

SOUTHERN FIRST BANCSHARES INC  
Form 10-Q  
October 30, 2015

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2015

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27719

**Southern First Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

**South Carolina**

(State or other jurisdiction of incorporation or organization)

**58-2459561**

(I.R.S. Employer Identification No.)

**100 Verdae Boulevard, Suite 100**

**Greenville, S.C.**

(Address of principal executive offices)

**29606**

(Zip Code)

**864-679-9000**

(Registrant's telephone number, including area code)

**Not Applicable**

(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 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 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 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller Reporting Company

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
6,243,132 shares of common stock, par value \$0.01 per share, were issued and outstanding as of October 27, 2015.

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***SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY***  
**September 30, 2015 Form 10-Q**

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**Table of Contents****PART I. CONSOLIDATED FINANCIAL INFORMATION**  
**Item 1. CONSOLIDATED FINANCIAL STATEMENTS****SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share data)	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 11,311	9,862
Federal funds sold	34,817	25,849
Interest-bearing deposits with banks	4,209	5,553
Total cash and cash equivalents	50,337	41,264
Investment securities:		
Investment securities available for sale	66,346	55,024
Other investments	5,532	6,522
Total investment securities	71,878	61,546
Loans held for sale	10,887	11,765
Loans	993,233	871,446
Less allowance for loan losses	(13,368)	(11,752)
Loans, net	979,865	859,694
Bank owned life insurance	24,548	22,050
Property and equipment, net	23,461	20,845
Deferred income taxes	6,080	5,509
Other assets	6,501	7,192
Total assets	\$ 1,173,557	1,029,865
<b>LIABILITIES</b>		
Deposits	\$ 943,918	788,907
Federal Home Loan Bank advances and other borrowings	115,200	135,200
Junior subordinated debentures	13,403	13,403
Other liabilities	9,986	9,363
Total liabilities	1,082,507	946,873
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$.01 per share, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, par value \$.01 per share, 10,000,000 shares authorized, 6,243,132 and 6,219,002 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	62	62
Nonvested restricted stock	(350)	(494)
Additional paid-in capital	69,400	68,785
Accumulated other comprehensive income	286	302
Retained earnings	21,652	14,337
Total shareholders' equity	91,050	82,992
Total liabilities and shareholders' equity	\$ 1,173,557	1,029,865

See notes to consolidated financial statements that are an integral part of these consolidated statements.

**Table of Contents****SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
(dollars in thousands, except share data)				
<b>Interest income</b>				
Loans	\$ 11,362	9,829	32,703	27,956
Investment securities	371	400	1,102	1,378
Federal funds sold	33	24	79	54
Total interest income	11,766	10,253	33,884	29,388
<b>Interest expense</b>				
Deposits	941	718	2,563	2,094
Borrowings	987	1,044	2,922	3,088
Total interest expense	1,928	1,762	5,485	5,182
Net interest income	9,838	8,491	28,399	24,206
Provision for loan losses	875	1,325	2,500	3,275
Net interest income after provision for loan losses	8,963	7,166	25,899	20,931
<b>Noninterest income</b>				
Loan and mortgage fee income	1,426	861	4,031	1,816
Service fees on deposit accounts	230	244	676	689
Income from bank owned life insurance	167	169	498	498
Gain on sale of investment securities	2	-	297	230
Other income	299	286	878	815
Total noninterest income	2,124	1,560	6,380	4,048
<b>Noninterest expenses</b>				
Compensation and benefits	4,313	3,459	12,695	10,384
Occupancy	845	777	2,424	2,235
Real estate owned expenses	148	71	1,003	96
Data processing and related costs	588	625	1,747	1,841
Insurance	215	209	630	604
Professional fees	180	193	646	591
Marketing	217	207	677	724
Other	365	525	1,155	1,676
Total noninterest expenses	6,871	6,066	20,977	18,151
Income before income tax expense	4,216	2,660	11,302	6,828
<b>Income tax expense</b>	1,489	834	3,987	2,185
<b>Net income</b>	2,727	1,826	7,315	4,643
Preferred stock dividend	-	253	-	699
<b>Net income available to common shareholders</b>	\$ 2,727	1,573	7,315	3,944
<b>Earnings per common share</b>				
Basic	\$ 0.44	0.33	1.17	0.83
Diluted	0.41	0.31	1.12	0.79
<b>Weighted average common shares outstanding</b>				
Basic	6,238,465	4,829,514	6,232,536	4,775,791
Diluted	6,579,448	5,046,487	6,542,896	4,984,553

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

(dollars in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 2,727	1,826	7,315	4,643
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale:				
Unrealized holding gain (loss) arising during the period, pretax	604	(25)	272	2,234
Tax (expense) benefit	(205)	8	(92)	(760)
Reclassification of realized gain	(2)	-	(297)	(230)
Tax expense	1	-	101	78
Other comprehensive income (loss)	398	(17)	(16)	1,322
Comprehensive income	\$ 3,125	1,809	7,299	5,965

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014  
(Unaudited)**

(dollars in thousands, except share data)	Common stock		Preferred stock		Nonvested restricted stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
	Shares	Amount	Shares	Amount					
<b>December 31, 2013</b>	<b>4,319,750</b>	<b>\$ 43</b>	<b>15,299</b>	<b>\$ 15,299</b>	<b>\$ (636)</b>	<b>\$ 43,585</b>	<b>\$ (1,348)</b>	<b>\$ 8,722</b>	<b>\$ 65,665</b>
Net income	-	-	-	-	-	-	-	4,643	4,643
Preferred stock transactions:									
Redemption of preferred stock	-	-	(4,057)	(4,057)	-	-	-	-	(4,057)
Cash dividends on Series T preferred stock	-	-	-	-	-	-	-	(687)	(687)
Issuance of common stock	475,000	5	-	-	-	5,945	-	-	5,950
Proceeds from exercise of stock options	32,764	-	-	-	-	287	-	-	287
Issuance of restricted stock	2,000	-	-	-	(27)	27	-	-	-
Amortization of deferred compensation on restricted stock	-	-	-	-	147	-	-	-	147
Compensation expense related to stock options, net of tax	-	-	-	-	-	322	-	-	322
Other comprehensive income	-	-	-	-	-	-	1,322	-	1,322
<b>September 30, 2014</b>	<b>4,829,514</b>	<b>48</b>	<b>11,242</b>	<b>11,242</b>	<b>(516)</b>	<b>50,166</b>	<b>(26)</b>	<b>12,678</b>	<b>73,592</b>
<b>December 31, 2014</b>	<b>6,219,002</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>(494)</b>	<b>68,785</b>	<b>302</b>	<b>14,337</b>	<b>82,992</b>
Net income	-	-	-	-	-	-	-	7,315	7,315
Proceeds from exercise of stock options	24,130	-	-	-	-	189	-	-	189
Amortization of deferred compensation on restricted stock	-	-	-	-	144	-	-	-	144
Compensation expense related to stock options, net of tax	-	-	-	-	-	426	-	-	426
Other comprehensive loss	-	-	-	-	-	-	(16)	-	(16)
<b>September 30, 2015</b>	<b>6,243,132</b>	<b>\$ 62</b>	<b>-</b>	<b>\$ -</b>	<b>\$ (350)</b>	<b>\$ 69,400</b>	<b>\$ 286</b>	<b>\$ 21,652</b>	<b>\$ 91,050</b>

See notes to consolidated financial statements that are an integral part of these consolidated statements.

**Table of Contents****SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the nine months ended September 30,	
(dollars in thousands)	2015	2014
<b>Operating activities</b>		
Net income	\$ 7,315	\$ 4,643
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	2,500	3,275
Depreciation and other amortization	990	901
Accretion and amortization of securities discounts and premium, net	237	291
Gain loss on sale of investment securities available for sale	(297)	(230)
(Gain) loss on sale of real estate owned	(66)	13
Write-down of real estate owned	787	20
Compensation expense related to stock options and grants	570	469
Gain on sale of loans held for sale	(3,816)	(1,700)
Loans originated and held for sale	(162,352)	(71,733)
Proceeds from sale of loans held for sale	167,046	67,672
Increase in cash surrender value of bank owned life insurance	(498)	(498)
Increase in deferred tax asset	(562)	(954)
Decrease in other assets, net	41	8
Decrease in other liabilities	623	854
Net cash provided by operating activities	12,518	3,031
<b>Investing activities</b>		
Increase (decrease) in cash realized from:		
Origination of loans, net	(123,014)	(103,836)
Purchase of property and equipment	(3,606)	(2,111)
Purchase of investment securities:		
Available for sale	(25,096)	(2,073)
Other	(149)	(900)
Payments and maturity of investment securities:		
Available for sale	3,446	3,609
Other	1,140	494
Purchase of bank owned life insurance	(2,000)	-
Proceeds from sale of investment securities available for sale	10,362	10,977
Proceeds from sale of real estate owned	272	203
Net cash used for investing activities	(138,645)	(93,637)
<b>Financing activities</b>		
Increase (decrease) in cash realized from:		
Increase in deposits, net	155,011	92,441
Increase in other borrowings	-	15,500
Decrease in Federal Home Loan Bank advances and other borrowings	(20,000)	-
Cash dividend on preferred stock	-	(687)
Redemption of preferred stock	-	(4,057)
Issuance of common stock	-	5,950
Proceeds from the exercise of stock options and warrants	189	287
Net cash provided by financing activities	135,200	109,434
Net increase in cash and cash equivalents	9,073	18,828
<b>Cash and cash equivalents at beginning of the period</b>	41,264	39,203
<b>Cash and cash equivalents at end of the period</b>	\$ 50,337	\$ 58,031
<b>Supplemental information</b>		
<b>Cash paid for</b>		
Interest	\$ 5,451	\$ 4,946
Income taxes	4,550	3,140
<b>Schedule of non-cash transactions</b>		
Real estate acquired in settlement of loans	343	2,587
Unrealized gain on securities, net of income taxes	180	1,474



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See notes to consolidated financial statements that are an integral part of these consolidated statements.

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**SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 Nature of Business and Basis of Presentation**

*Business Activity*

**Southern First Bancshares, Inc.** (the "Company") is a South Carolina corporation that owns all of the capital stock of Southern First Bank (the "Bank") and all of the stock of Greenville First Statutory Trust I and II (collectively, the "Trusts"). The Trusts are special purpose non-consolidated entities organized for the sole purpose of issuing trust preferred securities. The Bank's primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is also regulated and examined by the South Carolina Board of Financial Institutions. The Bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the FDIC, and providing commercial, consumer and mortgage loans to the general public.

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on March 3, 2015. The consolidated financial statements include the accounts of the Company and the Bank. In accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 810, Consolidation, the financial statements related to the Trusts have not been consolidated.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, real estate acquired in the settlement of loans, fair value of financial instruments, evaluating other-than-temporary-impairment of investment securities and valuation of deferred tax assets.

*Reclassifications*

Certain amounts, previously reported, have been reclassified to state all periods on a comparable basis and had no effect on shareholders' equity or net income.

*Subsequent Events*

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management performed an evaluation to determine whether there have been any subsequent events since the balance sheet date and determined that no subsequent events occurred requiring accrual or disclosure.

**Table of Contents****NOTE 2 Preferred and Common Stock**

On November 12, 2014, the Company issued 1,380,000 shares of its common stock in a public offering at \$14.40 per share, including 180,000 shares which were sold to the underwriter pursuant to an option to purchase additional shares to cover any over-allotments. The net proceeds from the offering totaled approximately \$18.4 million, after deducting the underwriting discount as well as estimated offering expenses.

Using proceeds from the public offering, on December 12, 2014, the Company completed the repurchase of the remaining 11,242 shares of Series T preferred stock outstanding at \$1,000 par value from third party investors who purchased the shares in July 2012 through a Dutch auction conducted by the U.S. Treasury. As of December 31, 2014, the Company has no shares of preferred stock outstanding.

**NOTE 3 Investment Securities**

The amortized costs and fair value of investment securities are as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized		September 30, 2015 Fair Value
		Gains	Losses	
<b>Available for sale</b>				
US government agencies	\$ 12,146	30	72	12,104
SBA securities	5,071	-	88	4,983
State and political subdivisions	19,097	416	51	19,462
Mortgage-backed securities	29,599	280	82	29,797
Total investment securities available for sale	\$ 65,913	726	293	66,346

(dollars in thousands)	Amortized Cost	Gross Unrealized		December 31, 2014 Fair Value
		Gains	Losses	
<b>Available for sale</b>				
US government agencies	\$ 8,763	9	215	8,557
SBA securities	5,336	-	182	5,154
State and political subdivisions	16,253	598	51	16,800
Mortgage-backed securities	24,214	341	42	24,513
Total investment securities available for sale	\$ 54,566	948	490	55,024

During the first quarter of 2015, the Company sold \$5.8 million of its mortgage-backed securities and state and municipal obligations and recorded a net gain on sale of investment securities of \$259,000. During the second quarter of 2015, the Company sold and subsequently reinvested \$4.3 million of investment securities, recording a gain of \$36,000 from the transaction.

Contractual maturities and yields on the Company's investment securities at September 30, 2015 and December 31, 2014 are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	Less than one year		One to five years		Five to ten years		Over ten years		September 30, 2015	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<b>Available for sale</b>										
US government agencies	\$ -	-	2,008	1.77%	2,373	2.13%	7,723	2.42%	12,104	2.26%
SBA securities	-	-	-	-	-	-	4,983	1.88%	4,983	1.88%
State and political subdivisions	1,763	0.65%	969	2.78%	8,822	2.91%	7,908	2.89%	19,462	2.69%
Mortgage-backed securities	-	-	-	-	3,506	1.58%	26,291	2.11%	29,797	2.05%

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Total

\$	1,763	0.65%	2,977	2.10%	14,701	2.46%	46,905	2.26%	66,346	2.26%
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	December 31, 2014									
	Less than one year		One to five years		Five to ten years		Over ten years		Amount	Yield
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield		
<b>Available for sale</b>										
US government agencies	\$ -	-	988	2.12%	-	-	7,569	2.43%	8,557	2.39%
SBA securities	-	-	-	-	-	-	5,154	1.88%	5,154	1.88%
State and political subdivisions	2,082	0.68%	399	3.14%	8,465	3.23%	5,854	3.00%	16,800	2.82%
Mortgage-backed securities	-	-	-	-	2,118	1.66%	22,395	2.62%	24,513	2.54%
Total	\$ 2,082	0.68%	1,387	2.41%	10,583	2.91%	40,972	2.54%	55,024	2.54%

The tables below summarize gross unrealized losses on investment securities and the fair market value of the related securities at September 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

(dollars in thousands)	September 30, 2015										
	#	Less than 12 months			#	12 months or longer			#	Total	
		Fair value	Unrealized losses	Fair value		Unrealized losses	Fair value	Unrealized losses			
<b>Available for sale</b>											
US government agencies	2	\$ 5,061	\$ 72	-	\$ -	\$ -	2	\$ 5,061	\$ 72		
SBA securities	-	-	-	2	4,983	88	2	4,983	88		
State and political subdivisions	6	2,489	18	4	2,244	33	10	4,733	51		
Mortgage-backed securities	7	11,520	82	-	-	-	7	11,520	82		
Total	15	\$ 19,070	\$ 172	6	\$ 7,227	\$ 121	21	\$ 26,297	\$ 293		

	December 31, 2014										
	#	Less than 12 months			#	12 months or longer			#	Total	
		Fair value	Unrealized losses	Fair value		Unrealized losses	Fair value	Unrealized losses			
<b>Available for sale</b>											
US government agencies	-	\$ -	\$ -	2	\$ 7,569	\$ 215	2	\$ 7,569	\$ 215		
SBA securities	-	-	-	2	5,154	182	2	5,154	182		
State and political subdivisions	-	-	-	7	3,488	51	7	3,488	51		
Mortgage-backed securities	3	4,407	11	2	4,756	31	5	9,163	42		
Total	3	\$ 4,407	\$ 11	13	\$ 20,967	\$ 479	16	\$ 25,374	\$ 490		

At September 30, 2015, the Company had 15 individual investments with a fair market value of \$19.1 million that were in an unrealized loss position for less than 12 months and six individual investments with a fair market value of \$7.2 million that were in an unrealized loss position for 12 months or longer. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers the length of time and extent to which the fair value of available-for-sale debt securities have been less than cost to conclude that such securities are not other-than-temporarily impaired. The Company also considers other factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. As the Company has no intent to sell securities with unrealized losses and it is not more-likely-than-not that the Company will be required to sell these securities before recovery of amortized cost, the Company has concluded that these securities are not impaired on an other-than-temporary basis.

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Other investments are comprised of the following and are recorded at cost which approximates fair value.

(dollars in thousands)	September 30, 2015	December 31, 2014
Federal Home Loan Bank stock	\$ 5,005	6,020
Investment in Trust Preferred securities	403	403
Other investments	124	99
Total other investments	\$ 5,532	6,522

The Company has evaluated the Federal Home Loan Bank ( FHLB ) stock for impairment and determined that the investment in the FHLB stock is not other than temporarily impaired as of September 30, 2015 and ultimate recoverability of the par value of this investment is probable. All of the FHLB stock is used to collateralize advances with the FHLB.

At September 30, 2015, \$21.0 million of securities were pledged as collateral for repurchase agreements from brokers, and approximately \$11.2 million of securities were pledged to secure client deposits. At December 31, 2014, \$21.8 million of securities were pledged as collateral for repurchase agreements from brokers, and approximately \$12.9 million of securities were pledged to secure client deposits.

**NOTE 4 Loans and Allowance for Loan Losses**

The following table summarizes the composition of our loan portfolio. Total gross loans are recorded net of deferred loan fees and costs, which totaled \$1.8 million as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	September 30, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total
<b>Commercial</b>				
Owner occupied RE	\$ 237,997	24.0%	\$ 191,061	21.9%
Non-owner occupied RE	212,777	21.4%	183,440	21.1%
Construction	32,985	3.3%	50,995	5.8%
Business	170,049	17.1%	149,986	17.2%
Total commercial loans	653,808	65.8%	575,482	66.0%
<b>Consumer</b>				
Real estate	168,838	17.0%	146,859	16.9%
Home equity	111,794	11.3%	95,629	11.0%
Construction	43,555	4.4%	39,226	4.5%
Other	15,238	1.5%	14,250	1.6%
Total consumer loans	339,425	34.2%	295,964	34.0%
Total gross loans, net of deferred fees	993,233	100.0%	871,446	100.0%
Less allowance for loan losses	(13,368)		(11,752)	
Total loans, net	\$ 979,865		\$ 859,694	

*Maturities and Sensitivity of Loans to Changes in Interest Rates*

The information in the following tables summarizes the loan maturity distribution by type and related interest rate characteristics based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below, because borrowers have the right to prepay obligations with or without prepayment penalties.

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	September 30, 2015			
(dollars in thousands)	One year or less	After one but within five years	After five years	Total
<b>Commercial</b>				
Owner occupied RE	\$ 18,701	146,061	73,235	237,997
Non-owner occupied RE	39,960	130,607	42,210	212,777
Construction	13,882	16,258	2,845	32,985
Business	70,478	87,226	12,345	170,049
Total commercial loans	143,021	380,152	130,635	653,808
<b>Consumer</b>				
Real estate	28,269	47,668	92,901	168,838
Home equity	4,842	32,466	74,486	111,794
Construction	17,661	2,835	23,059	43,555
Other	7,590	6,065	1,583	15,238
Total consumer loans	58,362	89,034	192,029	339,425
Total gross loans, net of deferred fees	\$ 201,383	469,186	322,664	993,233
Loans maturing after one year with:				
Fixed interest rates				\$ 590,605
Floating interest rates				201,247

	December 31, 2014			
(dollars in thousands)	One year or less	After one but within five years	After five years	Total
<b>Commercial</b>				
Owner occupied RE	\$ 20,737	98,110	72,214	191,061
Non-owner occupied RE	46,718	104,402	32,320	183,440
Construction	11,923	25,145	13,927	50,995
Business	75,718	65,899	8,369	149,986
Total commercial loans	155,096	293,556	126,830	575,482
<b>Consumer</b>				
Real estate	21,571	41,549	83,739	146,859
Home equity	5,645	28,394	61,590	95,629
Construction	13,531	2,073	23,622	39,226
Other	7,278	5,637	1,335	14,250
Total consumer	48,025	77,653	170,286	295,964
Total gross loan, net of deferred fees	\$ 203,121	371,209	297,116	871,446
Loans maturing after one year with:				
Fixed interest rates				\$ 494,058
Floating interest rates				174,267

**Portfolio Segment Methodology***Commercial*

Commercial loans are assessed for estimated losses by grading each loan using various risk factors identified through periodic reviews. The Company applies historic grade-specific loss factors to each loan class. In the development of statistically derived loan grade loss factors, the Company observes historical losses over 20 quarters for each loan grade. These loss estimates are adjusted as appropriate based on additional analysis of external loss data or other risks identified from current economic conditions and credit quality trends. The allowance also includes an amount for the estimated impairment on nonaccrual commercial loans and commercial loans modified in a troubled debt restructuring ( TDR ), whether on accrual or nonaccrual status.

**Table of Contents***Consumer*

For consumer loans, the Company determines the allowance on a collective basis utilizing historical losses over 20 quarters to represent its best estimate of inherent loss. The Company pools loans, generally by loan class with similar risk characteristics. The allowance also includes an amount for the estimated impairment on nonaccrual consumer loans and consumer loans modified in a TDR, whether on accrual or nonaccrual status.

During the third quarter of 2015, the Company began using 20 quarters to measure historical losses rather than a 12 quarter period as used in the past. The Company believes that the longer period used to determine historical losses for both its commercial and consumer loans captures a longer economic cycle, including periods of economic uncertainty which are unlike those the Company has experienced in the past three years. The Company also believes that using 20 quarters to measure historical losses is more indicative of the losses and risks inherent in the portfolio.

**Credit Quality Indicators***Commercial*

The Company manages a consistent process for assessing commercial loan credit quality by monitoring its loan grading trends and past due statistics. All loans are subject to individual risk assessment. The Company's risk categories include Pass, Special Mention, Substandard, and Doubtful, each of which is defined by banking regulatory agencies. Delinquency statistics are also an important indicator of credit quality in the establishment of the Company's allowance for credit losses.

The Company categorizes its loans into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. A description of the general characteristics of the risk grades is as follows:

**Pass** These loans range from minimal credit risk to average however still acceptable credit risk.

**Special mention** A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.

**Substandard** A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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

The tables below provide a breakdown of outstanding commercial loans by risk category.

	September 30, 2015				
(dollars in thousands)	Owner occupied RE	Non-owner occupied RE	Construction	Business	Total
Pass	\$ 232,326	203,061	31,143	161,171	627,701
Special mention	3,903	3,325	-	4,846	12,074
Substandard	1,768	6,391	1,842	4,032	14,033
Doubtful	-	-	-	-	-
	\$ 237,997	212,777	32,985	170,049	653,808



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	December 31, 2014				
	Owner occupied RE	Non-owner occupied RE	Construction	Business	Total
Pass	\$ 184,158	173,711	48,140	140,432	546,441
Special mention	5,035	3,376	129	4,715	13,255
Substandard	1,868	6,353	2,726	4,839	15,786
Doubtful	-	-	-	-	-
	\$ 191,061	183,440	50,995	149,986	575,482

The following tables provide past due information for outstanding commercial loans and include loans on nonaccrual status as well as accruing TDRs.

	September 30, 2015				
(dollars in thousands)	Owner occupied RE	Non-owner occupied RE	Construction	Business	Total
Current	\$ 237,687	209,180	32,538	168,722	648,127
30-59 days past due	-	449	-	328	777
60-89 days past due	54	-	-	-	54
Greater than 90 Days	256	3,148	447	999	4,850
	\$ 237,997	212,777	32,985	170,049	653,808

	December 31, 2014				
	Owner occupied RE	Non-owner occupied RE	Construction	Business	Total
Current	\$ 190,801	180,577	50,212	148,317	569,907
30-59 days past due	-	49	-	35	84
60-89 days past due	-	246	-	155	401
Greater than 90 Days	260	2,568	783	1,479	5,090
	\$ 191,061	183,440	50,995	149,986	575,482

As of September 30, 2015 and December 31, 2014, loans 30 days or more past due represented 0.66% and 0.73% of the Company's total loan portfolio, respectively. Commercial loans 30 days or more past due were 0.57% and 0.64% of the Company's total loan portfolio as of September 30, 2015 and December 31, 2014, respectively.

**Consumer**

The Company manages a consistent process for assessing consumer loan credit quality by monitoring its loan grading trends and past due statistics. All loans are subject to individual risk assessment. The Company's categories include Pass, Special Mention, Substandard, and Doubtful, which are defined above. Delinquency statistics are also an important indicator of credit quality in the establishment of the allowance for loan losses.

The tables below provide a breakdown of outstanding consumer loans by risk category.

	September 30, 2015				
(dollars in thousands)	Real estate	Home equity	Construction	Other	Total
Pass	\$ 166,613	107,764	42,552	15,086	332,015
Special mention	649	2,856	-	121	3,626
Substandard	1,576	1,174	1,003	31	3,784
Doubtful	-	-	-	-	-
	\$ 168,838	111,794	43,555	15,238	339,425



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	December 31, 2014				
	Real estate	Home equity	Construction	Other	Total
Pass	\$ 144,070	91,084	39,226	14,013	288,393
Special mention	953	3,268	-	139	4,360
Substandard	1,836	1,277	-	98	3,211
Doubtful	-	-	-	-	-
	\$ 146,859	95,629	39,226	14,250	295,964

The following tables provide past due information for outstanding consumer loans and include loans on nonaccrual status as well as accruing TDRs.

(dollars in thousands)	September 30, 2015				
	Real estate	Home equity	Construction	Other	Total
Current	\$ 168,594	111,154	43,555	15,231	338,534
30-59 days past due	244	390	-	-	634
60-89 days past due	-	-	-	6	6
Greater than 90 Days	-	250	-	1	251
	\$ 168,838	111,794	43,555	15,238	339,425

	December 31, 2014				
	Real estate	Home equity	Construction	Other	Total
Current	\$ 146,362	95,311	39,226	14,247	295,146
30-59 days past due	40	-	-	-	40
60-89 days past due	-	130	-	3	133
Greater than 90 Days	457	188	-	-	645
	\$ 146,859	95,629	39,226	14,250	295,964

As of September 30, 2015 and December 31, 2014, consumer loans 30 days or more past due were 0.09% of total loans.

**Nonperforming assets**

The following table shows the nonperforming assets and the related percentage of nonperforming assets to total assets and gross loans. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when the Company believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the contractual principal or interest on the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as a reduction in principal when received.

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Following is a summary of our nonperforming assets, including nonaccruing TDRs.

(dollars in thousands)	September 30, 2015	December 31, 2014
<b>Commercial</b>		
Owner occupied RE	\$ 718	322
Non-owner occupied RE	4,434	2,344
Construction	-	783
Business	895	1,408
<b>Consumer</b>		
Real estate	-	457
Home equity	250	188
Construction	-	-
Other	1	1
Nonaccruing troubled debt restructurings	887	1,147
Total nonaccrual loans, including nonaccruing TDRs	7,185	6,650
Other real estate owned	2,657	3,307
Total nonperforming assets	\$ 9,842	9,957
Nonperforming assets as a percentage of:		
Total assets	0.84%	0.97%
Gross loans	0.99%	1.14%
Total loans over 90 days past due	5,101	5,735
Loans over 90 days past due and still accruing	-	-
Accruing troubled debt restructurings	\$ 7,232	8,562

**Impaired Loans**

The table below summarizes key information for impaired loans. The Company's impaired loans include loans on nonaccrual status and loans modified in a TDR, whether on accrual or nonaccrual status. These impaired loans may have estimated impairment which is included in the allowance for loan losses. The Company's commercial and consumer impaired loans are evaluated individually to determine the related allowance for loan losses.

(dollars in thousands)	September 30, 2015			
	Unpaid Principal Balance	Impaired loans	Recorded investment Impaired loans with related allowance for loan losses	Related allowance for loan losses
<b>Commercial</b>				
Owner occupied RE	\$ 900	876	876	351
Non-owner occupied RE	9,592	6,246	4,399	1,084
Construction	1,843	1,843	447	81
Business	4,335	3,720	2,669	1,989
Total commercial	16,670	12,685	8,391	3,505
<b>Consumer</b>				
Real estate	1,126	1,126	809	493
Home equity	405	405	155	155
Construction	-	-	-	-
Other	201	201	201	201
Total consumer	1,732	1,732	1,165	849
Total	\$ 18,402	14,417	9,556	4,354



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	December 31, 2014			
	Unpaid Principal Balance	Impaired loans	Recorded investment Impaired loans with related allowance for loan losses	Related allowance for loan losses
<b>Commercial</b>				
Owner occupied RE	\$ 1,122	1,122	1,060	371
Non-owner occupied RE	5,813	4,522	2,777	801
Construction	5,268	2,726	1,315	324
Business	5,385	4,565	3,528	2,464
Total commercial	17,588	12,935	8,680	3,960
<b>Consumer</b>				
Real estate	1,620	1,620	1,299	585
Home equity	347	347	347	191
Construction	-	-	-	-
Other	310	310	310	310
Total consumer	2,277	2,277	1,956	1,086
Total	\$ 19,865	15,212	10,636	5,046

The following table provides the average recorded investment in impaired loans and the amount of interest income recognized on impaired loans after impairment by portfolio segment and class.

	Three months ended September 30, 2015		Three months ended September 30, 2014	
	Average recorded investment	Recognized interest income	Average recorded investment	Average recorded investment
(dollars in thousands)				
<b>Commercial</b>				
Owner occupied RE	\$ 1,191	1	1,430	22
Non-owner occupied RE	5,622	22	6,582	31
Construction	1,887	12	1,752	-
Business	3,923	30	4,298	38
Total commercial	12,623	65	14,062	91
<b>Consumer</b>				
Real estate	1,395	12	2,334	16
Home equity	406	3	254	2
Construction	-	-	-	-
Other	208	2	327	4
Total consumer	2,009	17	2,915	22
Total	\$ 14,632	82	16,977	113

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(dollars in thousands)	Nine months ended September 30, 2015		Nine months ended September 30, 2014		Year ended December 31, 2014	
	Average recorded investment	Recognized interest income	Average recorded investment	Recognized interest income	Average recorded investment	Recognized interest income
<b>Commercial</b>						
Owner occupied RE	\$ 1,146	5	\$ 1,680	25	1,568	47
Non-owner occupied RE	5,268	107	5,986	84	5,693	104
Construction	2,110	53	1,790	14	1,977	75
Business	4,168	99	4,511	105	4,522	154
Total commercial	12,692	264	13,967	228	13,760	380
<b>Consumer</b>						
Real estate	1,529	34	2,213	40	2,094	53
Home equity	376	13	227	8	251	10
Construction	-	-	-	-	-	-
Other	237	5	274	10	282	13
Total consumer	2,142	52	2,714	58	2,627	76
&n						