FIRST COMMUNITY CORP /SC/
Form 10-Q
August 08, 2018

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, 2018

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

Commission File No. 000-28344

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

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

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of principal executive offices) (Zip Code)

(803) 951-2265

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: On August 8, 2018, 7,605,053 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, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 16,147	$ 14,803
Interest-bearing bank balances	28,195	15,186
Federal funds sold and securities purchased under agreements to resell	603	602
Investment securities - held-to-maturity	16,261	17,012
Investment securities - available-for-sale	255,513	264,824
Other investments, at cost	1,956	2,559
Loans held for sale	6,969	5,093
Loans	684,333	646,805
Less, allowance for loan losses	6,087	5,797
Net loans	678,246	641,008
Property, furniture and equipment - net	34,613	36,103
Bank owned life insurance	25,403	25,413
Other real estate owned	1,824	1,934
Intangible assets	2,284	2,569
Goodwill	14,562	14,589
Other assets	9,573	9,036
Total assets	$ 1,092,149	$ 1,050,731
LIABILITIES		
Deposits:		
Non-interest bearing	$ 239,744	$ 226,546
Interest bearing	693,624	661,777
Total deposits	933,368	888,323
Securities sold under agreements to repurchase	28,203	19,270
Federal Home Loan Bank advances	241	14,250
Junior subordinated debt	14,964	14,964
Other liabilities	8,376	8,261
Total liabilities	985,152	945,068
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 7,605,053 at June 30, 2018 7,587,938 at December 31, 2017	7,605	7,588
Common stock warrants issued	46	46
Nonvested restricted stock	(262)	(109)

Additional paid in capital	94,867	94,516
Retained earnings	8,263	4,066
Accumulated other comprehensive loss	(3,522)	(444)
Total shareholder's equity	106,997	105,663
Total liabilities and shareholders' equity	$ 1,092,149	$ 1,050,731

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands)	Six Months Ended June 30, 2018 (Unaudited)	Six Months Ended June 30, 2017 (Unaudited)
Interest income:		
Loans, including fees	$ 15,697	$ 12,567
Taxable securities	2,373	1,935
Non taxable securities	899	942
Federal funds sold and securities purchased under resale agreements	170	36
Other	11	17
Total interest income	19,150	15,497
Interest expense:		
Deposits	1,185	882
Federal funds sold and securities sold under agreement to repurchase	101	21
Other borrowed money	391	484
Total interest expense	1,677	1,387
Net interest income	17,473	14,110
Provision for loan losses	231	194
Net interest income after provision for loan losses	17,242	13,916
Non-interest income:		
Deposit service charges	886	668
Mortgage banking income	1,967	1,918
Investment advisory fees and non-deposit commissions	784	572
Gain (loss) on sale of securities	(10)	226
Gain on sale of other assets	37	88
Loss on early extinguishment of debt	—	(281)
Other	1,878	1,431
Total non-interest income	5,542	4,622
Non-interest expense:		
Salaries and employee benefits	9,458	8,347
Occupancy	1,197	1,066
Equipment	779	952
Marketing and public relations	283	519
FDIC assessments	164	156
Other real estate expense	49	56
Amortization of intangibles	285	149
Merger expenses	—	98
Other	3,604	2,747
Total non-interest expense	15,819	14,090
Net income before tax	6,965	4,448
Income taxes	1,255	1,028
Net income	$ 5,710	$ 3,420
Basic earnings per common share	$ 0.75	$ 0.51
Diluted earnings per common share	$ 0.74	$ 0.50

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)	Three Months Ended June 30, 2018 (Unaudited)	Three Months Ended June 30, 2017 (Unaudited)
Interest income:		
Loans, including fees	$ 8,080	$ 6,241
Taxable securities	1,188	990
Non-taxable securities	441	469
Federal funds sold and securities purchased under resale agreements	104	17
Other	6	7
Total interest income	9,819	7,724
Interest expense:		
Deposits	638	440
Federal funds sold and securities sold under agreement to repurchase	60	12
Other borrowed money	182	223
Total interest expense	880	675
Net interest income	8,939	7,049
Provision for loan losses	29	78
Net interest income after provision for loan losses	8,910	6,971
Non-interest income:		
Deposit service charges	423	348
Mortgage banking income	1,016	1,248
Investment advisory fees and non-deposit commissions	401	314
Gain on sale of securities	94	172
Gain on sale of other assets	22	68
Loss on early extinguishment of debt	—	(223)
Other	955	717
Total non-interest income	2,911	2,644
Non-interest expense:		
Salaries and employee benefits	4,881	4,261
Occupancy	583	539
Equipment	398	506
Marketing and public relations	194	298
FDIC assessment	83	78
Other real estate expense	31	29
Amortization of intangibles	143	74
Merger expenses	—	98
Other	1,912	1,487
Total non-interest expense	8,225	7,370
Net income before tax	3,596	2,245
Income taxes	595	581
Net income	$ 3,001	$ 1,664
Basic earnings per common share	$ 0.40	$ 0.25
Diluted earnings per common share	$ 0.39	$ 0.24

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands)	Six months ended June 30, 2018	2017
Net income	$ 5,710	$ 3,420
Other comprehensive income:		
Unrealized gain (loss) during the period on available-for-sale securities, net of tax benefit of $820 and tax expense of $639, respectively	(3,086)	1,240
Less: Reclassification adjustment for loss (gain) included in net income, net of tax expense of $2 and benefit of $77, respectively	8	(149)
Other comprehensive income (loss)	(3,078)	1,091
Comprehensive income	$ 2,632	$ 4,511

(Dollars in thousands)	Three months ended June 30, 2018	2017
Net income	$ 3,001	$ 1,664
Other comprehensive income:		
Unrealized gain (loss) during the period on available-for-sale securities, net of tax benefit of $216 and tax expense of $433, respectively.	(811)	841
Less: Reclassification adjustment for gain included in net income, net of tax of $19 and $59 respectively.	(75)	(113)
Other comprehensive income (loss)	(886)	728
Comprehensive income	$ 2,115	$ 2,392

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
Six Months ended June 30, 2018 and June 30, 2017
(Unaudited)

(Dollars in thousands)	Common Shares Issued	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Nonvested Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance December 31, 2016	6,708	$ 6,708	$ 46	$ 75,991	$ (220)	$ 573	$ (1,237)	$ 81,861
Net income						3,420		3,420
Other comprehensive income net of tax of $375							1,091	1,091
Issuance of restricted stock	5	5		100	(105)			—
Amortization of compensation on restricted stock					109			109
Shares forfeited	(2)	(2)		(27)	9			(20)
Shares retired	(19)	(19)		(369)				(388)
Dividends: Common ($0.18 per share)						(1,197)		(1,197)
Dividend reinvestment plan	10	10		173				183
Balance June 30, 2017	6,702	$ 6,702	$ 46	$ 75,868	$ (207)	$ 2,796	$ (146)	$ 85,059
Balance December 31, 2017	7,588	$ 7,588	$ 46	$ 94,516	$ (109)	$ 4,066	$ (444)	$ 105,663
Net income						5,710		5,710
Other comprehensive loss net of tax of $818							(3,078)	(3,078)
Issuance of restricted stock	11	11		233	(244)			—
Amortization of compensation on restricted stock					91			91
Shares retired	(2)	(2)		(55)				(57)
Dividends: Common ($0.20 per share)						(1,513)		(1,513)
Dividend reinvestment plan	8	8		173				181
Balance June 30, 2018	7,605	$ 7,605	$ 46	$ 94,867	$ (262)	$ 8,263	$ (3,522)	$ 106,997

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$5,710	$3,420
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	750	727
Premium amortization	1,293	1,679
Provision for loan losses	231	194
Write-down of other real estate owned	—	17
Gain on sale of other real estate owned	(37)	(88)
Origination of loans held-for-sale	(56,741)	(52,525)
Sale of loans held-for-sale	54,866	51,641
Amortization of intangibles	285	149
Accretion on acquired loans	(271)	(88)
Writedown of land held for sale	42	90
Loss (gain) on sale of securities	10	(226)
Loss on extinguishment of debt	—	281
Gain on sale of fixed assets	(123)	—
Decrease in other assets	435	5,686
Increase (decrease) in other liabilities	116	(787)
Net cash provided from operating activities	6,566	10,170
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(37,866)	(13,877)
Maturity/call of investment securities available-for-sale	22,075	16,628
Proceeds from sale of securities available-for-sale	19,884	10,570
Proceeds from sale of securities held-to-maturity	655	—
Proceeds from sale of other securities	603	314
Increase in loans	(37,197)	(6,718)
Proceeds from sale of other real estate owned	180	386
Proceeds from sale of fixed assets	1,143	—
Purchase of property and equipment	(321)	(1,519)
Net cash provided by (used in) investing activities	(30,844)	5,784
Cash flows from financing activities:		
Increase in deposit accounts	45,098	6,517
Increase (decrease) in securities sold under agreements to repurchase	8,933	(2,208)
Advances from the Federal Home Loan Bank	—	22,000
Repayment of advances from Federal Home Loan Bank	(14,010)	(28,353)
Shares forfeited	—	(20)
Shares retired	(57)	(388)
Dividends paid: Common Stock	(1,513)	(1,197)
Dividend reinvestment plan	181	183
Net cash provided from (used in) financing activities	38,632	(3,466)
Net increase in cash and cash equivalents	14,354	12,488
Cash and cash equivalents at beginning of period	30,591	21,999

Cash and cash equivalents at end of period	$44,945	$34,487
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$1,677	$1,450
Income taxes	$750	$1,095
Non-cash investing and financing activities:		
Unrealized gain (loss) on securities	$(3,078)	$1,091
Transfer of loans to foreclosed property	$33	$26

See Notes to Consolidated Financial Statements

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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 cash flows of First Community Corporation (the "Company"), present fairly in all material respects the Company's financial position at June 30, 2018 and December 31, 2017, and the Company's results of operations and cash flows for the three and six months ended June 30, 2018 and 2017. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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 Annual Report on Form 10-K for the year ended December 31, 2017 should be referred to in connection with these unaudited interim financial statements.

Note 2 – Earnings Per Common Share

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

(In thousands except average market price)

	Six months Ended June 30,		Three months Ended June 30,	
	2018	2017	2018	2017
Numerator (Net income)	$5,710	$3,420	$3,001	$1,664
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	7,575	6,641	7,573	6,634
Dilutive securities:				
Deferred compensation	60	54	62	54
Warrants/Restricted stock – Treasury stock method	90	118	91	115
Diluted shares	7,725	6,813	7,726	6,803
The average market price used in calculating assumed number of shares	$22.76	$20.56	$23.56	$20.75

There were no options outstanding as of June 30, 2018 and 2017.

In the fourth quarter of 2011, we issued $2.5 million in 8.75% subordinated notes maturing December 16, 2019. On November 15, 2012, the subordinated notes were redeemed in full at par. Warrants for 107,500 shares of common stock at $5.90 per share were issued in connection with the issuance of the subordinated debt. There were 97,180 warrants outstanding at June 30, 2018. These warrants expire December 16, 2019 and are included in dilutive securities in the table above.

The Company has issued a total of 26,626 unvested restricted shares under the terms of its compensation plans and employment agreements. The employee shares cliff vest over a three year period; the non-employee director shares vest one year after issuance. The unrecognized compensation cost at June 30, 2018 for non-vested shares amounts to $261.5 thousand. In February 2017 and 2018, the Company issued 353 and 3,201 stock units, respectively, to employees that cliff vest over three years. Each unit is convertible into one share of common stock at the time the unit vests. The related compensation cost is accrued over the vesting period.

In 2006, the Company established a Non-Employee Director Deferred Compensation Plan, whereby a director may elect to defer all or any part of annual retainer and monthly meeting fees payable with respect to service on the board of directors or a committee of the board. Units of common stock are credited to the director's account at the time compensation is earned and are included in dilutive securities in the table above. At June 30, 2018 and December 31, 2017, there were 114,353 and 110,320 units in the plan, respectively. The accrued liability at June 30, 2018 and December 31, 2017 amounted to $1.2 million and $1.1 million, respectively, and is included in "Other liabilities" on the balance sheet.

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, 2018				
US Treasury securities	$ 7,870	$ —	$ 46	$ 7,824
Government Sponsored Enterprises	1,091	5	3	1,093
Mortgage-backed securities	143,306	86	3,475	139,917
Small Business Administration pools	55,314	226	810	54,730
State and local government	52,322	458	900	51,880
Other securities	68	1	—	69
	$ 259,971	$ 776	$ 5,234	$ 255,513

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
US Treasury securities	$ 1,529	$ —	$ 24	$ 1,505
Government Sponsored Enterprises	1,085	24	—	1,109
Mortgage-backed securities	145,185	285	1,702	143,768
Small Business Administration pools	61,544	374	330	61,588
State and local government	55,111	1,309	416	56,004
Other securities	932	—	82	850
	$ 265,386	$ 1,992	$ 2,554	$ 264,824

Note 3—Investment Securities – continued

HELD-TO-MATURITY: (Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
State and local government	$ 16,261	$ 52	$ 101	$16,212
	$ 16,261	$ 52	$ 101	$16,212

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
State and local government	$ 17,012	$ 223	$ 15	$17,220
	$ 17,012	$ 223	$ 15	$17,220

During the six months ended June 30, 2018 and 2017, the Company received proceeds of $19.9 million and $10.6 million, respectively, from the sale of investment securities available-for-sale. For the six months ended June 30, 2018, gross realized gains from the sale of investment securities available-for-sale amounted to $240.7 thousand and gross realized losses amounted to $250.5 thousand. For the six months ended June 30, 2017, gross realized gains from the sale of investment securities available-for-sale amounted to $246.8 thousand and gross realized losses amounted to $21.1 thousand. During the three months ended June 30, 2018 and 2017, the Company received proceeds of $14.3 million and $8.2 million, respectively, from the sale of investment securities available-for-sale. For the three months ended June 30, 2018, gross realized gains totaled $206.9 thousand and gross realized losses totaled $112.5 thousand. For the three months ended June 30, 2017, gross realized gains totaled $173.3 thousand and gross realized losses totaled $1.9 thousand.

At June 30, 2018, other securities available-for-sale included the following at fair value: a mutual fund at $8.5 thousand and foreign debt of $60.0 thousand. As required by Accounting Standards Update (ASU) 2016-01-Financial Instruments-Overall (Subtopic 825-10), the Company has measured its equity investments at fair value with changes in the fair value recognized through net income. For the three months and six months ended June 30, 2018, a $10.0 thousand gain and a $10.0 thousand gain was recognized on a mutual fund, respectively. At December 31, 2017, corporate and other securities available-for-sale included the following at fair value: mutual funds at $790.0 thousand and foreign debt of $60.0 thousand. Other investments, at cost include Federal Home Loan Bank (“FHLB”) stock in the amount of $955.6 thousand and $1.6 million and corporate stock in the amount of $1.0 and $1.0 million at June 30, 2018 and December 31, 2017, respectively.

Note 3—Investment Securities – continued

The following tables show gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at June 30, 2018 and December 31, 2017.

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
June 30, 2018		Unrealized		Unrealized		Unrealized
Available-for-sale securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
US Treasury securities	$ 6,342	$ 4	$ 1,482	$ 42	$ 7,824	$ 46
Government Sponsored Enterprise	122	3	—	—	122	3
Government Sponsored Enterprise mortgage-backed securities	81,744	1,607	42,131	1,868	123,875	3,475
Small Business Administration pools	22,305	376	14,767	434	37,072	810
State and local government	12,418	160	12,552	740	24,970	900
	$ 122,931	$ 2,150	$ 70,932	$ 3,084	$ 193,863	$ 5,234

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
June 30, 2018		Unrealized		Unrealized		Unrealized
Held-to-maturity securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
State and local government	$ 10,605	$ 101	$ 0	$ 0	$ 10,605	$ 101

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
December 31, 2017		Unrealized		Unrealized		Unrealized
Available-for-sale securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
US Treasury securities	$ —	$ —	$ 1,505	$ 24	$ 1,505	$ 24
Government Sponsored Enterprise mortgage-backed securities	50,377	420	46,071	1,282	96,448	1,702
Small Business Administration pools	17,607	164	16,311	166	33,918	330
State and local government	3,639	15	12,990	401	16,629	416
Corporate and other securities	—	—	790	82	790	82
	$ 71,623	$ 599	$ 77,667	$ 1,955	$ 149,290	$ 2,554

Note 3—Investment Securities – continued

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
December 31, 2017		Unrealized		Unrealized		Unrealized
Held-to-maturity securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
State and local government	$ 2,899	$ 15	$ —	$ —	$2,899	$ 15

Government Sponsored Enterprise, Mortgage-Backed Securities: The Company owned mortgage-backed securities ("MBSs"), including collateralized mortgage obligations ("CMOs"), issued by government sponsored enterprises ("GSEs") with an amortized cost of $143.1 million and $145.0 million and approximate fair value of $139.7 million and $143.6 million at June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017, all of the MBSs issued by GSEs were classified as "Available for Sale." Unrealized losses on certain of these investments are not considered to be "other than temporary," and we have the intent and ability to hold these until they mature or recover the current book value. The contractual cash flows of the investments are guaranteed by the GSE. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the Company does not intend to sell these securities and it is more likely than not that the Company will not be required sell these securities before a recovery of its amortized cost, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2018.

Non-agency Mortgage Backed Securities: The Company held private label mortgage-backed securities ("PLMBSs"), including CMOs, at June 30, 2018 with an amortized cost of $171.2 thousand and approximate fair value of $173.9 thousand. The Company held PLMBSs, including CMOs, at December 31, 2017 with an amortized cost of $199.9 thousand and approximate fair value of $204.1 thousand. Management monitors each of these securities on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments.

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 other-than-temporarily impaired at June 30, 2018.

The following sets forth the amortized cost and fair value of investment securities at June 30, 2018 by contractual maturity. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties. MBSs are based on average life at estimated prepayment speeds.

June 30, 2018	Available-for-sale		Held-to-maturity	
	Amortized	Fair	Amortized	Fair
(Dollars in thousands)	Cost	Value	Cost	Value
Due in one year or less	$13,014	$13,014	$—	$—
Due after one year through five years	149,787	147,491	8,247	8,231
Due after five years through ten years	84,661	82,532	8,014	7,981
Due after ten years	12,509	12,476	—	—
	$259,971	$255,513	$16,261	$16,212

Note 4—Loans

Loans summarized by category as of June 30, 2018, December 31, 2017 and June 30, 2017 are as follows:

(Dollars in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Commercial, financial and agricultural	$47,853	$ 51,040	$41,893
Real estate:			
Construction	55,479	45,401	34,526
Mortgage-residential	50,190	46,901	45,012
Mortgage-commercial	486,107	460,276	394,454
Consumer:			
Home equity	32,319	32,451	30,091
Other	12,385	10,736	7,444
Total	$684,333	$ 646,805	$553,420

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, 2018 and June 30, 2017 and for the year ended December 31, 2017 is as follows:

(Dollars in thousands)

June 30, 2018	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance December 31, 2017	$ 221	$ 101	$ 461	$ 3,077	$ 308	$ 35	$ 1,594	$ 5,797
Charge-offs	—	—	(1)	—	—	(85)	—	(86)
Recoveries	3	—	2	114	5	21	—	145
Provisions	48	11	210	(573)	716	142	(323)	231
Ending balance June 30, 2018	$ 272	$ 112	$ 672	$ 2,618	$ 1,029	$ 113	$ 1,271	$ 6,087
Ending balances: Individually evaluated for impairment	$ —	$ —	$ 1	$ 14	$ —	$ —	$ —	$ 15
Collectively evaluated for impairment	272	112	671	2,604	1,029	113	1,271	6,072
June 30, 2018 Loans receivable:								
Ending balance-total	$ 47,853	$ 55,479	$ 50,190	$ 486,107	$ 32,319	$ 12,385	$ —	$ 684,333
Ending balances: Individually evaluated for impairment	—	—	424	4,464	61	—	—	4,949
Collectively evaluated for impairment	$ 47,853	$ 55,479	$ 49,766	$ 481,643	$ 32,258	$ 12,385	$ —	$ 679,384

Note 4—Loans-continued

(Dollars in thousands) June 30, 2017	Commercial	Real estate construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home Equity	Consumer Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance December 31, 2016	$ 145	$ 104	$ 438	$ 2,793	$ 153	$ 127	$ 1,454	$ 5,214
Charge-offs	—	—	—	(24)	—	(44)	—	(68)
Recoveries	3	—	2	113	24	8	—	150
Provisions	21	(28)	(87)	(37)	19	(67)	373	194
Ending balance June 30, 2017	$ 169	$ 76	$ 353	$ 2,845	$ 196	$ 24	$ 1,827	$ 5,490
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 2	$ 23	$ —	$ —	$ —	$ 25
Collectively evaluated for impairment	169	76	351	2,822	196	24	1,827	5,465
June 30, 2017 Loans receivable:								
Ending balance-total	$ 41,893	$ 34,526	$ 45,012	$ 394,454	$ 30,091	$ 7,444	$ —	$ 553,420
Ending balances:								
Individually evaluated for impairment	—	—	434	4,275	56	—	—	4,763
Collectively evaluated for impairment	$ 41,893	$ 34,526	$ 44,578	$ 390,179	$ 30,035	$ 7,444	$ —	$ 548,655

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Note 4—Loans-continued

(Dollars in thousands)

December 31, 2017	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance December 31, 2016	$ 145	$ 104	$ 438	$ 2,793	$ 153	$ 127	$ 1,454	$ 5,214
Charge-offs	(5)	—	—	(30)	(7)	(131)	—	(173)
Recoveries	5	—	5	172	24	20	—	226
Provisions	76	(3)	18	142	138	19	140	530
Ending balance December 31, 2017	$ 221	$ 101	$ 461	$ 3,077	$ 308	$ 35	$ 1,594	$ 5,797
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 2	$ 25	$ —	$ —	$ —	$ 27
Collectively evaluated for impairment	221	101	459	3,052	308	35	1,594	5,770
December 31, 2017 Loans receivable:								
Ending balance-total	$ 51,040	$ 45,401	$ 46,901	$ 460,276	$ 32,451	$ 10,736	$ —	$ 646,805
Ending balances:								
Individually evaluated for impairment	—	—	413	4,742	—	—	—	5,155
Collectively evaluated for impairment	$ 51,040	$ 45,401	$ 46,488	$ 455,534	$ 32,451	$ 10,736	$ —	$ 641,650

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Note 4—Loans-continued

The detailed activity in the allowance for loan losses as of and for the three months ended June 30, 2018 and the three months ended June 30, 2017 is as follows:

(Dollars in thousands)			Real estate	Real estate	Consumer			
		Real estate	Mortgage	Mortgage	Home	Consumer		
	Commercial	Construction	Residential	Commercial	Equity	Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance March 31, 2018	$ 210	$ 98	$ 716	$ 3,117	$ 479	$ 63	$ 1,303	$5,986
Charge-offs	—	—	—	—	—	(38)	—	(38)
Recoveries	3	—	2	87	5	13	—	110
Provisions	59	14	(46)	(586)	545	75	(32)	29
Ending balance June 30, 2018	$ 272	$ 112	$ 672	$ 2,618	$ 1,029	$ 113	$ 1,271	$6,087

(Dollars in thousands)			Real estate	Real estate	Consumer			
		Real estate	Mortgage	Mortgage	Home	Consumer		
	Commercial	Construction	Residential	Commercial	Equity	Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance March 31, 2017	$ 140	$ 71	$ 398	$ 2,858	$ 163	$ 159	$ 1,579	$5,368
Charge-offs	—	—	—	—	—	(17)	—	(17)
Recoveries	1	—	1	32	23	4	—	61
Provisions	28	5	(46)	(45)	10	(122)	248	78
Ending balance June 30, 2017	$ 169	$ 76	$ 353	$ 2,845	$ 196	$ 24	$ 1,827	$5,490

Related party loans and lines of credit 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. The following table presents related party loan transactions for the six months ended June 30, 2018 and 2017:

(Dollars in thousands)	2018	2017
Beginning Balance December 31,	$5,549	$6,103
New Loans	1,778	87
Less loan repayments	936	754
Ending Balance June 30,	$6,391	$5,436

Note 4—Loans-continued

The following table presents at June 30, 2018 and December 31, 2017 loans individually evaluated and considered impaired under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310 "Accounting by Creditors for Impairment of a Loan." Impairment includes performing troubled debt restructurings ("TDRs").

(Dollars in thousands)	June 30, 2018	December 31, 2017
Total loans considered impaired	$ 4,949	$ 5,155
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	$ 1,819	$ 1,669
Related allowance	$ 15	$ 27
Loans considered impaired and previously written down to fair value	$ 3,130	$ 3,485
Average impaired loans	$ 5,029	$ 5,513
Amount of interest earned during period of impairment	$ 200	$ 132

The following tables are by loan category and present at June 30, 2018, June 30, 2017 and December 31, 2017 loans individually evaluated and considered impaired under FASB ASC 310 "Accounting by Creditors for Impairment of a Loan." Impairment includes performing TDRs.

(Dollars in thousands)				Six months ended		Three months ended	
June 30, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial, financial, agricultural	$ —	$ —	$ —	$—	$ —	$—	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	384	463	—	385	14	383	9
Mortgage-commercial	2,514	5,292	—	2,555	118	2,716	71
Consumer:							
Home equity	61	61	—	62	1	59	1
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial, financial, agricultural	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	40	40	1	41	1	40	1
Mortgage-commercial	1,950	1,950	14	1,987	66	1,950	33
Consumer:							

Home equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial, financial, agricultural	$ —	$ —	$ —	$—	$ —	$—	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	424	503	1	426	15	423	10
Mortgage-commercial	4,464	7,242	14	4,541	184	4,666	104
Consumer:							
Home equity	61	61	—	62	1	59	1
Other	—	—	—	—	—	—	—
	$ 4,949	$ 7,806	$ 15	$5,029	$ 200	$5,148	$ 115

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Note 4—Loans-continued

(Dollars in thousands)				Six months ended		Three months ended	
June 30, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial, financial, agricultural	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	390	449	—	390	7	389	6
Mortgage-commercial	2,584	5,123	—	2,583	105	2,575	20
Consumer:							
Home equity	56	57	—	56	—	56	—
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial, financial, agricultural	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	44	44	2	44	1	44	1
Mortgage-commercial	1,691	2,124	23	1,673	88	1,683	22
Consumer:							
Home equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial, financial, agricultural	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	434	493	2	434	8	433	7
Mortgage-commercial	4,275	7,247	23	4,256	193	4,258	42
Consumer:							
Home equity	56	57	—	56	—	56	—
Other	—	—	—	—	—	—	—
	$ 4,765	$ 7,797	$ 25	$ 4,746	$ 201	$ 4,747	$ 49

Note 4—Loans-continued

(Dollars in thousands) December 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ —	$ —	$ —	$ —	$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	371	437	—	399	—
Mortgage-commercial	3,087	5,966	—	3,420	13
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	42	42	2	43	2
Mortgage-commercial	1,655	2,261	25	1,652	117
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	413	479	2	442	2
Mortgage-commercial	4,742	8,227	25	5,072	130
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
	$ 5,155	$ 8,706	$ 27	$ 5,513	$ 132

Note 4—Loans-continued

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered as pass rated loans. As of June 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, no loans were classified as doubtful.

(Dollars in thousands)

June 30, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$47,473	$ 188	$ 192	$ —	$47,853
Real estate:					
Construction	55,479	—	—	—	55,479
Mortgage – residential	48,437	882	871	—	50,190
Mortgage – commercial	477,022	4,608	4,477	—	486,107
Consumer:					
Home Equity	30,403	1,534	382	—	32,319
Other	12,385	—	—	—	12,385
Total	$671,199	$ 7,212	$ 5,922	$ —	$684,333

(Dollars in thousands)

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$50,680	$179	$ 181	$ —	$51,040
Real estate:					
Construction	45,401	—	—	—	45,401
Mortgage – residential	45,343	720	838	—	46,901
Mortgage – commercial	446,531	7,698	6,047	—	460,276
Consumer:					
Home Equity	30,618	1,524	309	—	32,451
Other	10,731	—	5	—	10,736
Total	$629,304	$10,121	$ 7,380	$ —	$646,805

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Note 4—Loans-continued

At June 30, 2018 and December 31, 2017, non-accrual loans totaled $3.0 million and $3.3 million, respectively.

TDRs that are still accruing and included in impaired loans at June 30, 2018 and at December 31, 2017 amounted to $1.8 million and $1.8 million, respectively. TDRs in non-accrual status at June 30, 2018 and December 31, 2017 amounted to $1.1 million and $1.2 million, respectively.

Loans greater than 90 days delinquent and still accruing interest were $959.2 thousand at June 30, 2018 due primarily to two construction loans that were past their initial construction maturity and in the process of being extended. Loans greater than 90 days delinquent and still accruing interest were $32.0 thousand at December 31, 2017.

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

A summary of changes in the accretable yield for PCI loans for the three and six months ended June 30, 2018 and June 30, 2017 follows:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Accretable yield, beginning of period	$ 12	$ 22
Accretion	(14)	(24)
Reclassification of nonaccretable difference due to improvement in expected cash flows	—	—
Accretable yield, end of period	$ (2)	$ (2)

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Accretable yield, beginning of period	$ 56	$ 34
Accretion	(6)	(28)
Reclassification of nonaccretable difference due to improvement in expected cash flows	—	44
Accretable yield, end of period	$ 50	$ 50

Note 4—Loans-continued

At June, 2018 and December 31, 2017 the recorded investment in purchased impaired loans was $604 thousand and $733 thousand, respectively. The unpaid principal balance was $877 thousand and $1.0 million at June 30, 2018 and December 31, 2017, respectively. At June 30, 2018 and December 31, 2017, these loans were all secured by commercial real estate.

The following tables are by loan category and present loans past due and on non-accrual status as of June 30, 2018 and December 31, 2017:

(Dollars in thousands) June 30, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial Real estate:	$ 76	$ —	$ —	$	$ 76	$47,777	$ 47,853