

FIRST COMMUNITY CORP /SC/
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended September 30, 2013

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act

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

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(State of Incorporation)

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

5455 Sunset Boulevard, Lexington, South Carolina 29072

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: On November 8, 2013, 5,296,288 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****FIRST COMMUNITY CORPORATION****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except par value)	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	\$ 10,992	\$ 11,517
Interest-bearing bank balances	9,332	6,779
Federal funds sold and securities purchased under agreements to resell	626	412
Investment securities - available for sale	228,443	203,445
Other investments, at cost	2,269	2,527
Loans held for sale	2,529	9,658
Loans	345,064	332,111
Less, allowance for loan losses	4,323	4,621
Net loans	340,741	327,490
Property, furniture and equipment - net	17,025	17,258
Bank owned life insurance	10,989	10,868
Other real estate owned	3,607	3,987
Intangible assets	32	160
Goodwill	571	571
Other assets	8,768	8,253
Total assets	\$ 635,924	\$ 602,925
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 106,078	\$ 97,526
NOW and money market accounts	185,767	150,874
Savings	51,307	41,100
Time deposits less than \$100,000	98,995	111,182
Time deposits \$100,000 and over	66,445	74,295
Total deposits	508,592	474,977
Securities sold under agreements to repurchase	17,076	15,900
Federal Home Loan Bank advances	34,330	36,344
Junior subordinated debt	15,464	15,464
Other liabilities	7,593	6,057
Total liabilities	583,055	548,742
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 5,296,288 at September 30, 2013 5,227,300 at December 31, 2012	5,296	5,227
Common stock warrants issued	50	50
Additional paid in capital	62,179	61,615
Restricted stock	(518)	(152)
Accumulated Deficit	(12,460)	(14,915)
Accumulated other comprehensive income (loss)	(1,678)	2,358

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Total shareholders' equity		52,869		54,183
Total liabilities and shareholders' equity	\$	635,924	\$	602,925

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2013 (Unaudited)	Nine Months Ended September 30, 2012 (Unaudited)
Interest income:		
Loans, including fees	\$ 13,202	\$ 13,804
Taxable securities	2,096	3,194
Non taxable securities	780	475
Federal funds sold and securities purchased under resale agreements	24	30
Other	25	31
Total interest income	16,127	17,534
Interest expense:		
Deposits	1,395	2,473
Federal funds sold and securities sold under agreement to repurchase	27	26
Other borrowed money	1,433	1,746
Total interest expense	2,855	4,245
Net interest income	13,272	13,289
Provision for loan losses	379	416
Net interest income after provision for loan losses	12,893	12,873
Non-interest income:		
Deposit service charges	1,115	1,159
Mortgage banking income	2,968	2,993
Investment advisory fees and non-deposit commissions	695	492
Gain (loss) on sale of securities	152	(62)
Gain (loss) on sale of other assets	7	(8)
Fair value loss adjustments	(2)	(57)
Other-than-temporary-impairment write-down on securities		(200)
Loss on early extinguishment of debt	(141)	(121)
Other	1,525	1,524
Total non-interest income	6,319	5,720
Non-interest expense:		
Salaries and employee benefits	8,934	8,179
Occupancy	1,023	1,032
Equipment	907	877
Marketing and public relations	311	367
FDIC assessments	309	497
Other real estate expense	395	559
Amortization of intangibles	128	153
Other	2,712	2,679
Total non-interest expense	14,719	14,343
Net income before tax	4,493	4,250
Income taxes	1,206	1,303
Net income	\$ 3,287	\$ 2,947
Preferred stock dividends and accretion		557
Preferred stock redemption costs		119
Net income available to common shareholders	\$ 3,287	\$ 2,271
Basic earnings per common share	\$ 0.62	\$ 0.60
Diluted earnings per common share	\$ 0.62	\$ 0.60

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2013 (Unaudited)	Three Months Ended September 30, 2012 (Unaudited)
Interest income:		
Loans, including fees	\$ 4,379	\$ 4,548
Taxable securities	784	853
Non taxable securities	294	226
Federal funds sold and securities purchased under resale agreements	9	13
Other	8	10
Total interest income	5,474	5,650
Interest expense:		
Deposits	425	738
Federal funds sold and securities sold under agreement to repurchase	9	8
Other borrowed money	470	575
Total interest expense	904	1,321
Net interest income	4,570	4,329
Provision for loan losses	129	115
Net interest income after provision for loan losses	4,441	4,214
Non-interest income:		
Deposit service charges	387	395
Mortgage banking income	770	1,393
Investment advisory fees and non-deposit commissions	279	183
Gain (loss) on sale of securities	4	(35)
Loss on sale of other assets	(23)	(22)
Fair value loss adjustments		(20)
Other-than-temporary-impairment write-down on securities		
Loss on early extinguishment of debt		
Other	524	508
Total non-interest income	1,941	2,402
Non-interest expense:		
Salaries and employee benefits	2,948	2,874
Occupancy	343	352
Equipment	310	307
Marketing and public relations	106	73
FDIC assessment	108	117
Other real estate expense	189	173
Amortization of intangibles	32	51
Other	921	876
Total non-interest expense	4,957	4,823
Net income before tax	1,425	1,793
Income taxes (benefit)	379	573
Net income	\$ 1,046	\$ 1,220
Preferred stock dividends		220
Preferred stock redemption costs		119
Net income available to shareholders	\$ 1,046	\$ 881
Basic earnings per common share	\$ 0.20	\$ 0.19
Diluted earnings per common share	\$ 0.20	\$ 0.19

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(Dollars in thousands)	Nine months ended September 30,	
	2013	2012
Net income	\$ 3,287	\$ 2,947
Other comprehensive income:		
Unrealized gain(loss) during the period on available-for-sale securities, net of taxes of \$2,027 and \$418, respectively	(3,936)	787
Less: Reclassification adjustment for (gain) loss included in net income, net of taxes of \$52 and \$21, respectively	(100)	41
Reclassification adjustment for other-than-temporary-impairment on securities net of taxes of \$0 and \$68, respectively		132
Other comprehensive income (loss)	(4,036)	960
Comprehensive income (loss)	\$ (749)	\$ 3,907

(Dollars in thousands)	Three months ended September 30,	
	2013	2012
Net income	\$ 1,046	\$ 1,220
Other comprehensive income:		
Unrealized gain (loss) during the period on available-for-sale securities, net of taxes of \$411 and \$420, respectively.	(795)	791
Less: Reclassification adjustment for (gain) loss included in net income, net of taxes of \$1 and \$12, respectively.	(3)	23
Other comprehensive income (loss)	(798)	814
Comprehensive income	\$ 248	\$ 2,034

See Notes to Consolidated Financial Statements

Table of Contents**FIRST COMMUNITY CORPORATION****Consolidated Statements of Changes in Shareholders' Equity****Nine Months ended September 30, 2013 and September 30, 2012****(Unaudited)**

(Dollars and shares in thousands)	Preferred Stock	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, 2011	\$ 11,137	3,308	\$ 3,308	\$ 560	\$ 49,165	\$	\$ (17,603)	\$ 1,329	\$ 47,896
Net income							2,947		2,947
Other comprehensive income net of tax expense of \$329								960	960
Issuance of restricted stock		33	33		239	(272)			
Amortization compensation restricted stock						75			75
Issuance of common stock		1,875	1,875		11,917				13,792
Dividends: Common (\$0.12 per share)							(397)		(397)
Preferred							(475)		(475)
Redemption of preferred stock	(10,535)								(10,535)
Accretion and redemption costs	148						(201)		(53)
Dividend reinvestment plan		8	8		60				68
Balance, September 30, 2012	\$ 750	5,224	\$ 5,224	\$ 560	\$ 61,381	\$ (197)	\$ (15,729)	\$ 2,289	\$ 54,278
Balance, December 31, 2012	\$	5,227	\$ 5,227	\$ 50	\$ 61,615	\$ (152)	\$ (14,915)	\$ 2,358	\$ 54,183
Net income							3,287		3,287
Other comprehensive loss net of tax benefit of \$1,975								(4,036)	(4,036)
Issuance of restricted stock		60	60		493	(553)			
Amortization compensation restricted stock						187			187
Dividends: Common (\$0.17 per share)							(832)		(832)
Dividend reinvestment plan		9	9		71				80
Balance, September 30, 2013	\$	5,296	\$ 5,296	\$ 50	\$ 62,179	\$ (518)	\$ (12,460)	\$ (1,678)	\$ 52,869

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 3,287	\$ 2,947
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation	655	639
Premium amortization	3,239	2,096
Provision for loan losses	379	416
Writedowns of other real estate owned	41	266
(Gain) loss on sale of other real estate owned	(7)	8
Sale of loans held-for sale	107,432	91,007
Originations of loans-held-for-sale	(100,303)	(95,967)
Amortization of intangibles	128	153
(Gain) loss on sale of securities	(152)	62
Loss on early extinguishment of debt	141	121
Other-than-temporary-impairment on securities		200
Net decrease in fair value option instruments and derivatives	2	57
Writedown of land	109	
Decrease in other assets	1,572	1,628
Increase (decrease) in other liabilities	1,541	(529)
Net cash provided in operating activities	18,064	3,104
Cash flows from investing activities:		
Purchase of investment securities available-for-sale and other investments	(80,972)	(89,195)
Maturity of investment securities available-for-sale	40,653	29,017
Proceeds from sale of securities available-for-sale	6,306	49,540
Proceeds from sale of other investments	257	1,208
Increase in loans	(14,744)	(1,698)
Proceeds from sale of other real estate owned	1,476	3,487
Purchase of property and equipment	(682)	(452)
Net cash used in investing activities	(47,706)	(8,093)
Cash flows from financing activities:		
Increase in deposit accounts	33,615	9,879
Increase in securities sold under agreements to repurchase	1,176	2,036
Advances from the FHLB	16,500	1,500
Repayment of advances FHLB	(18,655)	(6,992)
Proceeds from sale Common Stock		13,792
Redemption of Preferred Stock		(10,535)
Dividends paid: Common Stock	(832)	(397)
Preferred Stock		(475)
Dividend reinvestment plan	80	68
Net cash provided from financing activities	31,884	8,876
Net increase in cash and cash equivalents	2,242	3,887
Cash and cash equivalents at beginning of period	18,708	16,492
Cash and cash equivalents at end of period	\$ 20,950	\$ 20,379
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$ 3,212	\$ 4,645
Income taxes	\$	\$

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Non-cash investing and financing activities:			
Unrealized gain (loss) on securities	\$	(4,036)	\$ 960
Transfer of loans to foreclosed property	\$	1,135	\$ 1,980

See Notes to Consolidated Financial Statements

Table of Contents**Notes to Consolidated Financial Statements (unaudited)*****Note 1 - Organization and Basis of Presentation***

The unaudited condensed consolidated financial statements include the accounts of First Community Corporation (the Company) and its wholly owned subsidiary, First Community Bank (the Bank). The Company owns all of the common stock of FCC Capital Trust I. All material intercompany transactions are eliminated in consolidation. The Company was organized on November 2, 1994, as a South Carolina corporation, and was formed to become a bank holding company. The Bank opened for business on August 17, 1995. FCC Capital Trust I is an unconsolidated special purpose subsidiary organized for the sole purpose of issuing trust preferred securities.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The following table summarizes the changes in accumulated other comprehensive income (loss) by component, net of tax impact, at the dates and for the periods indicated (in thousands). All amounts are net of income taxes.

	Three months ended September 30,	
	2013	2012
Beginning Balance	\$ (880)	\$ 1,475
Other comprehensive income (loss) before reclassifications(a)	(795)	791
Amounts reclassified from accumulated other comprehensive income (loss)(a)	(3)	23
Net current-period other comprehensive income (loss)	(798)	814
Ending Balance	\$ (1,678)	\$ 2,289
	Nine months ended September 30,	
	2013	2012
Beginning Balance	\$ 2,358	\$ 1,329
Other comprehensive income (loss) before reclassifications(a)	(3,936)	787
Amounts reclassified from accumulated other comprehensive income (loss)(a)	(100)	173
Net current-period other comprehensive income (loss)	(4,036)	960
Ending Balance	\$ (1,678)	\$ 2,289

(a) All other comprehensive income (loss) and reclassifications are related to available-for-sale securities.

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 2012 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on March 28, 2013, should be referred to in connection with these unaudited interim financial statements.

Table of Contents**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 price per share)	Nine months Ended September 30,		Three months Ended September 30,	
	2013	2012	2013	2012
Numerator (Net income available to common shareholders)	\$ 3,287	\$ 2,271	\$ 1,046	\$ 881
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	5,281	3,780	5,295	4,693
Dilutive securities:				
Deferred compensation				2
Warrants Treasury stock method	41	27	46	31
Diluted earnings per share	5,322	3,807	5,341	4,726
The average market price used in calculating assumed number of shares	\$ 9.50	\$ 7.84	\$ 10.33	\$ 8.27

At September 30, 2013, there were 73,022 outstanding options at an average exercise price of \$20.23. None of these options has an exercise price below the average market price of \$10.33 for the three-month period ended September 30, 2013 or \$9.50 for the nine-month period ended September 30, 2013, and, therefore they are not deemed to be dilutive. In the fourth quarter of 2011, we issued \$2.5 million in 8.75% subordinated notes maturing on December 16, 2019. On November 15, 2012, the subordinated notes were redeemed in full at par. Warrants for 107,500 shares of common stock at \$5.90 per share were issued in connection with the issuance of the subordinated debt. These warrants expire December 16, 2019 and are included in dilutive securities in the table above.

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

AVAILABLE-FOR-SALE:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013:				
Government sponsored enterprises	\$ 3,385	\$ 18	\$ 76	\$ 3,327
Mortgage-backed securities	123,691	1,219	1,410	123,500
Small Business Administration pools	58,403	397	839	57,961
State and local government	43,213	138	1,998	41,353
Corporate and other securities	2,348		46	2,302
	\$ 231,040	\$ 1,772	\$ 4,369	\$ 228,443
December 31, 2012:				
Government sponsored enterprises	\$ 1,522	\$ 12	\$	\$ 1,534
Mortgage-backed securities	110,425	2,343	624	112,144
Small Business Administration pools	54,148	1,008	163	54,993
State and local government	31,483	936	46	32,373
Corporate and other securities	2,349	53	1	2,401
	\$ 199,927	\$ 4,352	\$ 834	\$ 203,445

During the nine months ended September 30, 2013 and September 30, 2012, the Company received proceeds of \$6.3 million and \$49.5 million, respectively, from the sale of investment securities available-for-sale. Gross realized gains amounted to \$238 thousand and gross realized losses amounted to \$86 thousand for the nine months ended September 30, 2013. For the nine months ended September 30, 2012, gross realized gains amounted to \$2.0 million and gross realized losses amounted to \$2.1 million. During the three months ended September 30, 2013 and September 30, 2012, the Company received proceeds of \$2.8 million and \$470 thousand, respectively, from the sale of investment securities available-for-sale. For the three months ended September 30, 2013, gross realized gains amounted to \$90 thousand and gross realized losses amounted to \$86 thousand. Gross realized losses amounted to \$35 thousand for the three months ended September 30, 2012. There were no realized gains for the three months ended September 30, 2012.

At September 30, 2013, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.0 million, mutual funds at \$825.7 thousand, foreign debt of \$59.5 thousand, and Corporate preferred stock in the amount of \$416.7 thousand. At December 31, 2012, corporate and other securities available-for-sale included the following at fair value: corporate bonds at \$1.0 million, mutual funds at \$884.5 thousand, foreign debt of \$59.7 thousand, Federal Home Loan Mortgage Corporation preferred stock of \$30.0 thousand and Corporate preferred stock in the amount of \$416.8 thousand.

Other investments, at cost, include Federal Home Loan Bank (FHLB) stock in the amount of \$2.3 million and \$2.5 million at September 30, 2013 and December 31, 2012, respectively.

Table of Contents*Note 3 Investment Securities continued*

During the three month period ended September 30, 2012 and during the three and nine month periods ended September 30, 2013, the Company did not record any other-than-temporary impairment (OTTI) losses. During the nine month period ended September 30, 2012, the Company recorded OTTI losses on available-for-sale securities as follows:

(Dollars in thousands)	Nine months ended September 30, 2012	
	Available-for-sale securities	
Total OTTI charge realized and unrealized	\$	415
OTTI recognized in other comprehensive income (non-credit component)		215
Net impairment losses recognized in earnings (credit component)	\$	200

During 2013 and 2012, OTTIs occurred for which only a portion was attributed to credit loss and recognized in earnings. The remainder was reported in other comprehensive income. The following is an analysis of amounts relating to credit losses on debt securities recognized in earnings during the nine months ended September 30, 2013 and 2012.

(Dollars in thousands)	2013 Available for Sale		2012 Available for Sale	
Balance at beginning of period	\$	271	\$	930
Other-than-temporary-impairment not previously recognized				173
Additional increase for which an other-than-temporary impairment was previously recognized related to credit losses				27
Other-than-temporary-impairment previously recognized on securities sold				(679)
Realized losses during the period		(57)		(159)
Balance related to credit losses on debt securities at end of period	\$	214	\$	292

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Note 3 Investment Securities continued

In evaluating the non-agency mortgage-backed securities, relevant assumptions, such as prepayment rate, default rate and loss severity on a loan level basis, are used in determining the expected recovery of the contractual cash flows. The balance of the underlying portfolio cash flows are evaluated using ongoing assumptions for loss severities, prepayment rates and default rates. The ongoing assumptions for average prepayment rate, default rate and severity used in the valuations were approximately 16.9%, 4.9%, and 57.2%, respectively. The underlying collateral on substantially all of these securities is fixed rate residential first mortgages located throughout the United States. The underlying collateral includes various percentages of owner-occupied as well as investment related single-family, 2-4 family and condominium residential properties. The securities were purchased at various discounts to par value. Based on the assumptions used in valuing the securities, the Company believes the existing discount and remaining subordinated collateral provide coverage against future credit losses on the downgraded securities for which no OTTI has been recognized.

Table of Contents*Note 3 Investment Securities continued*

The following table shows 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, 2013 and December 31, 2012.

September 30, 2013 (Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>Available-for-sale securities:</i>						
Government Sponsored Enterprises	\$ 1,423	\$ 76	\$	\$	\$ 1,423	\$ 76
Small Business Administration Pools	26,680	679	4,130	160	30,810	839
Government Sponsored Enterprise mortgage-backed securities	55,079	1,291	6,340	86	61,419	1,377
Non-agency mortgage-backed securities	784	21	739	12	1,523	33
Corporate bonds and other	872	45	50	1	922	46
State and local government	30,220	1,976	218	22	30,438	1,998
Total	\$ 115,058	\$ 4,088	\$ 11,477	\$ 281	\$ 126,535	\$ 4,369

December 31, 2012 (Dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>Available-for-sale securities:</i>						
Government Sponsored Enterprise mortgage-backed securities	\$ 22,662	\$ 233	\$ 4,583	\$ 13	\$ 27,245	\$ 246
Small Business Administration pools	11,013	158	2,447	5	13,460	163
Non-agency mortgage-backed securities			2,363	378	2,363	378
State and local government	2,599	46			2,599	46
Corporate bonds and other			50	1	50	1
Total	\$ 36,274	\$ 437	\$ 9,443	\$ 397	\$ 45,717	\$ 834

Government Sponsored Enterprise, Mortgage-Backed Securities: At September 30, 2013, the Company owned mortgage-backed securities (MBSs), including collateralized mortgage obligations (CMOs), with an amortized cost of \$123.7 million and approximate fair value of \$123.5 million issued by government sponsored enterprises (GSEs). As of September 30, 2013 and December 31, 2012, 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, 2013.

Table of Contents*Note 3 Investment Securities continued*

Non-agency mortgage backed securities: The Company also held private label mortgage-backed securities (PLMBS), including CMOs, at September 30, 2013 with an amortized cost of \$2.5 million and approximate fair value of \$2.5 million. Management monitors each of these securities on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments.

During the three and nine months ended September 30, 2013, no OTTI charges were recorded in earnings for the PLMBS portfolio. During the nine months ended September 30, 2012, the Company identified two PLMBS with a fair value of \$2.5 million that it considered other-than-temporarily-impaired. As prescribed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320-10-65, the Company recognized an impairment charge in earnings of \$199.8 thousand (credit component) during the nine months ended September 30, 2012. The \$199.8 thousand represents the estimated credit losses on these securities for the nine months ended September 30, 2012. One of the securities identified as other-than-temporarily-impaired during the nine months ended September 30, 2012 was subsequently sold after the impairment was recognized. The credit losses were estimated by projecting the expected cash flows estimating prepayment speeds, increasing defaults and collateral loss severities. The credit loss portion of the impairment charge represents the difference between the present value of the expected cash flows and the amortized cost basis of the securities. During the three months ended September 30, 2012, no OTTI charges were recorded in earnings for the PLMBS portfolio.

The following table summarizes as of September 30, 2013 the number of CUSIPs, par value, carrying value and fair value of the non-agency MBSs/CMOs by credit rating. The credit rating reflects the lowest credit rating by any major rating agency.

(Dollars in thousands)

Credit Rating	Number of CUSIPs	Par Value	Amortized Cost	Fair Value
AA	2	\$ 168	\$ 168	170
BBB	3	210	210	210
Baa1	3	639	639	618
Baa2	1	6	6	6
Below Investment Grade	4	1,802	1,490	1,498
Total	13	\$ 2,825	\$ 2,513	2,502

Corporate Bonds: Corporate bonds held by the Company are reviewed on a quarterly basis to identify downgrades by rating agencies as well as deterioration of the underlying collateral or the issuer's ability to service the debt obligation. As of September 30, 2013, the Company owns one corporate bond which is rated above investment grade. The Company does not consider this investment to be OTTI.

Small Business Administration Pools: These pools are guaranteed pass-thru with the full faith and credit of the United States government. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider the investments to be OTTI at September 30, 2013.

State and Local Governments and Other: Management monitors these securities on a quarterly basis to identify any deterioration in the credit quality. Included in the monitoring is a review of the credit rating, a financial analysis and certain demographic data on the underlying issuer. The Company does not consider these securities to be OTTI at September 30, 2013.

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Note 3 Investment Securities continued

The amortized cost and fair value of investment securities at September 30, 2013 by contractual maturity are as follows. 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	
	Amortized Cost	Fair Value
Due in one year or less	\$ 11,936	\$ 11,946
Due after one year through five years	94,602	94,910&nb