FIRST COMMUNITY CORP /SC/
Form 10-Q
August 10, 2012
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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 June 30, 2012

o Transition report pursuant to Section 13 or 15(d) of the 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**
(State of Incorporation)	(I.R.S. Employer Identification No.)

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of Principal Executive Offices)

(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 equity, as of the latest practicable date:On August 10, 2012, 5,221,365 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)	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 10,345	$ 10,599
Interest-bearing bank balances	17,946	5,512
Federal funds sold and securities purchased under agreements to resell	259	381
Investment securities - available for sale	196,581	201,032
Other investments, at cost	4,800	5,637
Loans held for sale	4,356	3,725
Loans	324,913	324,311
Less, allowance for loan losses	4,742	4,699
Net loans	320,171	319,612
Property, furniture and equipment - net	17,451	17,483
Bank owned life insurance	10,689	10,974
Other real estate owned	4,909	7,351
Intangible assets	263	365
Goodwill	571	571
Other assets	9,673	10,645
Total assets	$ 598,014	$ 593,887
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 90,557	$ 83,572
NOW and money market accounts	146,347	136,483
Savings	39,321	34,048
Time deposits less than $100,000	120,882	128,616
Time deposits $100,000 and over	76,912	81,866
Total deposits	474,019	464,585
Securities sold under agreements to repurchase	12,817	13,616
Federal Home Loan Bank advances	38,496	43,862
Junior subordinated debt	17,916	17,913
Other liabilities	5,470	6,015
Total liabilities	548,718	545,991
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Preferred stock, par value $1.00 per share, 10,000,000 shares authorized; 11,350 issued and outstanding	11,191	11,137
Common stock, par value $1.00 per share; 10,000,000 shares authorized; issued and outstanding 3,346,365 at June 30, 2012 3,307,531 at December 31, 2011	3,346	3,308
Common stock warrants issued	560	560
Additional paid in capital	49,443	49,165
Restricted stock	(242)	
Accumulated deficit	(16,477)	(17,603)

Accumulated other comprehensive income		1,475		1,329
Total shareholders equity		49,296		47,896
Total liabilities and shareholders equity	$	598,014	$	593,887

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2012 (Unaudited)	Six Months Ended June 30, 2011 (Unaudited)
Interest income:		
Loans, including fees	$ 9,256	$ 9,629
Taxable securities	2,341	3,203
Non taxable securities	249	33
Federal funds sold and securities purchased under resale agreements	17	21
Other	21	20
Total interest income	11,884	12,906
Interest expense:		
Deposits	1,735	2,443
Federal funds sold and securities sold under agreement to repurchase	18	18
Other borrowed money	1,171	1,372
Total interest expense	2,924	3,833
Net interest income	8,960	9,073
Provision for loan losses	301	750
Net interest income after provision for loan losses	8,659	8,323
Non-interest income:		
Deposit service charges	764	936
Mortgage origination fees	1,600	454
Investment advisory fees and non-deposit commissions	309	313
Gain (loss) on sale of securities	(27)	141
Gain (loss) on sale of other assets	14	(91)
Fair value loss adjustments	(37)	(125)
Other-than-temporary-impairment write-down on securities	(200)	(4)
Loss on early extinguishment of debt	(121)	
Other	1,016	974
Total non-interest income	3,318	2,598
Non-interest expense:		
Salaries and employee benefits	5,305	4,509
Occupancy	680	617
Equipment	570	571
Marketing and public relations	294	297
FDIC assessments	380	505
Other real estate expense	386	504
Amortization of intangibles	102	310
Other	1,803	1,790
Total non-interest expense	9,520	9,103
Net income before tax	2,457	1,818
Income taxes	730	522
Net income	$ 1,727	$ 1,296
Preferred stock dividends, including discount accretion	337	335
Net income available to common shareholders	$ 1,390	$ 961
Basic earnings per common share	$ 0.42	$ 0.29
Diluted earnings per common share	$ 0.42	$ 0.29

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2012 (Unaudited)	Three Months Ended June 30, 2011 (Unaudited)
Interest income:		
Loans, including fees	$ 4,629	$ 4,821
Taxable securities	1,026	1,611
Non taxable securities	163	14
Federal funds sold and securities purchased under resale agreements	11	10
Other	11	10
Total interest income	5,840	6,466
Interest expense:		
Deposits	808	1,185
Federal funds sold and securities sold under agreement to repurchase	9	10
Other borrowed money	572	652
Total interest expense	1,389	1,847
Net interest income	4,451	4,619
Provision for loan losses	71	390
Net interest income after provision for loan losses	4,380	4,229
Non-interest income:		
Deposit service charges	375	478
Mortgage origination fees	877	263
Investment advisory fees and non-deposit commissions	162	138
Gain (loss) on sale of securities	(38)	7
Loss on sale of other assets	(36)	(44)
Fair value loss adjustments	(4)	(129)
Other	519	505
Total non-interest income	1,855	1,218
Non-interest expense:		
Salaries and employee benefits	2,747	2,196
Occupancy	335	308
Equipment	283	290
Marketing and public relations	108	126
FDIC assessment	196	250
Other real estate expense	267	158
Amortization of intangibles	51	155
Other	921	944
Total non-interest expense	4,908	4,427
Net income before tax	1,327	1,020
Income taxes	399	294
Net income	$ 928	$ 726
Preferred stock dividends, including discount accretion	168	168
Net income available to common shareholders	$ 760	$ 558
Basic earnings per common share	$ 0.23	$ 0.17
Diluted earnings per common share	$ 0.23	$ 0.17

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	**Six months ended June 30, 2012**	**2011**
Net income	$ 1,727	$ 1,296
Other comprehensive income:		
Unrealized gain(loss) during the period on available-for-sale securities, net of tax expense(benefit) of $2 and $771, respectively	(4)	1,420
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of $9 and $49, respectively	18	(92)
Reclassification adjustment for other-than-temporary-impairment on securities net of tax benefit of $68 and $1, respectively	132	3
Other comprehensive income	146	1,331
Comprehensive income	$ 1,873	$ 2,627

(Dollars in thousands)	**Three months ended June 30, 2012**	**2011**
Net income	$ 928	$ 726
Other comprehensive income (loss):		
Unrealized gain(loss) during the period on available-for-sale securities, net of tax expense(benefit) of $394 and $510, respectively.	(742)	937
Less: Reclassification adjustment for (gain)loss included in net income, net of tax (expense)benefit of $13 and $2, respectively.	25	(5)
Other comprehensive income (loss)	(717)	932
Comprehensive income	$ 211	$ 1,658

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FIRST COMMUNITY CORPORATION

Consolidated Statements of Changes in Shareholders Equity

Six Months ended June 30, 2012 and June 30, 2011

(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, 2010	$ 11,035	3,270	$ 3,270	$ 509	$ 48,956	$	$ (19,732)	$ (2,241)	$ 41,797
Net income							1,296		1,296
Other comprehensive income net of tax expense of $723								1,331	1,331
Dividends: Common ($0.08 per share)							(262)		(262)
Preferred							(335)		(335)
Accretion	51								51
Dividend reinvestment plan		7	7		41				48
Balance, June 30, 2011	$ 11,086	3,277	$ 3,277	$ 509	$ 48,997	$	$ (19,033)	$ (910)	$ 43,926
Balance, December 31, 2011	$ 11,137	3,308	$ 3,308	$ 560	$ 49,165	$	$ (17,603)	$ 1,329	$ 47,896
Net income							1,727		1,727
Other comprehensive income net of tax benefit of $75								146	146
Issuance of restricted stock		33	33		239	(272)			
Amortization compensation restricted stock						30			30
Dividends: Common ($0.08 per share)							(264)		(264)
Preferred							(337)		(337)
Accretion	54								54
Dividend reinvestment plan		5	5		39				44
Balance, June 30, 2012	$ 11,191	3,346	$ 3,346	$ 560	$ 49,443	$ (242)	$ (16,477)	$ 1,475	$ 49,296

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)		**Six months ended June 30, 2012**		**2011**
Cash flows from operating activities:				
Net income	$	1,727	$	1,296
Adjustments to reconcile net income to net cash provided in operating activities:				
Depreciation		417		425
Premium amortization (discount accretion)		1,298		874
Provision for loan losses		301		750
Writedowns of other real estate owned		206		202
(Gain) loss on sale of other real estate owned		(14)		91
Amortization of intangibles		102		310
(Gain) loss on sale of securities		27		(141)
Other-than-temporary-impairment on securities		200		4
Net decrease in fair value option instruments and derivatives		37		125
Loss on early extinguishment of debt		121		
Decrease in other assets		1,217		612
Decrease in other liabilities		(543)		(525)
Net cash provided from operating activities		5,096		4,023
Cash flows from investing activities:				
Purchase of investment securities available-for-sale and other investments		(63,384)		(67,467)
Maturity of investment securities available-for-sale		17,443		17,425
Proceeds from sale of securities available-for-sale and other investments		50,012		36,817
Increase in loans		(2,445)		(941)
Proceeds from sale of other real estate owned		3,130		1,408
Purchase of property and equipment		(385)		(119)
Proceeds from sale of land				9
Net cash provided (used) in investing activities		4,371		(12,868)
Cash flows from financing activities:				
Increase in deposit accounts		9,434		15,573
Increase (decrease) in securities sold under agreements to repurchase		(799)		2,865
Decrease in other borrowings				(20)
Advances from the Federal Home Loan Bank		1,500		
Repayment of advances from FHLB		(6,987)		(13,866)
Dividends paid: Common Stock		(264)		(262)
Preferred Stock		(337)		(335)
Dividend reinvestment plan		44		48
Net cash provided from financing activities		2,591		4,003
Net increase (decrease) in cash and cash equivalents		12,058		(4,842)
Cash and cash equivalents at beginning of period		16,492		26,461
Cash and cash equivalents at end of period	$	28,550	$	21,619
Supplemental disclosure:				
Cash paid during the period for:				
Interest	$	3,351	$	4,165
Income taxes	$		$	
Non-cash investing and financing activities:				
Unrealized gain on securities	$	146	$	1,331
Transfer of loans to foreclosed property	$	904	$	3,655

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Notes to Consolidated Financial Statements (unaudited)

Note 1 - Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders equity, and the consolidated statements of cash flows of First Community Corporation (the Company), present fairly in all material respects the Company s financial position at June 30, 2012 and December 31, 2011, the Company s results of operations and cash flows for the six months ended June 30, 2012 and 2011. The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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 2011 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:

	Six months Ended June 30,		Three months Ended June 30,	
(In thousands, except price per share)	**2012**	**2011**	**2012**	**2011**
Numerator (Net income available to common shareholders)	$ 1,390	$ 961	$ 760	$ 558
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	3,319	3,274	3,329	3,276
Dilutive securities:				
Warrants Treasury stock method	24		28	
Diluted earnings per share	3,343	3,274	3,357	3,276
The average market price used in calculating assumed number of shares	$ 7.63	$ 6.59	$ 7.99	$ 6.86

At June 30, 2012, there were 75,022 outstanding options at an average exercise price of $19.69 and warrants for 196,000 shares at $8.69. None of these options or warrants has an exercise price below the average market price for the three-month and six-month periods ended June 30, 2012, 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 December 16, 2019. Interest is payable quarterly and the notes may be prepaid at anytime without penalty. 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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Note 3 Investment Securities

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

AVAILABLE-FOR-SALE:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
June 30, 2012:								
Government sponsored enterprises	$	1,527	$	2	$		$	1,529
Mortgage-backed securities		117,104		2,005		809		118,300
Small Business Administration pools		45,236		722		113		45,845
State and local government		28,101		451		90		28,462
Corporate and other securities		2,432		50		37		2,445
	$	194,400	$	3,230	$	1,049	$	196,581
December 31, 2011:								
Government sponsored enterprises	$	31	$	3	$		$	34
Mortgage-backed securities		141,103		2,876		2,348		141,631
Small Business Administration pools		35,889		634		44		36,479
State and local government		19,617		871				20,488
Corporate and other securities		2,432		54		86		2,400
	$	199,072	$	4,438	$	2,478	$	201,032

During the six months ended June 30, 2012 and June 30, 2011, the Company received proceeds of $49.1 million and $36.2 million, respectively, from the sale of investment securities available-for-sale. Gross realized gains amounted to $2.0 million and gross realized losses amounted to $2.1 million for the six months ended June 30, 2012. For the six months ended June 30, 2011, gross realized gains amounted to $1.7 million and gross realized losses amounted to $1.5 million.

At June 30, 2012, corporate and other securities available-for-sale included the following at fair value: corporate bonds at $1.5 million, mutual funds at $893.1 thousand, foreign debt of $59.4 thousand and Federal Home Loan Mortgage Corporation (the FHLMC or Freddie Mac) preferred stock of $28.4 thousand. At December 31 2011, corporate and other securities available-for-sale included the following at fair value: corporate bonds at $1.4 million, mutual funds at $904.9 thousand foreign debt of $59.0 thousand and FHLMC preferred stock of $20.9 thousand.

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Note 3 Investment Securities continued

During the six and three months ended June 30, 2012 and 2011, the Company recorded other-than-temporary-impairment (OTTI) losses on available-for-sale securities as follows:

(Dollars in thousands)		Six months ended June 30, 2012 Available-for-sale securities		Three months ended June 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	$	

(Dollars in thousands)		Six months ended June 30, 2011 Available-for-sale securities		Three months ended June 30, 2011 Available-for-sale securities
Total OTTI charge realized and unrealized	$	71	$	
OTTI recognized in other comprehensive income (non-credit component)		67		
Net impairment losses recognized in earnings (credit component)	$	4	$	

During 2012 and 2011, 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 six months ended June 30, 2012 and 2011.

(Dollars in thousands)		2012 Available for Sale		2011 Available for Sale
Balance at beginning of period	$	930	$	2,143
Other-than-temporary-impairment not previously recognized		173		50
Additional increase for which an other-than-temporary impairment was previously recognized related to credit losses		27		247
Other-than-temporary-impairment previously recognized on securities sold		(679)		
Realized losses during the period		(136)		(1,510)
Balance related to credit losses on debt securities at end of period	$	315	$	930

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Note 3 Investment Securities continued

For the six months ended June 30, 2012, there were two non-agency mortgage backed securities with OTTI in which only the amount of loss related to credit was recognized in earnings. For the three months ended June 30, 2012 and June 30, 2011, there was no OTTI recognized in earnings. 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 assumptions are that all loans greater than 60 days delinquent will be resolved across a two-year period at loss severities based on location and category. 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 5.4%, 3.3%, and 51.6%, 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, 1-4 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.

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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 June 30, 2012 and December 31, 2011.

June 30, 2012

	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Available-for-sale securities:						
Small Business Administration Pools	$ 7,899	$ 95	$ 4,271	$ 18	$ 12,170	$ 113
Government Sponsored Enterprise mortgage-backed securities	27,101	163	5,999	66	33,100	229
Non-agency mortgage-backed securities	1,133	494	1,598	86	2,731	580
Corporate bonds and other	989	12	524	25	1,513	37
State and local government	8,587	90			8,587	90
Total	$ 45,709	$ 854	$ 12,392	$ 195	$ 58,101	$ 1,049

December 31, 2011

	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Available-for-sale securities:						
Government Sponsored Enterprise mortgage-backed securities	$ 25,113	$ 163	$ 3,269	$ 24	$ 28,382	$ 187
Small Business Administration pools	6,108	38	2,203	6	8,311	44
Non-agency mortgage-backed securities	574	3	13,275	2,158	13,849	2,161
Corporate bonds and other	940	60	524	26	1,464	86
State and local government						
Total	$ 32,735	$ 264	$ 19,271	$ 2,214	$ 52,006	$ 2,478

Government Sponsored Enterprise, Mortgage-Backed Securities: Beginning in 2008 and continuing through 2012, the bond markets and many institutional holders of bonds have come under a great deal of stress partially as a result of increasing delinquencies in the sub-prime mortgage lending market. At June 30, 2012, the Company s wholly-owned subsidiary, First Community Bank, N.A. (the Bank), owns mortgage-backed securities (MBSs) including collateralized mortgage obligations (CMOs) with a book value of $113.4 million and approximate fair value of $115.1 million issued by government sponsored entities (GSEs). Current economic conditions have impacted MBSs issued by GSEs such as the FHLMC and the Federal National Mortgage Association (the FNMA or Fannie Mae). These entities have experienced increasing delinquencies in the underlying loans that make up the MBSs and CMOs. As of June 30, 2012 and December 31, 2011, all of the MBSs issued by GSEs are classified as Available for Sale . Unrealized losses on 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 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 June 30, 2012.

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Note 3 Investment Securities continued

Non-agency mortgage backed securities: The Company also holds private label mortgage-backed securities (PLMBSs), including CMOs, at June 30, 2012 with an amortized cost of $3.7 million and approximate fair value of $3.1 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 six months ended June 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 has recognized an impairment charge in earnings of $199.8 thousand (credit component) during the six months ended June 30, 2012. The $199.8 thousand represents the estimated credit losses on these securities for the six months ended June 30, 2012. One of the securities identified as other-than-temporarily-impaired during the six months ended June 30, 2012 was subsequently sold after the impairment was recognized. During the three months ended June 30, 2012, no OTTI charges were recorded in earnings for the PLMBS portfolio. During the three and six months ended June 30, 2011, no OTTI charges were recorded in earnings for the PLMBS portfolio. 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.

The following table summarizes as of June 30, 2012 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**
AAA	7	$	1,390	$	1,390	$	1,379
A3	1		342		342		333
Baa1	1		83		83		83
Baa2	1		131		131		128
Below Investment Grade	4		2,117		1,726		1,241
Total	14	$	4,063	$	3,672	$	3,164

During the six months ended June 30, 2012, the Company sold eight below investment grade non-agency MBSs with a total book value of approximately $11.2 million. The loss on the sale of these securities was approximately $2.1 million and has been offset by gains of the approximate same amount from the sale of certain agency MBSs and municipal securities. These sales served to significantly reduce the level of below investment grade securities held in the portfolio.

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Note 3 Investment Securities continued

Corporate Bonds: The Company s unrealized loss on investments in corporate bonds relates to bonds with two different issuers. The economic conditions beginning in 2008 and continuing into 2012 have had a significant impact on all corporate debt obligations. As a result, the spreads on all of the securities have widened dramatically and the liquidity of many of these investments has been negatively impacted. Both of these bonds are rated above investment grade. All of the 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. The Company does not consider these investments to be OTTI at June 30, 2012.

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 June 30, 2012.

State and Local Governments and Other: The unrealized losses on these investments are attributable to increases in interest rates, rather than credit quality. 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 June 30, 2012.

The amortized cost and fair value of investment securities at June 30, 2012 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.

	Available-for-sale	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 17,458	$ 17,479
Due after one year through five years	94,174	95,844
Due after five years through ten years	55,921	56,099
Due after ten years	26,847	27,159
	$ 194,400	$ 196,581

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Note 4 Loans

Loans summarized by category as of June 30, 2012 and December 31, 2011 are as follows:

(Dollars in thousands)		June 30, 2012		December 31, 2011
Commercial, financial and agricultural	$	19,741	$	20,608
Real estate:				
Construction		12,302		11,767
Mortgage-residential		38,779		38,337
Mortgage-commercial		221,880		220,288
Consumer:				
Home equity		26,945		27,976
Other		5,266		5,335
Total	$	324,913	$	324,311

At June 30, 2012 and December 31, 2011, there were $4.4 million and $3.7 million, respectively, of residential mortgage loans held for sale at fair value. These loans are originated with firm purchase commitments from various investors at the time the loans are closed. Generally, funds are received and the loans transferred to the investors within three to seven business days.

Activity in the allowance for loan losses for the six months and three months ended June 30, 2012 and 2011 was as follows:

	Six months ended			
(Dollars in thousands)		June 30, 2012		June 30, 2011
Balance at the beginning of period	$	4,699	$	4,911
Provision for loan losses		301		750
Charged off loans		(307)		(980)
Recoveries		49		35
Balance at end of period	$	4,742	$	4,716

	Three months ended			
(Dollars in thousands)		June 30, 2012		June 30, 2011
Balance at the beginning of period	$	4,745	$	4,655
Provision for loan losses		71		390
Charged off loans		(95)		(342)
Recoveries		21		13
Balance at end of period	$	4,742	$	4,716

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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 six months ended June 30, 2012 and the year ended December 31, 2011 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
2012								
Allowance for loan losses:								
Beginning balance December 31, 2011	$ 331	$	$ 514	$ 1,475	$ 521	$ 57	$ 1,801	$ 4,699
Charge-offs	62		30	178		37		307
Recoveries	25		9		2	13		49
Provisions	(45)		106	16	(78)	12	290	301
Ending balance June 30, 2012	$ 249	$	$ 599	$ 1,313	$ 445	$ 45	$ 2,091	$ 4,742
Ending balances:								
Individually evaluated for impairment	$	$	$	$	$	$	$	$
Collectively evaluated for impairment	249		599	1,313	445	45	2,091	4,742
Loans receivable:								
Ending balance-total	$ 19,741	$ 12,302	$ 38,779	$ 221,880	$ 26,945	$ 5,266	$	$ 324,913
Ending balances:								
Individually evaluated for impairment	24		581	8,650		28		9,283
Collectively evaluated for impairment	$ 19,717	$ 12,302	$ 38,198	$ 213,230	$ 26,945	$ 5,238	$	$ 315,630

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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
2011								
Allowance for loan losses:								
Beginning balance	$ 681	$ 905	$ 465	$ 1,404	$ 325	$ 88	$ 1043	$ 4,911
Charge-offs	265		186	861	285	99		1,696
Recoveries	31		5		5	23		64
Provisions	(116)	(905)	230	932	476	45	758	1,420
Ending balance December 31, 2011	$ 331	$	$ 514	$ 1,475	$ 521	$ 57	$ 1,801	$ 4,699
Ending balances:								
Individually evaluated for impairment	$ 1	$	$	$ 1	$	$	$	$ 2
Collectively evaluated for impairment	330		514	1,474	521	57	1,801	4,697
Loans receivable:								
Ending balance-total	$ 20,608	$ 11,767	$ 38,337	$ 220,288	$ 27,976	$ 5,335	$	$ 324,311
Ending balances:								
Individually evaluated for impairment	45		622	8,667		19		9,353
Collectively evaluated for impairment	$ 20,563	$ 11,767	$ 37,715	$ 211,621	$ 27,976	$ 5,316	$	$ 314,958

Loans outstanding to bank directors, executive officers and their related business interests amounted to $11.3 million and $6.1 million at June 30, 2012 and June 30, 2011, respectively. Repayments on these loans during the six months ended June 30, 2012 were $208 thousand and loans made amounted to $77 thousand. Repayments on these loans during the six months ended June 30, 2011 were $568 thousand and loans made amounted to $808 thousand. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and generally do not involve more than the normal risk of collectability.

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Note 4 Loans-continued

The following table presents at June 30, 2012 and December 31, 2011 loans individually evaluated and considered impaired under FAS ASC 310 Accounting by Creditors for Impairment of a Loan. Impairment includes performing troubled debt restructurings.

(Dollars in thousands)	**June 30, 2012**	**December 31, 2011**
Total loans considered impaired	$ 9,283	$ 9,353
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance		148
Related allowance		2
Loans considered impaired and previously written down to fair value	9,283	9,205
Average impaired loans	10,316	9,926

The following tables are by loan category and present at June 30, 2012 and December 31, 2011 loans individually evaluated and considered impaired under FAS ASC 310 Accounting by Creditors for Impairment of a Loan. Impairment includes performing troubled debt restructurings.

(Dollars in thousands)

June 30, 2012	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no allowance recorded:					
Commercial	$ 24	$ 54	$	$ 95	$ 3
Real estate:					
Construction					
Mortgage-residential	581	609		645	57
Mortgage-commercial	8,650	9,059		9,535	239
Consumer:					
Home Equity					
Other	28	28		41	5
With an allowance recorded:					
Commercial					
Real estate:					
Construction					
Mortgage-residential					
Mortgage-commercial					
Consumer:					
Home Equity					
Other					
Total:					
Commercial	$ 24	$ 54	$	$ 95	$ 3
Real estate:					
Construction					

Mortgage-residential	581	609		645	57
Mortgage-commercial	8,650	9,059		9,535	239
Consumer:					
Home Equity					
Other	28	28		41	5
	$ 9,283	$ 9,750	$	$ 10,316	$ 304

The Company determined that all specific reserves for impaired loans were confirmed losses and were charged-off against outstanding loan balances during the six months ended June 30, 2012.

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Note 4 Loans-continued

(Dollars in thousands) December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 12	$ 19	$	$ 21	$
Real estate:					
Construction					
Mortgage-residential	622	650		656	4
Mortgage-commercial	8,552	8,975		9,066	382
Consumer:					
Home Equity					
Other	19	19		30	1
With an allowance recorded:					
Commercial	33	33	1	36	2
Real estate:					
Construction					
Mortgage-residential					
Mortgage-commercial	115	115	1	117	8
Consumer:					
Home Equity					
Other					
Total:					
Commercial	45	52		57	2
Real estate:					
Construction					
Mortgage-residential	622	650		656	4
Mortgage-commercial	8,667	9,090		9,183	390
Consumer:					
Home Equity					
Other	19	19		30	1
	$ 9,353	$ 9,811	$ 2	$ 9,926	$ 397

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.

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Note 4 Loans-continued

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011, no loans were classified as doubtful.

(Dollars in thousands) June 30, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$ 19,450	$ 56	$ 235	$	$ 19,741
Real estate:					
Construction	7,370	2,522	2,410		12,302
Mortgage residential	36,959	953	867		38,779
Mortgage commercial	203,223	5,824	12,833		221,880
Consumer:					
Home Equity	26,156	550	239		26,945
Other	5,226	12	28		5,266
Total	$ 298,384	$ 9,917	$ 16,612	$	$ 324,913

(Dollars in thousands) December 31, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$ 19,827	$ 499	$ 282	$	$ 20,608
Real estate:					
Construction	6,764		5,003		11,767
Mortgage residential	37,063	305	969		38,337
Mortgage commercial	200,984	8,009	11,295		220,288
Consumer:					
Home Equity	27,692	38	246		27,976
Other	5,311	5	19		5,335
Total	$ 297,641	$ 8,856	$ 17,814	$	$ 324,311

At June 30, 2012 and December 31, 2011, non-accrual loans totaled $4.6 million and $5.4 million, respectively.

Troubled debt restructurings that are still accruing included in impaired loans at June 30, 2012 and December 31, 2011 amounted to $4.6 million and $3.9 million, respectively. Troubled debt restructurings in nonaccrual status at June 30, 2012 and December 31, 2011 amounted to $2.7 million and $3.8 million, respectively.

There were no loans greater than ninety days delinquent and still accruing interest at June 30, 2012. Loans greater than ninety days delinquent and still accruing interest at December 31, 2011 amounted to $25 thousand.

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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 June 30, 2012 and December 31, 2011:

(Dollars in thousands) June 30, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$ 156	$ 33	$	$ 24	$ 213	$ 19,528	$ 19,741
Real estate:							
Construction						12,302	12,302
Mortgage-residential	299	319		581	1,199	37,580	38,779
Mortgage-commercial	1,119	274		4,007	5,400	216,480	221,880
Consumer:							
Home equity	171				171	26,774	26,945
Other	44	1		28	73	5,193	5,266
Total	$ 1,789	$ 627	$	$ 4,640	$ 7,056	$ 317,857	$ 324,913

(Dollars in thousands) December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$ 147	$ 123	$	$ 12	$ 282	$ 20,326	$ 20,608
Real estate:							
Construction						11,767	11,767
Mortgage-residential	391	95		623	1,109	37,228	38,337
Mortgage-commercial	1,382	966	25	4,749	7,122	213,166	220,288
Consumer:							
Home equity	45				45	27,931	27,976
Other	42	18		19	79	5,256	5,335
Total	$ 2,007	$ 1,202	$ 25	$ 5,403	$ 8,637	$ 315,674	$ 324,311

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Note 4 Loans-continued

As a result of adopting the amendments in Accounting Standards Update (ASU) 2011-02, the Company reassessed all restructurings that occurred on or after the beginning of the fiscal year of adoption (January 1, 2011) to determine whether they were considered TDRs under the amended guidance. The Company identified as TDRs certain loans for which the allowance for loan losses had previously been measured under a general allowance methodology. Upon identifying those loans as TDRs, the Company identified them as impaired under the guidance in ASC 310-10-35. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those loans newly identified as impaired. At June 30, 2012 and December 31, 2011, the recorded investment in loans for which the allowance was previously measured under a general allowance methodology and are now impaired under ASC 310-10-35 was $7.3 million and $7.7 million, respectively. An allowance for loans losses of $2 thousand was associated with those loans at December 31, 2011. There was no allowance associated with those loans as of June 30, 2012.

The following tables, by loan category, present loans determined to be TDRs during the three and six month periods ended June 30, 2012.

	For the three months ended June 30, 2012		
Troubled Debt Restructurings (Dollars in thousands)	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Nonaccrual			
Mortgage-Commercial	1	$ 53	$ 40
Total nonaccrual	1	$ 53	$ 40
Accrual			
Mortgage-Commercial	2	$ 596	$ 596
Total Accrual	2	$ 596	$ 596
Total TDRs	3	$ 649	$ 636

	For the six months ended June 30, 2012		
Troubled Debt Restructurings (Dollars in thousands)	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Nonaccrual			
Mortgage-Commercial	1	$ 53	$ 40
Total nonaccrual	1	$ 53	$ 40
Accrual			
Mortgage-Commercial	2	$ 596	$ 596
Total Accrual	2	$ 596	$ 596
Total TDRs	3	$ 649	$ 636

During the three and six months ended June 30, 2012, the Company modified three loans that were considered to be TDRs. The payment and interest rate were lowered for two of these loans and the payment was modified to interest only for one loan.

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Note 4 Loans-continued

The following tables, by loan category, present loans determined to be TDRs in the last twelve months that subsequently defaulted during the three or six month periods ended June 30, 2012. Defaulted loans are those loans that are greater than 89 days past due.

Troubled Debt Restructurings that subsequently defaulted this period (Dollars in thousands)	**For the three months ended June 30, 2012**	
	Number of Contracts	**Recorded Investment**
Mortgage-Commercial	1	$ 638
Total TDRs	1	$ 638

Troubled Debt Restructurings that subsequently defaulted this period (Dollars in thousands)	**For the six months ended June 30, 2012**	
	Number of Contracts	**Recorded Investment**
Mortgage-Commercial	1	$ 638
Total TDRs	1	$ 638

During the three and six months ended June 30, 2012, one loan that had previously been restructured defaulted. A loan is considered to have defaulted when it becomes 90 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. Each non-accrual loan is written down to its corresponding collateral value. All TDR accruing loans that have a loan balance which exceeds the present value of cash flow will have a specific allocation. All nonaccrual loans are considered impaired. Under ASC 310-10, a loan is impaired when it is probable that the Company will be unable to collect all amounts due, including both principal and interest, according to the contractual terms of the loan agreement.

Note 5 - Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and or disclosure of financial information by the Company.

In September 2011, the Intangibles topic was amended to permit an entity to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. These amendments were effective for the Company on January 1, 2012. The amendments were effective for the Company beginning January 1, 2012 and had no effect on the financial statements.

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the ASC was amended by ASU 2011-03. The requirement for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion were removed from the assessment of effective control. The other criteria to assess effective

Note 5 - Recently Issued Accounting Pronouncements-continued

control were not changed. The amendments were effective for the Company on January 1, 2012 and had no effect on the financial statements.

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments were effective for the Company beginning January 1, 2012 and had no effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders   equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company on January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while FASB redeliberates future requirements.

The Balance Sheet topic of the ASC was amended in December 2011 for companies with financial instruments and derivative instruments that offset or are subject to a master netting agreement. The amendments require disclosure of both gross information and net information about instruments and transactions eligible for offset or subject to an agreement similar to a master netting agreement. The amendments are effective for reporting periods beginning on or after January 1, 2013 and must be provided retrospectively for all comparative periods presented. 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.

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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 mortgage-backed securities issued both by government sponsored enterprises and private label mortgage-backed securities. 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 by 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.

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 2 measurement. When the OREO value is based upon a current appraisal or when a current appraisal is not available or there is estimated further impairment, the measurement is considered a Level 3 measurement.

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

Interest rate swap The fair value approximates the carrying value and is classified as Level 3.

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

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

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

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

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

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

The carrying amount and estimated fair value by classification Level of the Company s financial instruments as of June 30, 2012 are as follows:

	June 30, 2012				
		Fair Value			
(Dollars in thousands)	**Carrying Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and short term investments	$ 28,550	$ 28,550	$ 28,550	$	$
Available-for-sale securities	196,581	196,581	922	195,659	
Other investments, at cost	4,800				
Loans held for sale	4,356	4,356		4,356	
Loans receivable	324,913	329,784		329,784	
Allowance for loan losses	4,742				
Net loans	320,171	329,784		329,784	

Accrued interest	1,899	1,899	1,899		
Interest rate swap	(479)	(479)			(479)
Financial liabilities:					
Non-interest bearing demand	$ 90,557	$ 90,557	$	$ 90,557	$
NOW and money market accounts	146,347	146,347		146,347	
Savings	39,321	39,321		39,321	
Time deposits	197,794	199,889		199,889	
Total deposits	474,019	476,114		476,114	
Federal Home Loan Bank Advances	38,496	44,604		44,604	
Short term borrowings	12,817	12,817		12,817	
Junior subordinated debentures	17,916	17,916		17,916	
Accrued interest payable	1,198	1,198	1,198		