795	$37,809
Real estate:							
Construction	—	—	—	—	—	35,829	35,829
Mortgage-residential	126	195	—	799	1,120	47,957	49,077
Mortgage-commercial	1,180	290	—	4,031	5,501	321,477	326,978
Consumer:							
Home equity	135	—	—	—	135	30,771	30,906
Other	4	4	—	—	8	8,584	8,592
Total	$1,450	$489	$ —	$ 4,839	$6,778	$482,413	$489,191

Note 4—Loans-continued

The Company reviews TDRs in accordance with applicable regulatory and accounting guidance.

There were no loans determined to be TDRs that were restructured during the three and nine month periods ended September 30, 2015 or the three month period ended September 30, 2016.

The following table, by loan category, presents one loan determined to be a TDR during the nine month period ended September 30, 2016. The loan was modified to extend the term of the loan due to financial hardship of the borrower. The loan was subsequently paid off in June 2016.

Troubled Debt Restructurings	For the nine months ended September 30, 2016		
(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Accrual			
Mortgage-Commercial	1	$ 413	$ 413
Total Accrual	1	$ 413	$ 413
Total TDRs	1	$ 413	$ 413

During the three and nine month periods ended September 30, 2016 and 2015, 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.

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

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 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 does not expect these amendments to have a material effect on its financial statements.

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 became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which changes the presentation of debt issuance costs. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company's fiscal year-end. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides guidance to customers about whether a cloud computing arrangement includes a software license. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2015, the FASB issued guidance which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 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 August 2015, the FASB issued amendments to the Interest topic of the Accounting Standards Codification to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

Note 5 - Recently Issued Accounting Pronouncements-continued

In September 2015, the FASB amended the Business Combinations topic of the Accounting Standards Codification to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. The amendments became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. All entities are required to apply the amendments prospectively to adjustments to provisional amounts that occur after the effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB amended the Liabilities topic of the Accounting Standards Codification to address the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Derivatives and Hedging topic of the Accounting Standards Codification to clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company will apply the guidance prospectively to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Investments—Equity Method and Joint Ventures topic of the Accounting Standards Codification to eliminate the requirement to retroactively adopt the equity method of accounting. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company will apply the guidance prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Company does not expect these amendments to have a material effect on its financial statements.

Note 5 - Recently Issued Accounting Pronouncements-continued

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. 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.

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.

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 September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016				
	Fair Value				
(Dollars in thousands)	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and short term investments	$38,695	$38,695	$38,695	$—	$—
Held-to-maturity securities	17,238	17,865	—	17,865	—
Available-for-sale securities	269,255	269,255	818	267,487	950
Other investments, at cost	1,681	1,681	—	—	1,681
Loans held for sale	4,250	4,250	—	4,250	—
Net loans receivable	518,394	517,927	—	512,209	5,718
Accrued interest	2,784	2,784	2,784	—	—
Financial liabilities:					
Non-interest bearing demand	$177,267	$177,267	$—	$177,267	$—
NOW and money market accounts	325,800	325,800	—	325,800	—
Savings	76,516	76,516	—	76,516	—
Time deposits	186,340	186,541	—	186,541	—
Total deposits	765,923	766,124	—	766,124	—
Federal Home Loan Bank Advances	21,022	21,823	—	21,823	—
Short term borrowings	22,232	22,232	—	22,232	—
Junior subordinated debentures	14,964	14,982	—	14,982	—
Accrued interest payable	588	588	588	—	—

	December 31, 2015				
	Fair Value				
(Dollars in thousands)	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and short term investments	$22,941	$22,941	$22,941	$—	$—
Held-to-maturity securities	17,371	17,555	—	17,555	—
Available-for-sale securities	264,687	264,687	812	263,458	417
Other investments, at cost	1,783	1,783	—	—	1,783
Loans held for sale	2,962	2,962	—	2,962	—
Net loans receivable	484,595	484,669	—	478,195	6,474
Accrued interest	2,877	2,877	2,877	—	—
Financial liabilities:					
Non-interest bearing demand deposits	$156,247	$156,247	$—	$156,247	$—
NOW and money market accounts	318,308	318,308	—	318,308	—
Savings	60,699	60,699	—	60,699	—
Time deposits	180,897	181,325	—	181,325	—

Total deposits	716,151	716,579	—	716,579	—
Federal Home Loan Bank Advances	24,788	25,841	—	25,841	—
Short term borrowings	21,033	21,033	—	21,033	—
Junior subordinated debentures	14,964	14,954	—	14,954	—
Accrued interest payable	652	652	652	—	—

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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 September 30, 2016 and December 31, 2015 that are measured on a recurring basis. There were no liabilities carried at fair value as of September 30, 2016 or December 31, 2015 that are measured on a recurring basis.

(Dollars in thousands)

Description	September 30, 2016	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				
US Treasury	$ 1,563	$ —	$ 1,563	$ —
Government sponsored enterprises	1,026	—	1,026	—
Mortgage-backed securities	154,238	—	154,238	—
Small Business Administration securities	53,252	—	53,252	—
State and local government	57,348	—	57,348	—
Corporate and other securities	1,828	818	60	950
Total	$ 269,255	$ 818	$ 267,487	$ 950

(Dollars in thousands)

Description	**December 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				
US Treasury Securities	$ 1,522	$ —	$ 1,522	$ —
Government sponsored enterprises	992	—	992	—
Mortgage-backed securities	146,261	—	146,261	—
Small Business Administration securities	57,328	—	57,328	—
State and local government	57,295	—	57,295	—
Corporate and other securities	1,289	812	60	417
Total	$ 264,687	$ 812	$ 263,458	$ 417

Note 6 – Fair Value of Financial Instruments – continued

The following table reconciles the changes in Level 3 financial instruments for the nine months ended September 30, 2016 and 2015 that are measured on a recurring basis.

(**Dollars in thousands**)	September 30, 2016 Corporate Preferred Stock	September 30, 2015 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	950	—
Maturities, sales, payoffs	(417)	—
Transfers in and/or out of Level 3	—	—
Ending Balance	$950	$ 417

The following table reconciles the changes in Level 3 financial instruments for the three months ended September 30, 2016 and September 30, 2015 that are measured on a recurring basis.

(**Dollars in thousands**)	September 30, 2016 Corporate Preferred Stock	September 30, 2015 Corporate Preferred Stock
Beginning Balance	$950	$ 417
Total gains or losses (realized/unrealized) Included in earnings	—	—
Included in other comprehensive income	—	—
Purchases, issuances, and settlements	—	—
Maturities, sales, payoffs	—	—
Transfers in and/or out of Level 3	—	—
Ending Balance	$950	$ 417

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 September 30, 2016 and December 31, 2015 that are measured on a non-recurring basis.

(Dollars in thousands)

Description	September 30, 2016	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	419	—	—	419
Mortgage-commercial	5,243	—	—	5,243
Consumer:				
Home equity	56	—	—	56
Other	—	—	—	—
Total impaired	5,718	—	—	5,718
Other real estate owned:				
Construction	—	—	—	—
Mortgage-residential	337	—	—	337
Mortgage-commercial	861	—	—	861
Total other real estate owned	1,198	—	—	1,198
Total	$ 6,916	$ —	$ —	$ 6,916

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Note 6 – Fair Value of Financial Instruments - continued

(Dollars in thousands)

Description	December 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	$ 9	$ —	$ —	$ 9
Real estate:				
Mortgage-residential	845	—	—	845
Mortgage-commercial	5,620	—	—	5,620
Consumer:				
Home equity	—	—	—	—
Other	—	—	—	—
Total impaired	6,474	—	—	6,474
Other real estate owned:				
Construction	276	—	—	276
Mortgage-residential	191	—	—	191
Mortgage-commercial	1,991	—	—	1,991
Total other real estate owned	2,458	—	—	2,458
Total	$ 8,932	$ —	$ —	$ 8,932

The Company has a large percentage of loans with real estate serving as collateral. 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. Third party appraisals are generally obtained when a loan is identified as being impaired or at the time it is transferred to OREO. This internal process consists of evaluating the underlying collateral to independently obtained comparable properties. With respect to less complex or smaller credits, an internal evaluation may be performed. The independent and internal evaluations are generally updated annually. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property. The aggregate amount of impaired loans was $5.7 million and $6.5 million as of September 30, 2016 and December 31, 2015, respectively.

Note 6 – Fair Value of Financial Instruments - continued

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2016 and December 31, 2015, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value as of September 30, 2016	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Preferred stock	$ 950	Estimation based on comparable non-listed securities	Comparable transactions	n/a
OREO	$ 1,198	Appraisal Value/Comparison Sales/Other estimates	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost
Impaired loans	$ 5,718	Appraisal Value	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost

(Dollars in thousands)	Fair Value as of December 31, 2015	Valuation Technique