FIRST COMMUNITY CORP /SC/
Form 10-Q
May 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

rk One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2015

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

Commission File No. 000-28344

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

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

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of principal executive offices) (Zip Code)

(803) 951-2265

(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ 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 May 13, 2015, 6,652,189 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)	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$ 11,537	$ 12,480
Interest-bearing bank balances	31,796	9,454
Federal funds sold and securities purchased under agreements to resell	878	598
Investment securities held-to-maturity	12,756	10,647
Investment securities available-for-sale	259,369	270,164
Other investments, at cost	1,969	2,003
Loans held for sale	5,446	4,124
Loans	454,301	443,844
Less, allowance for loan losses	4,252	4,132
Net loans	450,049	439,712
Property, furniture and equipment - net	29,383	28,510
Land held for sale	1,200	1,200
Bank owned life insurance	14,744	14,642
Other real estate owned	2,748	2,943
Intangible assets	1,704	1,806
Goodwill	5,078	5,078
Other assets	7,162	9,002
Total assets	$ 835,819	$ 812,363
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 140,689	$ 133,004
NOW and money market accounts	305,851	287,982
Savings	56,467	53,583
Time deposits less than $100,000	105,262	108,048
Time deposits $100,000 and over	86,304	86,966
Total deposits	694,573	669,583
Securities sold under agreements to repurchase	16,684	17,383
Federal Home Loan Bank advances	27,552	28,807
Junior subordinated debt	15,464	15,464
Other liabilities	4,998	6,598
Total liabilities	759,271	737,835
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1.00 per share, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, par value $1.00 per share; 10,000,000 shares authorized; issued and outstanding 6,683,960 at March 31, 2015 6,664,391 at December 31, 2014	6,684	6,664
Common stock warrants issued	46	48
Nonvested restricted stock	(694)	(673)
Additional paid in capital	75,687	75,504

Accumulated deficit	(7,339)	(8,286)
Accumulated other comprehensive income	2,164	1,271
Total shareholders' equity	76,548	74,528
Total liabilities and shareholders' equity	$ 835,819	$ 812,363

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)	Three Months ended March 31,	
	2015 (Unaudited)	2014 (Unaudited)
Interest and dividend income:		
Loans, including fees	$5,874	$5,080
Taxable securities	1,002	983
Non-taxable securities	380	317
Federal funds sold and securities purchased under resale agreements	6	10
Other	21	13
Total interest income	7,283	6,403
Interest expense:		
Deposits	426	429
Federal funds sold and securities sold under agreement to repurchase	8	10
Other borrowed money	401	468
Total interest expense	835	907
Net interest income	6,448	5,496
Provision for loan losses	406	150
Net interest income after provision for loan losses	6,042	5,346
Non-interest income:		
Deposit service charges	347	366
Mortgage banking income	735	619
Investment advisory and non-deposit commissions	296	257
Gain on sale of securities	104	8
Gain on sale of other assets	4	12
Loss on early extinguishment of debt	(103)	—
Other	598	613
Total non-interest income	1,981	1,875
Non-interest expense:		
Salaries and employee benefits	3,565	3,424
Occupancy	485	413
Equipment	402	339
Marketing and public relations	226	161
FDIC Assessment	138	124
Other real estate expense	154	138
Amortization of intangibles	103	42
Merger expenses	—	420
Other	1,027	965
Total non-interest expense	6,100	6,026
Net income before tax	1,923	1,195
Income tax expense	519	333
Net income	$1,404	$862
Basic earnings per common share	$0.22	$0.14

Diluted earnings per common share	$0.21	$0.14

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three months ended March 31,	
	2015	2014
Net income	$ 1,404	$ 862
Other comprehensive income:		
Unrealized gain during the period on available-for-sale securities, net of tax of $495 and $876, respectively	962	1,696
Less: Reclassification adjustment for gain on available-for-sale securities included in net income, net of tax expense of $35 and $2, respectively	(69)	(6)
Other comprehensive income	893	1,690
Comprehensive income	$ 2,297	$ 2,552

See Notes to Consolidated Financial Statements

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FIRST COMMUNITY CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

Three Months ended March 31, 2015 and March 31, 2014

(Unaudited)

(Dollars in thousands)	Common 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, 2013	5,303	$5,303	$ 48	$62,214	$(444)	$(11,923)	$ (2,527)	$52,671
Net income						862		862
Other comprehensive loss net of tax of $873							1,690	1,690
Issuance of restricted stock	71	71		697	(768)			—
Amortization of compensation on restricted stock					100			100
Issuance of common stock	1,274	1,274		12,436				13,710
Dividends: Common ($0.06 per share)						(313)		(313)
Dividend reinvestment plan	4	4		41				45
Balance March 31, 2014	6,652	$6,652	$ 48	$75,388	$(1,112)	$(11,374)	$ (837)	$68,765
Balance December 31, 2014	6,664	$6,664	$ 48	$75,504	$(673)	$(8,286)	$ 1,271	$74,528
Net income						1,404		1,404
Other comprehensive income net of tax of $460							893	893
Issuance of restricted stock	13	13		137	(150)			—
Amortization of compensation on restricted stock					129			129
Exercise of stock warrants	2	2	(2)					—
Dividends: Common ($0.07 per share)						(457)		(457)
Dividend reinvestment plan	5	5		46				51
Balance March 31, 2015	6,684	$6,684	$ 46	$75,687	$(694)	$(7,339)	$ 2,164	$76,548

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
(Dollars in thousands)	2015	2014
Cash flows from operating activities:		
Net income	$1,404	$862
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	297	248
Premium amortization	936	774
Provision for loan losses	406	150
Write-down of other real estate owned	90	82
Gain on sale of other real estate owned	(4)	(12)
Origination of loans held-for-sale	(23,701)	(18,191)
Sale of loans held-for-sale	22,379	18,144
Amortization of intangibles	103	42
Accretion on acquired loans	(509)	(114)
Gain on sale of securities	(104)	(8)
Loss on extinguishment of debt	103	—
Decrease in other assets	1,461	1,088
Decrease in other liabilities	(1,711)	(1,094)
Net cash provided from operating activities	1,150	1,971
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(5,436)	(34,235)
Purchase of investment securities held-to-maturity	(2,142)	—
Maturity/call of investment securities available-for-sale	9,643	9,875
Proceeds from sale of securities available-for-sale	6,955	20,916
Proceeds from sale of other securities	304	—
(Increase) decrease in loans	(10,382)	9,571
Net cash disbursed in business combination	—	(11,353)
Proceeds from sale of other real estate owned	185	712
Purchase of property and equipment	(1,170)	(607)
Net cash used in investing activities	(2,043)	(5,121)
Cash flows from financing activities:		
Increase in deposit accounts	25,035	43,232
Increase (decrease) in securities sold under agreements to repurchase	(699)	858
Advances from the Federal Home Loan Bank	8,500	20,000
Repayment of advances from FHLB	(9,858)	(37,710)
Dividends paid: Common Stock	(457)	(313)
Dividend reinvestment plan	51	45
Net cash provided from financing activities	22,572	26,112
Net increase in cash and cash equivalents	21,679	22,962
Cash and cash equivalents at beginning of period	22,532	14,166
Cash and cash equivalents at end of period	$44,211	$37,128

Supplemental disclosure:		
Cash paid during the period for:		
Interest	$865	$791
Income taxes	$935	$—
Non-cash investing and financing activities:		
Unrealized gain on securities	$893	$1,690
Transfer of loans to foreclosed property	$75	$559
Schedule of Noncash Investing Transactions:		
Acquisitions:		
Fair value of tangible assets acquired	$—	$151,024
Other intangible assets acquired	$—	$1,182
Liabilities assumed	$—	$123,198
Net identifiable assets acquired over liabilities assumed	$—	$29,008
Common stock issued in acquisition	$—	$13,710

See Notes to Consolidated Financial Statements

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 March 31, 2015 and December 31, 2014, and the Company's results of operations and cash flows for the three months ended March 31, 2015 and 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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 2014 Annual Report on Form 10-K should be referred to in connection with these unaudited interim financial statements.

Note 2 – Earnings Per Common Share

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

(In thousands except average market price)

	Three months ended March 31,	
	2015	2014
Numerator (Net income available to common shareholders)	$1,404	$862
Denominator		
Weighted average common shares outstanding for:		
Basic earnings per share	6,522	6,169
Dilutive securities:		
Deferred compensation	20	17
Warrants/Restricted stock -Treasury stock method	123	43
Diluted earnings per share	6,665	6,229
The average market price used in calculating assumed number of shares	$11.42	$10.86

At March 31, 2015, there were 8,903 outstanding options at an average exercise price of $14.21. None of these options has an exercise price below the average market price of $11.42 for the three-month period ended March 31, 2015, and, therefore they are not deemed to be dilutive. At March 31, 2014, there were 70,903 outstanding options at an average exercise price of $19.48. None of these options had an exercise price below the average market price of $10.86 for the three-month period ended March 31, 2014, and, therefore they were 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. 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. At March 31, 2015 there were 97,180 warrants outstanding. These warrants expire December 16, 2019 and are included in dilutive securities in the table above. The Company has issued a total of 157 thousand restricted shares under the terms of its compensation plans and employment agreements. These shares cliff vest over a three year period. The unrecognized compensation cost at March 31, 2015 for non-vested shares amounts to $694 thousand.

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**
March 31, 2015:				
Government sponsored enterprises	$3,406	$ 97	$ —	$3,503
Mortgage-backed securities	147,054	1,846	347	148,553
Small Business Administration pools	59,452	447	344	59,555
State and local government	44,948	1,590	91	46,447
Corporate and other securities	1,349	—	38	1,311
	$256,209	$ 3,980	$ 820	$259,369
December 31, 2014:				
Government sponsored enterprises	$3,403	$ 45	$ 14	$3,434
Mortgage-backed securities	159,861	1,211	719	160,353
Small Business Administration pools	58,643	385	483	58,545
State and local government	45,102	1,523	109	46,516
Corporate and other securities	1,349	—	33	1,316
	$268,358	$ 3,164	$ 1,358	$270,164

HELD-TO-MATURITY:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
March 31, 2015:				
State and local government	$ 12,756	$ 72	$ 81	$12,747
	$ 12,756	$ 72	$ 81	$12,747
December 31, 2014:				
State and local government	$ 10,647	$ 6	$ 68	$10,585
	$ 10,647	$ 6	$ 68	$10,585

During the three months ended March 31, 2015 and March 31, 2014, the Company received proceeds of $7.0 million and $20.9 million, respectively, from the sale of investment securities available-for-sale, amounting to gross gains of $104.1 thousand and $8.3 thousand in earnings for each respective period. There were no gross losses from the sale of investments for the three months ended March 31, 2015. There were no gross losses from the sale of investment securities for the three months ended March 31, 2014.

At March 31, 2015, corporate and other securities available-for-sale included the following at fair value: mutual funds at $834.1 thousand, foreign debt of $60.3 thousand, and corporate preferred stock in the amount of $416.8 thousand.

At December 31, 2014, corporate and other securities available-for-sale included the following at fair value: mutual funds at $839.2 thousand, foreign debt of $60.3 thousand, and corporate preferred stock in the amount of $416.8 thousand.

Other investments, at cost, include Federal Home Loan Bank ("FHLB") stock in the amount of $2.0 million and $2.0 million at March 31, 2015 and December 31, 2014 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 March 31, 2015 and December 31, 2014.

	Less than 12 months		12 months or more		Total	
March 31, 2015 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
Government Sponsored Enterprises	$—	$ —	$—	$ —	$—	$ —
Government Sponsored Enterprise mortgage-backed securities	15,585	116	19,334	224	34,919	340
Small Business Administration pools	10,929	77	22,815	267	33,744	344
Non-agency mortgage-backed securities	348	7	—	—	348	7
State and local government	—	—	3,306	91	3,306	91
Corporate bonds and other	—	—	884	38	884	38
Total	$26,862	$ 200	$46,339	$ 620	$73,201	$ 820

	Less than 12 months		12 months or more		Total	
December 31, 2014 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
Government Sponsored Enterprises	$—	$ —	$1,486	$ 14	$1,486	$ 14
Government Sponsored Enterprise mortgage-backed securities	38,341	283	26,232	429	64,573	712
Small Business Administration pools	12,313	89	20,896	394	33,209	483
Non-agency mortgage-backed securities	576	6	18	1	594	7
State and local government	—	—	5,270	109	5,270	109
Corporate bonds and other	—	—	889	33	889	33
Total	$51,230	$ 378	$54,791	$ 980	$106,021	$ 1,358

	Less than 12 months		12 months or more		Total	
March 31, 2015 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities:						
State and local government	$7,727	$ 81	$ —	$ —	$7,727	$ 81
Total	$7,727	$ 81	$ —	$ —	$7,727	$ 81

	Less than 12 months	12 months or more	Total

December 31, 2014 (Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities:						
State and local government	$8,655	$ 68	$ —	$ —	$8,655	$ 68
Total	$8,655	$ 68	$ —	$ —	$8,655	$ 68

Note 3 – Investment Securities (continued)

Government Sponsored Enterprise, Mortgage-Backed Securities: At March 31, 2015, the Company owned mortgage-backed securities ("MBSs"), including collateralized mortgage obligations ("CMOs"), with an amortized cost of $146.4 million and approximate fair value of $147.9 million issued by government sponsored enterprises ("GSEs"). At December 31, 2014, the Company owned MBSs, including CMOs with an amortized cost of $159.1 million and approximate fair value of $159.7 million issued by GSEs. As of March 31, 2015 and December 31, 2014, 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 March 31, 2015.

Non-agency Mortgage-Backed Securities: The Company also held private label mortgage-backed securities ("PLMBSs"), including CMOs, at March 31, 2015 with an amortized cost of $696.6 thousand and approximate fair value of $696.2 thousand. The Company held PLMBSs, including CMOs, at December 31, 2014 with an amortized cost of $736.6 thousand and approximate fair value of $734.4 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. There were no PLMBSs rated below investment grade as of March 31, 2015.

Corporate Bonds: Corporate bonds held by the Company are reviewed on a quarterly basis to identify downgrades by rating agencies as well as deterioration of the underlying collateral or the issuer's ability to service the debt obligation. As of March 31, 2015 and December 31, 2014 the Company did not own any corporate bonds.

State and Local Governments and Other: Management monitors these securities on a quarterly basis to identify any deterioration in the credit quality. Included in the monitoring is a review of the credit rating, a financial analysis and certain demographic data on the underlying issuer. The Company does not consider these securities to be OTTI at March 31, 2015.

The following sets forth the amortized cost and fair value of investment securities at March 31, 2015 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.

	Available-for-sale	**Held-to-maturity**
(Dollars in thousands)		

	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$6,668	$6,727	$—	$—
Due after one year through five years	126,652	127,963	494	497
Due after five years through ten years	108,647	110,567	11,715	11,720
Due after ten years	14,242	14,112	547	530
	$256,209	$259,369	$12,756	$12,747

Note 4 – Loans

Loans summarized by category as of March 31, 2015, December 31, 2014 and March 31, 2014 are as follows:

(Dollars in thousands)	March 31, **2015**	December 31, **2014**	March 31, **2014**
Commercial, financial and agricultural	$32,569	$ 33,403	$34,860
Real estate:			
Construction	36,080	27,545	29,112
Mortgage-residential	49,838	48,510	46,810
Mortgage-commercial	294,108	293,186	292,995
Consumer:			
Home equity	33,511	33,000	31,378
Other	8,195	8,200	8,713
Total	$454,301	$ 443,844	$443,868

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 three months ended March 31, 2015 and March 31, 2014 and for the year ended December 31, 2014 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
March 31, 2015								
Allowance for loan losses:								
Beginning balance December 31, 2014	$ 67	$ 45	$ 179	$ 1,572	$ 134	$ 44	$ 2,091	$ 4,132
Charge-offs	(56)	—	—	(291)	—	(11)	—	(358)
Recoveries	2	—	1	4	1	64	—	72
Provisions	197	89	63	295	(14)	(39)	(185)	406
Ending balance March 31, 2015	$ 210	$ 134	$ 243	$ 1,580	$ 121	$ 58	$ 1,906	$ 4,252
Ending balances:								
Individually evaluated for impairment	$ —	$ —	$ 4	$ 3	$ —	$ —	$ —	$ 7
Collectively evaluated for impairment	210	134	239	1,577	121	58	1,906	4,245
Loans receivable:								
Ending balance-total	$ 32,569	$ 36,080	$ 49,838	$ 294,108	$ 33,511	$ 8,195	$ —	$ 454,301
Ending balances:								
Individually evaluated for impairment	—	—	1,066	6,740	91	—	—	7,897
Collectively evaluated for impairment	$ 32,569	$ 36,080	$ 48,772	$ 287,368	$ 33,420	$ 8,195	$ —	$ 446,404

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
March 31, 2014								
Allowance for loan losses:								
Beginning balance December 31, 2013	$ 233	$ 26	$ 291	$ 1,117	$ 112	$ 80	$ 2,360	$ 4,219
Charge-offs	—	—	(35)	(187)	—	(8)	—	(230)
Recoveries	17	—	1	—	—	4	—	22
Provisions	(7)	137	(1)	94	2	(13)	(62)	150
Ending balance March 31, 2014	$ 243	$ 163	$ 256	$ 1,024	$ 114	$ 63	$ 2,298	$ 4,161
Ending balances: Individually evaluated for impairment	$ —	$ —	$ 4	$ —	$ —	$ —	$ —	$ 4
Collectively evaluated for impairment	243	163	252	1,024	114	63	2,298	4,157
Loans receivable: Ending balance-total	$ 34,860	$ 29,112	$ 46,810	$ 292,995	$ 31,378	$ 8,713	$ —	$ 443,868
Ending balances: Individually evaluated for impairment	65	—	956	7,332	71	9	—	8,433
Collectively evaluated for impairment	$ 34,795	$ 29,112	$ 45,854	$ 285,663	$ 31,307	$ 8,704	$ —	$ 435,435

Note 4 – Loans (continued)

(Dollars in thousands)

	Commercial	Real estate Construction	Real estate Mortgage Residential	Real estate Mortgage Commercial	Consumer Home equity	Consumer Other	Unallocated	Total
December 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 233	$ 26	$ 291	$ 1,117	$ 112	$ 80	$ 2,360	$ 4,219
Charge-offs	(54)	—	(52)	(879)	(17)	(109)	—	(1,111)
Recoveries	110	—	10	—	6	17	—	143
Provisions	(222)	19	(70)	1,334	33	56	(269)	881
Ending balance	$ 67	$ 45	$ 179	$ 1,572	$ 134	$ 44	$ 2,091	$ 4,132
Ending balances: Individually evaluated for impairment	$ —	$ —	$ 4	$ 57	$ —	$ —	$ —	$ 61
Collectively evaluated for impairment	67	45	175	1,515	134	44	2,091	4,071
Loans receivable:								
Ending balance-total	$ 33,403	$ 27,545	$ 48,510	$ 293,186	$ 33,000	$ 8,200	$ —	$ 443,844
Ending balances: Individually evaluated for impairment	55	—	1,078	7,334	92	—	—	8,559
Collectively evaluated for impairment	$ 33,348	$ 27,545	$ 47,432	$ 285,852	$ 32,908	$ 8,200	$ —	$ 435,285

Loans outstanding and available lines of credit to bank directors, executive officers and their related business interests amounted to $9.5 million and $11.1 million at March 31, 2015 and March 31, 2014, respectively. Repayments on these loans during the three months ended March 31, 2015 were $961.5 thousand and loans made amounted to $871.7 thousand. Repayments on these loans during the three months ended March 31, 2014 were $517.3 thousand and loans made amounted to $977.0 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.

Note 4 – Loans (continued)

The following table presents at March 31, 2015 and December 31, 2014 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)	March 31, **2015**	December 31, **2014**
Total loans considered impaired	$7,897	$ 8,559
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	300	1,959
Related allowance	7	61
Loans considered impaired and previously written down to fair value	7,597	6,600
Average impaired loans	10,249	10,900

The following tables are by loan category and present at March 31, 2015, December 31, 2014 and March 31, 2014 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)				Three months ended	
March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ —	$ —	$ —	$ —	$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,014	1,157	—	1,266	1
Mortgage-commercial	6,492	7,995	3	8,584	30
Consumer:					
Home Equity	91	97	—	97	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	52	52	4	52	—
Mortgage-commercial	248	248	3	250	—
Consumer:					
Home Equity	—	—	—	—	—

Other	—	—	—	—	—
Total:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,066	1,209	4	1,318	1
Mortgage-commercial	6,740	8,243	3	8,834	30
Consumer:					
Home Equity	91	97	—	97	—
Other	—	—	—	—	—
	$ 7,897	$ 9,549	$ 7	$ 10,249	$ 31

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Note 4 – Loans (continued)

(Dollars in thousands)				Three months ended	
		Unpaid		Average	Interest
March 31, 2014	Recorded	Principal	Related	Recorded	Income
	Investment	Balance	Allowance	Investment	Recognized
With no allowance recorded:					
Commercial	$ 65	$ 69	$ —	$ 135	$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	901	1,002	—	1,112	1
Mortgage-commercial	7,332	7,948	—	9,468	9
Consumer:					
Home Equity	71	71	—	75	—
Other	9	11	—	21	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	55	55	4	55	—
Mortgage-commercial	—	—	—	—	—
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	65	69	—	135	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	956	1,057	4	1,167	1
Mortgage-commercial	7,332	7,948	—	9,468	9
Consumer:					
Home Equity	71	71	—	75	—
Other	9	11	—	21	—
	$ 8,433	$ 9,156	$ 4	$ 10,866	$ 10

Note 4 – Loans (continued)

(Dollars in thousands) December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	$ 55	$ 112	$ —	$ 132	$ 3
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,025	1,167	—	1,071	8
Mortgage-commercial	5,428	6,469	—	7,634	64
Consumer:					
Home Equity	92	97	—	83	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	53	53	4	54	3
Mortgage-commercial	1,906	2,134	57	1,926	85
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
Total:					
Commercial	55	112	—	132	3
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	1,078	1,220	4	1,125	11
Mortgage-commercial	7,334	8,603	57	9,560	149
Consumer:					
Home Equity	92	97	—	83	—
Other	—	—	—	—	—
	$ 8,559	$ 10,032	$ 61	$ 10,900	$ 163

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 March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, no loans were classified as doubtful.

Note 4 – Loans (continued)

(Dollars in thousands) March 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$32,189	$366	$ 14	$ —	$32,569
Real estate:					
Construction	35,359	721	—	—	36,080
Mortgage – residential	47,241	1,361	1,236	—	49,838
Mortgage – commercial	273,674	9,594	10,840	—	294,108
Consumer:					
Home Equity	33,003	269	239	—	33,511
Other	8,166	2	27	—	8,195
Total	$429,632	$12,313	$ 12,356	$ —	$454,301

(Dollars in thousands) December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial & agricultural	$32,579	$754	$ 70	$ —	$33,403
Real estate:					
Construction	26,824	721	—	—	27,545
Mortgage – residential	46,090	1,054	1,366	—	48,510
Mortgage – commercial	270,986	10,437	11,763	—	293,186
Consumer:					
Home Equity	32,008	751	241	—	33,000
Other	8,041	100	59	—	8,200
Total	$416,528	$13,817	$ 13,499	$ —	$443,844

At March 31, 2015 and December 31, 2014, non-accrual loans totaled $5.9 million and $6.6 million, respectively.

TDRs that are still accruing and included in impaired loans at March 31, 2015 and December 31, 2014 amounted to $2.0 million and $2.2 million, respectively. TDRs in non-accrual status at March 31, 2015 and December 31, 2014 amounted to $2.3 million and $2.6 million, respectively.

There were no loans greater than 90 days delinquent and still accruing interest as of March 31, 2015 and December 31, 2014.

Note 4 – Loans (continued)

We account for acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

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

Purchase credit impaired (“PCI”) loans acquired totaled $4.2 million at estimated fair value, and acquired performing loans totaling $102.3 million at estimated fair value were not credit impaired. The gross contractual amount receivable for PCI loans and acquired performing loans was approximately $5.7 million and $116.0 million, respectively, as of the acquisition date. For the acquired performing loans, the best estimate at acquisition date of contractual cash flows not expected to be collected is $825 thousand. Determining the fair value of PCI loans at acquisition required the Company to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

In conjunction with the acquisition of Savannah River (as defined below) on February 1, 2014, the acquired PCI loan portfolio was accounted for at fair value as follows:

(Dollars in thousands)		February 1, 2014	
Contractual principal and interest at acquisition	$	5,717	
Nonaccretable difference		(1,205	)
Expected cash flows at acquisition		4,512	
Accretable yield		(272	)
Basis in PCI loans at acquisition – estimated fair value	$	4,240	

Note 4 – Loans (continued)

A summary of changes in the accretable yield for PCI loans for the three months ended March 31, 2015 and March 31, 2014 follows (in thousands):

(Dollars in thousands)	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Accretable yield, beginning of period	$ 75	$ —
Additions	—	272
Accretion	(437)	(33)
Reclassification of nonaccretable difference due to improvement in expected cash flows	390	—
Other changes, net	—	—
Accretable yield, end of period	$ 28	$ 239

The following tables are by loan category and present loans past due and on non-accrual status as of March 31, 2015 and December 31, 2014:

(Dollars in thousands) March 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$ 19	$ 18	$ —	$ —	$ 37	$ 32,532	$ 32,569
Real estate:							
Construction	—	—	—	—	—	36,080	36,080
Mortgage-residential	77	—	—	1,014	1,091	48,747	49,838
Mortgage-commercial	2,130	290	—	4,838	7,258	286,850	294,108
Consumer:							
Home equity	44	46	—	91	181	33,330	33,511
Other	4	2	—	—	6	8,189	8,195
Total	$ 2,274	$ 356	$ —	$ 5,943	$ 8,573	$ 445,728	$ 454,301

(Dollars in thousands) December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Commercial	$ —	$ —	$ —	$ 55	$ 147	$ 33,256	$ 33,403

Real estate:							
Construction	—	2	—	—	2	27,543	27,545
Mortgage-residential	131	5	—	1,025	1,161	47,349	48,510
Mortgage-commercial	1,443	4	—	5,413	6,860	286,326	293,186
Consumer:							
Home equity	19	—	—	92	111	32,899	33,000
Other	63	6	—	—	69	8,131	8,200
Total	$ 1,748	$ 17	$ —	$ 6,585	$ 8,350	$435,494	$443,844

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Note 4 – Loans (continued)

As a result of adopting the amendments in Accounting Standards Update ("ASU") 2011-02 (Receivables-Topic 310), 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 are 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.

There were no loans determined to be TDRs that were restructured during the three-month periods ended March 31, 2015 and March 31, 2014.

The following table, by loan category, presents loans determined to be TDRs in the twelve month period preceding March 31, 2015 that subsequently defaulted during the three month period ended March 31, 2015. During the three month period ended March 31, 2014, there were no loans determined to be TDRs in the previous twelve months that had payment defaults. Defaulted loans are those loans that are greater than 89 days past due.

Troubled Debt Restructurings that subsequently defaulted this period (Dollars in thousands)	For the three months ended March 31, 2015	
	Number of Contracts	Recorded Investment
Mortgage-Commercial	1	$ 1,391
Mortgage-Consumer	1	180
Total TDRs	2	$ 1,571

In the determination of the allowance for loan losses, all TDRs are reviewed to ensure that one of the three proper valuation methods (fair market value of the collateral, present value of cash flows, or observable market price) is adhered to. All non-accrual loans are written down to their corresponding collateral value. All troubled TDR accruing loans that have a loan balance that exceeds the present value of cash flows will have a specific allocation. All nonaccrual loans are considered impaired. Under ASC 310-10, a loan is impaired when it is probable that the Company will be unable to collect all amounts due including both principal and interest according to the contractual terms of the loan agreement.

Note 5 – Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements:

In January 2014, the FASB amended the Equity Method and Joint Ventures topic of the Accounting Standards Codification. The amendments provide criteria that must be met in order to apply a proportional amortization method to Low-Income Housing Tax Credit investments and provide guidance on the method used to amortize the investment, the impairment approach, and the eligibility criteria for entities that have other arrangements (e.g., loans) with the limited liability entity. The amendments are effective for the Company for any new investments in qualified affordable housing projects for interim and annual periods beginning after December 15, 2014. The Company intends to continue using the effective yield method for existing investments in qualified affordable housing projects. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned (OREO). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments are effective for the Company for annual periods, and interim periods beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company will apply the amendments *prospectively*. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to all stock awards granted or modified after the amendments are effective. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2014, the FASB issued guidance for determining whether embedded features need to be accounted for separately from their host shares. The new guidance requires companies to consider all terms and features, including the embedded feature(s) being evaluated for separate recognition, when determining whether a host contract is more akin to debt or equity; no single term or feature should be considered determinative regarding the nature of the host contract. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption, including adoption in an interim period, permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively to all prior periods presented in the financial statements. The Company does not expect these amendments to have a material effect on its financial statements.

Note 5 – Recently Issued Accounting Pronouncements (continued)

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 6 – Fair Value of Financial Instruments

The Company adopted FASB ASC Fair Value Measurement Topic 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level l	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

FASB ASC 825-10-50 “Disclosure about Fair Value of Financial Instruments”, requires the Company to disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below.

Cash and Short Term Investments - The carrying amount of these financial instruments (cash and due from banks, interest-bearing bank balances, federal funds sold and securities purchased under agreements to resell) approximates fair value. All mature within 90 days and do not present unanticipated credit concerns and are classified as Level 1.

Investment Securities - Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or by dealers or brokers in active over-the-counter markets. Level 2 securities include MBSs issued both by government sponsored enterprises and PLMBSs. Generally these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset–backed securities that are less liquid or for which there is an inactive market.

Loans Held for Sale - The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked in price with the investors on the same day that the loan was locked in with the company's customers. Therefore, these loans present very little market risk for the Company and are classified as Level 2. The carrying amount of these loans approximates fair value.

Loans - The fair value of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities and are classified as Level 2. As discount rates are based on current loan rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such

fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs.

Note 6 – Fair Value of Financial Instruments (continued)

Other Real Estate Owned (OREO) - OREO is carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management's estimation of the collateral and is considered a Level 3 measurement.

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

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.

Note 6 – Fair Value of Financial Instruments (continued)

The carrying amount and estimated fair value by classification level of the Company's financial instruments as of March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015				
		Fair Value			
(Dollars in thousands)	**Carrying Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and short term investments	$44,211	$44,211	$44,211	$—	$—
Held-to-maturity securities	12,756	12,747	—	12,747	—
Available-for-sale securities	259,369	259,369	834	258,118	417
Other investments, at cost	1,969	1,969	—	—	1,969
Loans held for sale	5,446	5,446	—	5,446	—
Net loans receivable	450,049	451,219	—	443,329	7,890
Accrued interest	2,485	2,485	2,485	—	—
Financial liabilities:					
Non-interest bearing demand	$140,689	$140,689	$—	$140,689	$—
NOW and money market accounts	305,851	305,851	—	305,851	—
Savings	56,467	56,467	—	56,467	—
Time deposits	191,566	192,161	—	192,161	—
Total deposits	694,573	695,168	—	695,168	—
Federal Home Loan Bank Advances	27,552	29,373	—	29,373	—
Short term borrowings	16,684	16,684	—	16,684	—
Junior subordinated debentures	15,464	15,464	—	15,464	—
Accrued interest payable	695	695	695	—	—

	December 31, 2014				
		Fair Value			
(Dollars in thousands)	**Carrying Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and short term investments	$22,532	$22,532	$22,532	$—	$—
Held-to-maturity securities	10,647	10,585	—	10,585	—
Available-for-sale securities	270,164	270,164	839	268,908	417
Other investments, at cost	2,003	2,003	—	—	2,003
Loans held for sale	4,124	4,124	—	4,124	—
Net loans receivable	439,712	441,944	—	433,446	8,498
Accrued interest	2,712	2,712	2,712	—	—
Financial liabilities:					
Non-interest bearing demand	$133,004	$133,004	$—	$133,004	$—
NOW and money market accounts	287,982	287,982	—	287,982	—
Savings	53,583	53,583	—	53,583	—
Time deposits	195,014	195,721	—	195,721	—

Total deposits	669,583	670,290	—	670,290	—
Federal Home Loan Bank Advances	28,807	30,745	—	30,745	—
Short term borrowings	17,383	17,383	—	17,383	—
Junior subordinated debentures	15,464	15,464	—	15,464	—
Accrued interest payable	725	725	725	—	—

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Note 6 – Fair Value of Financial Instruments (continued)

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2015 and December 31, 2014 that are measured on a recurring basis. There were no liabilities carried at fair value as of March 31, 2015 or December 31, 2014 that are measured on a recurring basis.

(Dollars in thousands)

Description	March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Government sponsored enterprises	$3,503	$ —	$ 3,503	$ —
Mortgage-backed securities	148,553	—	148,553	—
Small Business Administration securities	59.555	—	59,555	—
State and local government	46,447	—	46,447	—
Corporate and other securities	1,311	834	60	417
Total	$259,369	$ 834	$ 258,118	$ 417

(Dollars in thousands)

Description	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Inputs
Available for sale securities					
Government sponsored enterprises	$3,434	$ —	$ 3,434	$ —	
Mortgage-backed securities	160,353	—	160,353	—	
Small Business Administration securities	58,545	—	58,545	—	
State and local government	46,516	—	46,516	—	
Corporate and other securities	1,316	839	60	417	
Total	$270,164	$ 839	$ 268,908	$ 417	

Note 6 – Fair Value of Financial Instruments (continued)

The following table reconciles the changes in Level 3 financial instruments for the three months ended March 31, 2015 and March 31, 2014 that are measured on a recurring basis.

(Dollars in thousands)	**March 31, 2015 Corporate Preferred Stock**	**2014 Corporate Preferred Stock**
Beginning Balance	$417	$ 417
Total gains or losses (realized/unrealized) Included in earnings	—	—
Included in other comprehensive income	—	—
Purchases, issuances, and settlements	—	—
Transfers in and/or out of Level 3	—	—
Ending Balance	$417	$ 417

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of March 31, 2015 and December 31, 2014 that are measured on a non-recurring basis.

(Dollars in thousands)

Description	March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial & Industrial	$—	$ —	$ —	$ —
Real estate:				
Mortgage-residential	1,062	—	—	1,062
Mortgage-commercial	6,737	—	—	6,737
Consumer:				
Home equity	91	—	—	91
Other	—	—	—	—
Total impaired	7,890	—	—	7,890
Other real estate owned:				

Construction	276	—	—	276
Mortgage-residential	219	—	—	219
Mortgage-commercial	2,253	—	—	2,253
Total other real estate owned	2,748	—	—	2,748
Total	$10,638	$ —	$ —	$ 10,638

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Note 6 – Fair Value of Financial Instruments (continued)

(Dollars in thousands)

Description	**December 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans:				
Commercial & Industrial	$ 55	$ —	$ —	$ 55
Real estate:				
Mortgage-residential	1,074	—	—	1,074
Mortgage-commercial	7,277	—	—	7,277
Consumer:				
Home equity	92	—	—	92
Other	—	—	—	—
Total impaired	8,498	—	—	8,498
Other real estate owned:				
Construction.	424	—	—	424
Mortgage-residential	232	—	—	232
Mortgage-commercial	2,287	—	—	2,287
Total other real estate owned	2,943	—	—	2,943
Total	$ 11,441	$ —	$ —	$ 11,441

The Company has a large percentage of loans with real estate serving as collateral. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs. Third party appraisals are generally obtained when a loan is identified as being impaired or at the time it is transferred to OREO. This internal process consists of evaluating the underlying collateral to independently obtained comparable properties. With respect to less complex or smaller credits, an internal evaluation may be performed. Generally the independent and internal evaluations are updated annually. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property. The aggregate amount of impaired loans was $7.9 million and $8.5 million as of March 31, 2015 and December 31, 2014, respectively.

Note 6 – Fair Value of Financial Instruments (continued)

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of March 31, 2015 and December 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value as of March 31, 2015	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Preferred stock	$417	Estimation based on comparable non-listed securities	Comparable transactions	n/a
OREO	$2,748	Appraisal Value/Comparison Sales/Other estimates	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost
Impaired loans	$7,890	Appraisal Value	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost

(Dollars in thousands)	Fair Value as of December 31, 2014	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Preferred stock	$417	Estimation based on comparable non-listed securities	Comparable transactions	n/a
OREO	$2,943	Appraisal Value/Comparison Sales/Other estimates	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost
Impaired loans	$8,498	Appraisal Value	Appraisals and or sales of comparable properties	Appraisals discounted 6% to 16% for sales commissions and other holding cost

Note 7 – Mergers and Acquisitions – Savannah River Financial Corporation

On February 1, 2014, the Company acquired all of the outstanding common stock of Savannah River Financial Corporation (“Savannah River”), of Augusta, Georgia, the bank holding company for Savannah River Banking Company (“SRBC”), in a cash and stock transaction. The total purchase price was approximately $33.5 million, consisting of $19.8 million in cash and 1,274,200 shares of our common stock valued at $13.7 million based on a provision in the merger agreement that 60% of the outstanding shares of Savannah River common stock be exchanged for cash and 40% of the outstanding shares of Savannah River common stock be exchanged for shares of the Company’s common stock. The value of the Company’s common stock issued was determined based on the closing price of the common stock on January 31, 2014 as reported by NASDAQ, which was $10.76. Savannah River common shareholders received 1.0618 shares of the Company’s common stock in exchange for each share of Savannah River common stock, or $11.00 per share, subject to the limitations discussed above. The Company issued 1,274,200 shares of its common stock in connection with the merger.

The Savannah River transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Fair values are subject to refinement for up to a year.

Note 7 – Mergers and Acquisitions – Savannah River Financial Corporation (continued)

The following table presents the assets acquired and liabilities assumed as of February 1, 2014 as recorded by the Company on the acquisition date and initial fair value adjustments.

(Dollars in thousands, except per share data)	As Recorded by Savannah River	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 8,451	$—		$ 8,451
Investment securities	23,014	126	(a)	23,140
Loans	109,532	(3,016)	(b)	106,516
Premises and equipment	7,695	473	(c)	8,168
Intangible assets	—	1,182	(d)	1,182
Bank owned life insurance	3,158	—		3,158
Other assets	1,839	(248)	(e)	1,591
Total assets	$ 153,689	$(1,483)		$ 152,206
Liabilities				
Deposits:				
Noninterest-bearing	$ 11,045	$—		$ 11,045
Interest-bearing	102,891	211	(f)	103,102
Total deposits	113,936	211		114,147
FHLB advances	8,684	22	(g)	8,706
Other liabilities	345	—		345
Total liabilities	122,965	233		123,198
Net identifiable assets acquired over (under) liabilities assumed	30,724	(1,716)		29,008
Goodwill	—	4,507		4,507
Net assets acquired over liabilities assumed	$ 30,724	$2,791		$ 33,515
Consideration:				
First Community Corporation common shares issued	1,274,200			
Purchase price per share of the Company’s common stock	$ 10.76			
	$ 13,710			
Cash exchanged for stock and fractional shares	19,805			
Fair value of total consideration transferred	$ 33,515			

Explanation of fair value adjustments

(a)—Adjustment reflects marking the securities portfolio to fair value as of the acquisition date.

(b)—Adjustment reflects the fair value adjustments based on the Company’s evaluation of the acquired loan portfolio. and excludes the allowance for loan losses recorded by Savannah River.

(c)—Adjustment reflects the fair value adjustments based on the Company’s evaluation of the acquired premises and equipment.

(d)—Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts.

(e)—Adjustment reflects the deferred tax adjustment related to fair value adjustments at 34%.

(f)—Adjustment reflects the fair value adjustment on interest-bearing deposits.

(g)—Adjustment reflects the fair value adjustment on FHLB Advances which was equal to the prepayment fee paid to pay-off the FHLB Advances upon consummation of the merger.

Note 7 – Mergers and Acquisitions – Savannah River Financial Corporation (continued)

The operating results of the Company for the period ended March 31, 2014 include the operating results of the acquired assets and assumed liabilities for the 59 days subsequent to the acquisition date of February 1, 2014. Merger-related charges of $420 thousand are recorded in the consolidated statement of income and include incremental costs related to closing the acquisition, including legal, accounting and auditing, investment banker, travel, printing, supplies and other costs.

The following table discloses the impact of the merger with Savannah River (excluding the impact of merger-related expenses) since the acquisition on February 1, 2014 through March 31, 2014. The table also presents certain pro forma information as if Savannah River had been acquired on January 1, 2014. The results combine the historical results of Savannah River in the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2014. The results for the three month period ended March 31, 2015 do not have any merger related expenses and include the impact of the Savannah River acquisition for the entire period, and therefore, no pro-forma information is presented for such period.

(Dollars in thousands)	Actual since Acquisition (February 1, 2014 through March 31, 2014)	Pro Forma Three Months Ended March 31, 2014
Total revenues *(net interest income plus noninterest income)*	$ 7,371	$ 7,850
Net income	$ 862	$ 1,302

On September 26, 2014, the Bank completed its acquisition of approximately $40 million in deposits and $8.7 million in loans from First South Bank ("First South"). This represented all of the deposits and a portion of the loans at First South's Columbia, South Carolina banking office located at 1333 Main Street. The Bank paid a premium of $714 thousand for the deposits and loans acquired. The deposits and loans from First South have been consolidated into the Bank's branch located at 1213 Lady Street, Columbia, South Carolina. The premium paid of $714 thousand plus fair value adjustments recorded on loans and deposits acquired resulted in a core deposit intangible of $365.9 thousand and other identifiable intangible assets in the amount of $538.6 thousand being recorded related to this transaction and is reflected on the consolidated balance sheet at December 31, 2014. The transaction is being accounted for as an asset acquisition and liability assumption. The core deposit intangible and other identifiable intangible are being amortized over seven years on an accelerated basis.

Note 8 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains statements which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of our Company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "projec "potential," "continue," "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expression meant to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitation, those described under the heading "Risk Factors" in our 2014 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the "SEC") and the following:

- credit losses as a result of, among other potential factors, declining real estate values, increasing interest rates, increasing unemployment, changes in customer payment behavior or other factors;
- the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;
- restrictions or conditions imposed by our regulators on our operations;
- the adequacy of the level of our allowance for loan losses and the amount of loan loss provisions required in future periods;
- expected revenue synergies and cost savings from acquisitions may not be fully realized;
- examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses or write-down assets;
- reduced earnings due to higher other-than-temporary impairment charges resulting from additional decline in the value of our securities portfolio, specifically as a result of increasing default rates, and loss severities on the underlying real estate collateral;
- increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment, including governmental initiatives affecting the financial services industry;
- general economic conditions resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in access to funding or increased regulatory requirements with regard to funding;
- increased cybersecurity risk, including potential business disruptions or financial losses;
- changes in deposit flows;
- changes in technology;
- our current and future products, services, applications and functionality and plans to promote them;

- changes in monetary and tax policies;
- changes in accounting policies and practices;
- the rate of delinquencies and amounts of loans charged-off;
- the rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;
- our ability to maintain appropriate levels of capital, including levels of capital required under the capital rules implementing Basel III;
- our ability to comply with the terms of the consent order between our bank subsidiary, First Community Bank (the "Bank"), and the FDIC within the timeframes specified;
- our ability to attract and retain key personnel;
- our ability to retain our existing clients, including our deposit relationships;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities; and
- other risks and uncertainties detailed from time to time in our filings with the SEC.

Because of these and other risks and uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. For additional information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see "Risk Factors" under Part I, Item 1A of our 2014 Annual Report on Form 10-K as filed with the SEC. In addition, our past results of operations do not necessarily indicate our future results. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

All forward-looking statements in this report are based on information available to us as of the date of this report. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations will be achieved. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

The following discussion describes our results of operations for the three months ended March 31, 2015 as compared to the three month period ended March 31, 2014 and also analyzes our financial condition as of March 31, 2015 as compared to December 31, 2014. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section we have included a discussion of this process, as well as several tables describing our allowance for loan losses and the allocation of this allowance among our various categories of loans.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Recent Developments

On February 18, 2015, the Bank entered into the Stipulation and Consent to the Issuance of a Consent Order with the FDIC consenting to the issuance by the FDIC of a Consent Order (the “Consent Order”). The Consent Order requires the Bank to take certain actions with respect to the Bank Secrecy Act and anti-money laundering laws and regulations (collectively referred to as the “BSA”), including, among other things, enhancing its annual BSA risk assessment processes; revising certain internal controls related to BSA; and further developing and implementing certain BSA-related training programs. While the Bank recognizes that certain technical aspects of its BSA compliance activities were affected by a temporary period of significant turnover in the Bank’s BSA staff, the Bank believes that it has recognized and addressed substantially all of the BSA compliance issues noted by the FDIC and that, as of the date of this report, it is in compliance with substantially all of the requirements set forth in the Consent Order. Nevertheless, there can be no assurance that the FDIC will ultimately determine that the Bank has met all of the requirements of the Consent Order to its satisfaction. If the FDIC determines that the Bank has not made sufficient progress in complying with the Consent Order, the FDIC could seek to impose additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. If any of these measures is imposed in the future, it could have a material adverse effect on our financial condition and results of operations and on our ability to raise additional capital on acceptable terms.

On September 26, 2014, the Bank completed its acquisition of approximately $40 million in deposits and $8.7 million in loans from First South Bank (“First South”). This represented all of the deposits and a portion of the loans at First South’s Columbia, South Carolina banking office located at 1333 Main Street. The Bank paid a premium of $714 thousand for the deposits and loans acquired. The deposits and loans from First South have been consolidated into the Bank’s branch located at 1213 Lady Street, Columbia, South Carolina. The premium paid of $714 thousand plus fair value adjustments recorded on loans and deposits acquired resulted in a core deposit intangible of $365.9 thousand and other identifiable intangible assets in the amount of $538.6 thousand.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our unaudited consolidated financial statements as of March 31, 2015 and our notes included in the consolidated financial statements in our 2014 Annual Report on Form 10-K as filed with the SEC.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Qualitative factors are assessed to first determine if it is more likely than not (more than 50%) that the carrying value of goodwill is less than fair value. These qualitative factors include but are not limited to overall deterioration in general economic conditions, industry and market conditions, and overall financial performance. If determined that it is more likely than not that there has been a deterioration in the fair value of the carrying value than the first of a two-step process would be performed. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has one reporting unit.

Core deposit intangibles consist of costs that resulted from the acquisition of deposits from Savannah River and First South. Core deposit intangibles represent the estimated value of long-term deposit relationships acquired in this transaction. These costs are amortized over the estimated useful lives of the deposit accounts acquired on a method that we believe reasonably approximates the anticipated benefit stream from the accounts. The estimated useful lives are periodically reviewed for reasonableness.

Income Taxes and Deferred Tax Assets and Liabilities

Income taxes are provided for the tax effects of the transactions reported in our consolidated financial statements and consist of taxes currently due plus deferred taxes related to differences between the tax basis and accounting basis of certain assets and liabilities, including available-for-sale securities, allowance for loan losses, write downs of OREO properties, accumulated depreciation, net operating loss carry forwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the

future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. A valuation allowance is recorded when it is “more likely than not” that a deferred tax asset will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. We file a consolidated federal income tax return for the Bank. At March 31, 2015 and December 31, 2014, we were in a net deferred tax asset position.

Other-Than-Temporary Impairment

We evaluate securities for other-than-temporary impairment at least on a quarterly basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the outlook for receiving the contractual cash flows of the investments, (4) the anticipated outlook for changes in the general level of interest rates, and (5) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value (See Note 3 to the Consolidated Financial Statements).

Business Combinations, Method of Accounting for Loans Acquired

We account for acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

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

Comparison of Results of Operations for Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014

Net Income

Our net income for the three months ended March 31, 2015 was $1.4 million, or $0.21 diluted earnings per common share, as compared to $862 thousand, or $0.14 diluted earnings per common share, for the three months ended March 31, 2014. Our acquisition of Savannah River Financial Corporation ("Savannah River") was closed on February 1, 2014. Therefore, the results for the three months ended March 31, 2014 include the impact of this acquisition from February 1, 2014 through March 31, 2014. The increase in net income between the two periods is primarily due to the increase in average earning assets resulting from the Savannah River acquisition, reflected for the entire quarter in 2015, as compared to only a portion of the quarter in 2014. In addition, during the first quarter of 2014, we incurred Savannah River merger related expenses of $420 thousand. There were no merger related expenses incurred in the first quarter

of 2015. Net interest income increased $952 thousand for the quarter ended March 31, 2015 as compared to the same period 2014. This increase is primarily the result of the impact of the Savannah River acquisition. Average earning assets increased by $72.5 million in the first quarter of 2015 as compared to the same period in 2014. Average earning assets were $744.0 million during the three months ended March 31, 2015 as compared to $671.6 million during the three months ended March 31, 2014. The net interest margin on a tax equivalent basis increased to 3.62% during the first quarter of 2015 as compared to 3.40% during the first quarter of 2014. The net interest margin was positively impacted in the first quarter of 2015 by two purchased impaired loan payoffs that were acquired in the Savannah River acquisition, and as a result, the credit mark established at the acquisition date was recovered.

Net Interest Income

Please refer to the table at the end of this Item 2 for the yield and rate data for interest-bearing balance sheet components during the three-month periods ended March 31, 2015 and 2014, along with average balances and the related interest income and interest expense amounts.

Net interest income was $6.4 million and $5.5 million for the three months ended March 31, 2015 and 2014, respectively. Interest rates over the last several years have remained at historically low levels, and this trend continued in the first quarter of 2015. Our tax equivalent net interest margin increased by 22 basis points from 3.40% at March 31, 2014 to 3.62% at March 31, 2015. As previously stated, the net interest margin was positively impacted during the first quarter of 2015 as a result of two pay-offs on purchased credit impaired loans. These two payoffs accounted for approximately 22 basis points in our taxable equivalent net-interest margin. Excluding the impact of these payoffs, our taxable equivalent net interest margin would have been approximately 3.40%, substantially unchanged from the same period in 2014. The yield on earning assets for the three months ended March 31, 2015 and 2014 was 3.97% and 3.87%, respectively. The cost of interest-bearing liabilities during the first three months of 2015 was 0.57% as compared to 0.68% in the same period of 2014. For the three months ended March 31, 2015, loans averaged 60.6% of average earning assets as compared to 61.9% in the same period of 2014. The yield on loans increased 32 basis points in the first quarter of 2015 as compared to the same period in 2014. This was offset by an increase on the yield on securities of 22 basis points in comparing the same two periods. The decrease in the yield on securities was partially a result of an increase in prepayment rates in the MBS portfolio. As a result, the related amortization of the premiums on these securities is accelerated. The continued focus and resulting shift in our deposit funding mix has allowed us to lower our overall cost of funds. In addition the overall cost of time deposits decreased to 0.58% in the first quarter of 2015 as compared to 0.72% in the same period of 2014. During the first quarter of 2015, deposit account funding, excluding time deposits, represented 71.1% of total average deposits. For the first quarter of 2014, funding from these lower cost deposit sources represented 70.2% of total deposits on average.

Provision and Allowance for Loan Losses

At March 31, 2015 and December 31, 2014, the allowance for loan losses was $4.2 million, or 0.94%, and $4.1 million, or 0.93%, of total loans (excluding loans held for sale), respectively. No allowance for loan losses related to the Savannah River acquired loans was recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired were recorded at the acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses for the purchased credit-impaired loans, including principal and interest. There have been no material adjustments to our original fair value assumptions since the acquisition date. At March 31, 2015 and 2014, the allowance for loan losses plus the remaining fair value adjustment related to credit as a percentage of total loans (excluding loans held for sale) was 1.22% and 1.36%, respectively. Our provision for loan losses was $406 thousand and $150 thousand for the three months ended March 31, 2015 and 2014, respectively. The increase in the provision is a result of the increase in the size of the loan portfolio during the first three months of 2015 as well as our overall assessment of general loan loss risk and asset quality. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, the experience ability and depth of lending personnel, economic conditions (local and national) that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, and concentrations of credit. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses.

We perform an analysis quarterly to assess the risk within the loan portfolio. The portfolio is segregated into similar risk components for which historical loss ratios are calculated and adjusted for identified changes in current portfolio characteristics. Historical loss ratios are calculated by product type and by regulatory credit risk classification (See Note 4 – Loans). The annualized weighted average loss ratios over the last 36 months for loans classified substandard, special mention and pass have been approximately 5.61%, 3.71% and 0.12%, respectively. The allowance consists of an allocated and unallocated allowance. The allocated portion is determined by types and ratings of loans within the portfolio. The unallocated portion of the allowance is established for losses that exist in the remainder of the portfolio and compensates for uncertainty in estimating the loan losses. The allocated portion of the allowance is based on historical loss experience as well as certain qualitative factors as explained above. The qualitative factors have been established based on certain assumptions made as a result of the current economic conditions and are adjusted as conditions change to be directionally consistent with these changes. The unallocated portion of the allowance is composed of factors based on management's evaluation of various conditions that are not directly measured in the estimation of probable losses through the experience formula or specific allowances. The unallocated allowance of the portfolio is primarily identified through discussions with senior credit management and through consideration of various portfolio specifics and other uncertainties outside of our markets that could impact the risk inherent in the portfolio. These include factors such as uncertainty as to a sustainable economic recovery, ongoing global economic conditions and sustained levels of high national unemployment. Given these uncertainties in economic conditions and particularly real estate valuations, we do not believe it would be prudent to reduce substantially the overall level of our allowance at this time. As economic conditions show sustainable improvement, we believe the unallocated portion of the allowance should decrease as a percentage of the total allowance.

Our loan portfolio consists of a large percentage of real estate secured loans. Real estate values continue to be adversely impacted as a result of the economic downturn over the last several years. Impaired values of the underlying real estate collateral as well as continued slowdown in both residential and commercial real estate sales impacts our ability to sell collateral upon foreclosure, and there is a risk that this trend will continue. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the property collateralizing a loan to satisfy the debt or to increase the allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

Non-performing assets were $8.7 million (1.04% of total assets) at March 31, 2015 as compared to $9.5 million (1.17% of total assets) at December 31, 2014. While we believe the non-performing assets to total assets ratios are favorable in comparison to current industry results (both nationally and locally), we continue to be concerned about the impact of this economic environment on our customer base of local businesses and professionals. There were 44 loans, totaling $5.9 million, included in non-performing status (non-accrual loans and loans past due 90 days and still accruing) at March 31, 2015. The largest non-performing loan is a $1.4 million loan secured by a first mortgage on developed lots to be sold for residential use. The average balance of the remaining 43 loans is approximately $105 thousand and the majority of these loans are secured by first mortgage liens. At the time the loans are placed in non-accrual status, we typically obtain an updated appraisal and, if the loan balance exceeds fair value, write the balance down to the fair value. At March 31, 2015, we had loans totaling $2.6 million that were delinquent 30 days to 89 days representing 0.58% of total loans.

Our management continuously monitors non-performing, classified and past due loans to identify deterioration regarding the condition of these loans. We have identified 1 loan relationship in the aggregate amount of $1.1 million that is current as to principal and interest and not included in non-performing assets that could represent a potential problem loans. This loan is secured by a first lien on commercial real estate property. This balance is included as a substandard loan in Note 4 of the financial statements.

The following table summarizes the activity related to our allowance for loan losses:

Allowance for Loan Losses

(Dollars in thousands)	Three Months Ended March 31,			
	2015		2014	
Average loans outstanding (including loans held for sale)	$450,988		$415,785	
Loans outstanding at period end	$454,301		$443,868	
Non-performing assets:				
Nonaccrual loans	$5,943		$7,865	
Loans 90 days past due still accruing	—		126	
Foreclosed real estate	2,748		3,147	
Repossessed-other	—		—	
Total non-performing assets	$8,691		$11,138	
Beginning balance of allowance	$4,132		$4,219	
Loans charged-off:				
Construction and development	—		—	
1-4 family residential mortgage	56		35	
Non-residential real estate	291		187	
Home equity	—		—	
Commercial	—		—	
Installment & credit card	11		8	
Total loans charged-off	358		230	
Recoveries:				
1-4 family residential mortgage	1		1	
Non-residential real estate	4		—	
Home equity	1		—	
Commercial	2		17	
Installment & credit card	64		4	
Total recoveries	72		22	
Net loan charge offs (recoveries)	286		208	
Provision for loan losses	406		150	
Balance at period end	$4,252		$4,161	
Net charge -offs to average loans	.06	%	.05	%
Allowance as percent of total loans	0.94	%	0.94	%
Non-performing assets as % of total assets	1.04	%	1.40	%
Allowance as % of non-performing loans	71.5	%	52.1	%

The following allocation of the allowance to specific components is not necessarily indicative of future losses or future allocations. The entire allowance is available to absorb losses in the portfolio.

Composition of the Allowance for Loan Losses

(Dollars in thousands)	March 31, 2015		December 31, 2014	
	Amount	% of loans in Category	Amount	% of loans in Category
Commercial, Financial and Agricultural	$210	7.2 %	$67	7.5 %
Real Estate – Construction	134	7.9 %	45	6.2 %
Real Estate Mortgage:				
Commercial	1,580	64.7 %	1,572	66.1 %
Residential	243	11.0 %	179	10.9 %
Consumer:				
Home Equity	121	7.4 %	134	7.4 %
Other	58	1.8 %	44	1.9 %
Unallocated	1,906	N/A	2,091	N/A
Total	$4,252	100.0 %	$4,132	100.0 %

Accrual of interest is discontinued on loans when management believes, after considering economic and business conditions and collection efforts that a borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed in nonaccrual status when it becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest, which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

Non-interest Income and Non-interest Expense

Non-interest income during the first quarter of 2015 was $2.0 million as compared to $1.9 million during the same period in 2014. Mortgage banking income increased $116 thousand. This increase was a result of a continued focus on this source of revenue. In late 2013 and continuing into early 2014, an increase in mortgage loan interest rates significantly impacted refinancing activity. In 2011, the Bank expanded its residential mortgage business unit with the acquisition of the assets of Palmetto South Mortgage Corporation ("Palmetto South"), and in 2014, we consolidated the Palmetto South mortgage division into our legacy mortgage operation, First Community Mortgage, a division of the Bank. We hired several new mortgage originators and focused on increasing the level of purchase money activity. We believe these initiatives began to reflect the anticipated benefits in the second half of 2014 and continuing into 2015. Investment advisory and commissions on sale of non-deposit investment products increased by $39 thousand in the first quarter of 2015 as compared to the same period in 2014. Management continues to focus on increasing this recurring source of revenue by increasing total assets under management. During the first quarter of 2015, we sold

$7.0 million in mortgage –backed securities that resulted in a gain of $104 thousand. This gain was substantially offset by a $103 thousand loss on the early payoff of $2.7 million in FHLB advances.

Total non-interest expense remained relatively unchanged in first quarter of 2015 as compared to the same quarter in 2014 at $6.1 million and $6.0 million, respectively. Salary and benefit expense increased $141 thousand from $3.4 million in the first quarter of 2014 to $3.6 million in the first quarter of 2015. This increase is primarily a result of the addition of the Savannah River employees reflected for the entire first quarter of 2015 compared to only two months in the first quarter of 2014. At March 31, 2015 and 2014, we had 185 full time equivalent employees. Occupancy expense and equipment expense increased $72 thousand and $63 thousand, respectively, in the first quarter of 2015 as compared to the first quarter of 2014. Both increases are a result of the Savannah River merger reflected in the results for the entire first quarter of 2015 as well as the addition of the Lady Street Branch in downtown Columbia in the third quarter of 2014. Marketing and public relations expense increased to $226 thousand in the first quarter of 2015 from $161 thousand in the first quarter of 2014. The timing of a media campaign in the first quarter of 2015 resulted in increased marketing cost as compared to the same period of 2014. Amortization of intangibles expense increased $61 thousand in the first quarter of 2015 as compared to the same period in 2014. This reflects additional amortization of intangibles acquired in the Savannah River transaction as well as from the purchase and assumption of certain loans and deposits from First South in the third quarter of 2014. During the first quarter of 2014, we incurred merger-related expenses in conjunction with the Savannah River merger of $420 thousand. We did not incur any merger related expenses in the first quarter of 2015.

The following is a summary of the components of other non-interest expense:

(In thousands)	Three months ended March 31,	
	2015	2014
Data processing	$139	$116
Supplies	25	30
Telephone	85	87
Courier	21	19
Correspondent services	57	45
Insurance	68	66
Postage	49	45
Professional fees	151	159
Loss on limited partnership interest	41	46
Director fees	109	101
Shareholder expense	39	49
Other	243	202
	$1,027	$965

Income Tax Expense

Our effective tax rate was 27.0% and 27.9% in the first quarter of 2015 and 2014, respectively. As a result of our current level of tax exempt securities in our investment portfolio, our effective tax rate is expected to remain between 27.0% to 29.0% throughout the remainder of 2015.

Financial Position

Assets totaled $835.8 million at March 31, 2015 as compared to $812.4 million at December 31, 2014, an increase of $23.5 million. Loans increased by approximately $10.5 million during the quarter ended March 31, 2015. Loans (excluding loans held for sale) at March 31, 2015 were $454.3 million as compared to $443.8 million at December 31, 2014. Total loan production was $26.5 million during the first quarter of 2015. At March 31, 2015 and December 31, 2014, loans (excluding loans held for sale) accounted for 59.2% and 59.9% of earning assets, respectively. The loan-to-deposit ratio at March 31, 2015 was 66.1% as compared to 66.9% at December 31, 2014. Investment securities decreased to $274.1 million at March 31, 2015 from $282.8 million at December 31, 2014. Deposits increased $25.0 million at March 31, 2015 as compared to December 31, 2014. Approximately $12.0 million in this increase were funds that came in on the last day of the quarter and were transferred out within a few days after the end of the quarter. Pure deposits (deposits less time deposits) represented 72.4% of total deposits as of March 31, 2015 as compared to 70.9% at December 31, 2014. We continue to focus on growing our pure deposits as a percentage of total deposits in order to better manage our overall cost of funds. Deposits were $694.6 million at March 31, 2015 as compared to $669.6 million at December 31, 2014. One of our goals as a community bank has been, and continues to

be, to grow our assets through quality loan growth by providing credit to small and mid-size businesses and individuals within the markets we serve. Loan production and portfolio growth rates continue to be impacted by the current economic cycle as borrowers are less inclined to leverage their corporate and personal balance sheets. However, we remain committed to meeting the credit needs of our local markets. A continuation of the slow recovery from recessionary national and local economic conditions as well as deterioration of asset quality within our Company could significantly impact our ability to grow our loan portfolio.

The following table shows the composition of the loan portfolio by category:

(In thousands)	March 31, 2015		December 31, 2014	
	Amount	Percent	Amount	Percent
Commercial, financial & agricultural	$32,569	7.2 %	$33,403	7.5 %
Real estate:				6.2 %
Construction	36,080	7.9 %	27,545	
Mortgage – residential	49,838	11.0 %	48,510	66.1 %
Mortgage – commercial	294,108	64.7 %	293,186	10.9 %
Consumer:				
Home Equity	33,511	7.4 %	33,000	7.4 %
Other	8,195	1.8 %	8,200	1.9 %
Total gross loans	454,301	100.0%	443,844	100.0%
Allowance for loan losses	(4,252)		(4,132)	
Total net loans	$450,049		$439,712	

In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes and advances on home equity lines of credit, secured by real estate, regardless of the purpose of the loan. Advances on home equity lines of credit are included in consumer loans. We follow the common practice of financial institutions in our market areas of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan components. Generally we limit the loan-to-value ratio to 80%.

Market Risk Management

The effective management of market risk is essential to achieving our strategic financial objectives. Our most significant market risk is interest rate risk. We have established an Asset/Liability Management Committee (“ALCO”) to monitor and manage interest rate risk. The ALCO monitors and manages the pricing and maturity of assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The ALCO has established policy guidelines and strategies with respect to interest rate risk exposure and liquidity.

A monitoring technique employed by the ALCO is the measurement of interest sensitivity “gap,” which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Simulation modeling is performed to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. We model the impact on net interest income for several different changes, to include a flattening, steepening and parallel shift in the yield curve. For each of these scenarios, we model the impact on net interest income in an increasing and decreasing rate environment of 100 and 200 basis points. Policies have been established in an effort to maintain the maximum anticipated negative impact of these modeled changes in net interest income at no more than 10% and 15% respectively, in a 100 and 200 basis point change in interest rates over a twelve month period. Interest rate sensitivity can be managed by repricing assets or liabilities,

selling securities available-for-sale, replacing an asset or liability at maturity or by adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates.

We are currently asset sensitive within one year. However, neither the “gap” analysis nor asset/liability simulation modeling is a precise indicator of our interest sensitivity position due to the many factors that affect net interest income, including changes in the volume and mix of earning assets and interest-bearing liabilities.

Based on the many factors and assumptions used in simulating the effect of changes in interest rates, the following table estimates the percentage change in net interest income at March 31, 2015 and December 31, 2014 over twelve months.

Net Interest Income Sensitivity

Change in short term interest rates	Hypothetical percentage change in net interest income	
	March 31, 2015	December 31, 2014
+200bp	4.92 %	3.53 %
+100bp	2.32 %	1.88 %
Flat	—	—
-100bp	-5.14 %	-5.04 %
-200bp	-9.83 %	-11.81 %

The significant decrease in net interest income in a down 200 basis point environment primarily results from the current level of interest rates being paid on our interest bearing transaction accounts as well as money market accounts. The interest rates on these accounts are at a level where they cannot be repriced in proportion to the change in interest rates. At the current historically low interest rate levels, we believe that a downward shift of 200 basis points across the entire yield curve is unlikely.

We also perform a valuation analysis projecting future cash flows from assets and liabilities to determine the Present Value of Equity (“PVE”) over a range of changes in market interest rates. The sensitivity of PVE to changes in interest rates is a measure of the sensitivity of earnings over a longer time horizon. At March 31, 2015, the PVE exposure in a plus 200 basis point increase in market interest rates was estimated to be 3.28% as compared to 0.69% at December 31, 2014.

Liquidity and Capital Resources

We believe our liquidity remains adequate to meet operating and loan funding requirements. Interest-bearing bank balances, federal funds sold, and investment securities available-for-sale represent 34.9% of total assets at March 31, 2015. We believe that our existing stable base of core deposits along with continued growth in this deposit base will enable us to meet our long-term and short-term liquidity needs successfully. These needs include the ability to respond to short-term demand for funds caused by the withdrawal of deposits, maturity of repurchase agreements, extensions of credit and the payment of operating expenses. Other sources of liquidity, in addition to deposit gathering activities, include maturing loans and investments, purchase of federal funds from other financial institutions and selling

securities under agreements to repurchase. We monitor closely the level of large certificates of deposits in amounts of $100 thousand or more as they tend to be more sensitive to interest rate changes and, thus, less reliable sources of funding for liquidity purposes. At March 31, 2015, the amount of certificates of deposits of $100 thousand or more represented 12.4% of total deposits and the amount of certificates of deposits of $250 thousand or more represented 3.2% of deposits. The majority of these deposits are issued to local customers many of whom have other product relationships with the Bank.

Through the operations of our Bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At March 31, 2015, we had issued commitments to extend credit of $79.3 million, including $30.6 million in unused home equity lines of credit, through various types of lending arrangements. We evaluate each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

Other than as described elsewhere in this report, we are not aware of any trends, events or uncertainties that we expect to result in a significant adverse effect on our liquidity position. However, no assurances can be given in this regard, as rapid growth, deterioration in loan quality, and poor earnings, or a combination of these factors, could change the liquidity position in a relatively short period of time.

The Company has generally maintained a high level of liquidity and adequate capital, which along with continued retained earnings, we believe will be sufficient to fund the operations of the Bank for at least the next 12 months. Shareholders' equity was 9.2% of total assets at March 31, 2015 and December 31, 2014. The Bank maintains federal funds purchased lines in the total amount of $20.0 million with two financial institutions, although these were not utilized in the first quarter of 2015. In addition, the Bank has a repo line in the amount of $10.0 million with another financial institution. Specific investment securities would be pledged if and when we were to utilize the line. The FHLB of Atlanta has approved a line of credit of up to 25% of the Bank's assets, which when utilized is collateralized by a pledge against specific investment securities and/or eligible loans. We regularly review the liquidity position of the Company and have implemented internal policies establishing guidelines for sources of asset based liquidity and evaluate and monitor the total amount of purchased funds used to support the balance sheet and funding from noncore sources. We believe that our existing stable base of core deposits along with continued growth in this deposit base will enable us to meet our long term liquidity needs successfully.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. As disclosed in our 2014 Annual Report on Form 10-K as filed with the SEC, in July 2013, the federal bank regulatory agencies issued a final rule that has revised their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with certain standards that were developed by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Act. The final rule applies to, among other institutions, all depository institutions, and certain top-tier bank holding companies, which we refer to as "covered" banking organizations, including the Company and the Bank. Effective March 31, 2015, the Company and Bank were required to implement the new Basel III capital standards (subject to the phase in for certain parts of the new rules).

Under the Basel III rules, accumulated other comprehensive income ("AOCI") is presumptively included in Common Equity Tier 1 capital and can operate to reduce this category of capital. The final rule provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI, which election the Bank and the Company have made. As a result, the Company and the Bank will retain the pre-existing treatment for AOCI.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of Common Equity Tier 1 (CET1), but the buffer will apply to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 Common Equity equal to 2.5% of risk-weighted assets.

At March 31, 2015, the Company and the Bank met or exceeded all of the required ratios on a fully phased in basis. These guidelines require an institution to maintain a certain level of Common Equity Tier 1 (CET1), Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity, grandfathered trust preferred securities and excludes the unrealized gain or loss on securities available for sale, minus certain intangible assets.

CET1 capital excludes the trust preferred securities. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor generally of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses, subject to certain limitations. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

At both the holding company and bank level, we are subject to various regulatory capital requirements administered by the federal banking agencies. To be considered "well capitalized," we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%. Generally, to be considered adequately capitalized, the FDIC and Federal Reserve regulatory capital guidelines for Tier 1 capital, total capital and leverage capital ratios are 4.0%, 8.0% and 4.0%, respectively.

The Bank's risk-based capital ratios of leverage ratio, Tier 1, and total capital were 9.8%, 15.3%, and 16.1%, respectively, at March 31, 2015 as compared to 9.6%, 15.4%, and 16.2%, respectively, at December 31, 2014. The Bank's CET1 ratio at March 31, 2015 was 15.3%. Prior to March 31, 2015, the Bank was not required to maintain a CET1 ratio. The Company's risk-based capital ratios of leverage ratio, Tier 1, and total capital were 10.1%, 15.9%, and 16.8%, respectively at March 31, 2015 as compared to 10.0%, 16.1% and 16.9%, respectively at December 31, 2014. The Company's CET1 ratio at March 31, 2015 was 13.1%. Prior to March 31, 2015, the Company was not required to maintain a CET1 ratio. Our management anticipates that the Bank and the Company will remain a well-capitalized institution for at least the next 12 months.

Since the Company is a bank holding company, its ability to declare and pay dividends is dependent on certain federal and state regulatory considerations, including the guidelines of the Federal Reserve Board. The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. In addition, under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

In addition, since the Company is a legal entity separate and distinct from the Bank and does not conduct stand-alone operations, its ability to pay dividends depends on the ability of the Bank to pay dividends to it, which is also subject to regulatory restrictions. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the South Carolina Board of Financial Institutions, the Bank is generally permitted under South Carolina State banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Board of Financial Institutions. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

FIRST COMMUNITY CORPORATION

Yields on Average Earning Assets and Rates on Average Interest-Bearing Liabilities

	Three months ended March 31, 2015			Three months ended March 31, 2014		
	Average Balance	Interest Earned/Paid	Yield/ Rate	Average Balance	Interest Earned/Paid	Yield/ Rate
Assets						
Earning assets						
Loans	$450,988	$ 5,874	5.28%	$415,785	$ 5,080	4.96%
Securities	277,308	1,382	2.02%	234,966	1,300	2.24%
Other short-term investments	15,733	27	0.70%	20,832	23	0.45%
Total earning assets	744,029	7,283	3.97%	671,583	6,403	3.87%
Cash and due from banks	11,396			9,915		
Premises and equipment	29,076			24,946		
Intangibles	6,381			4,291		
Other assets	26,587			26,228		
Allowance for loan losses	(4,240)			(4,236)		
Total assets	$813,229			$732,727		
Interest-bearing liabilities						
Interest-bearing transaction accounts	132,997	39	0.12%	124,029	38	0.12%
Money market accounts	152,797	96	0.25%	116,326	66	0.23%
Savings deposits	55,137	16	0.12%	50,191	14	0.11%
Time deposits	193,308	275	0.58%	174,384	311	0.72%
Other borrowings	62,977	409	2.63%	77,435	478	2.50%
Total interest-bearing liabilities	597,216	835	0.57%	542,365	907	0.68%
Demand deposits	134,596			121,060		
Other liabilities	5,865			5,677		
Shareholders' equity	75,552			63,625		
Total liabilities and shareholders' equity	$813,229			$732,727		
Cost of funds including demand deposits			0.46%			0.55%
Net interest spread			3.40%			3.19%
Net interest income/margin		$ 6,448	3.51%		$ 5,496	3.32%
Net interest income/margin (taxable equivalent)		$ 6,635	3.62%		$ 5,637	3.40%

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our quantitative and qualitative disclosures about market risk as of March 31, 2015 from that presented in our 2014 Annual Report on Form 10-K. See the “Market Risk Management” subsection in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are a party to claims and lawsuits arising in the course of normal business activities. Management is not aware of any material pending legal proceedings against the Company which, if determined adversely, the Company believes would have a material adverse impact on the Company's financial position, results of operations or cash flows.

Item 1A. Risk Factors.

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not Applicable.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Description
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Section 1350 Certifications
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in eXtensible Business Reporting Language (XBRL); (i) Consolidated Balance Sheets at March 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Income for the three months ended March 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014 (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST COMMUNITY CORPORATION

(REGISTRANT)

Date: May 13, 2015 By: /s/ Michael C. Crapps
Michael C. Crapps
President and Chief Executive Officer

Date: May 13, 2015 By: /s/ Joseph G. Sawyer
Joseph G. Sawyer
Senior Vice President, Principal Financial Officer

INDEX TO EXHIBITS

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